GRAND CITY
Properties S.A.

Consolidated Financial Statements

for the year ended
December 31, 2018

Berlin

Leipzig

Contents

IMPRINT

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Key financials

Balance sheet highlights

in €'000 unless otherwise indicated	Dec 2018	Dec 2017	Dec 2016
Total Assets	**8,860,526**	7,508,292	6,153,733
Total Equity	**4,666,987**	3,849,662	3,065,064
Loan-to-Value	**34%**	36%	35%
Equity Ratio	**53%**	51%	50%

P&L highlights

in €'000 unless otherwise indicated	1–12/2018	Change	1–12/2017
Rental and operating income	**544,977**	10%	494,889
EBITDA	**782,313**	-10%	870,535
Adjusted EBITDA	**275,530**	11%	247,980
FFO I	**197,854**	11%	178,013
FFO I per share (in €)	**1.19**	6%	1.12
FFO I per share after perpetual notes attribution (in €)	**1.01**	5%	0.96
FFO II	**334,456**	64%	204,453
Profit for the year	**583,034**	-9%	639,149
EPS (basic) (in €)	**2.95**	-12%	3.35
EPS (diluted) (in €)	**2.76**	-10%	3.06

	2018*	Change	2017
Dividend distribution per share (in €)	**0.77**	5%	0.73

* 2018 dividend subject to the next AGM approval and based on a payout policy of 65% of FFO I per share

NAV highlights

in €'000 unless otherwise indicated	NAV	EPRA NAV	EPRA NAV including perpetual notes	EPRA NNNAV
Dec 2018	**4,162,463**	**3,753,022**	**4,783,072**	**3,752,781**
Dec 2018 per share (in €)	**24.9**	**22.5**	**28.7**	**22.5**
Per share growth	**+11%**	**+11%**	**+19%**	**+16%**
Dec 2017	3,691,675	3,327,186	3,993,057	3,206,966
Dec 2017 per share (in €)	22.4	20.2	24.2	19.4

For further clarification of the alternative performance measures please see the relevant section in this report

Cologne

Highlights

Increasing asset quality...

Value/sqm

€1,257
Dec 2018

€1,155
Dec 2017

Rent/sqm

€6.0
Dec 2018

€5.65
Dec 2017

Supported by strategic capital recycling

€500 MILLION

...leading to secure cash flow and sustainable value growth

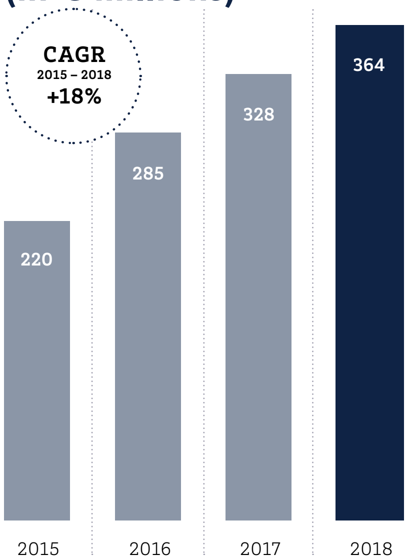
+3.1%
L-F-L
In-place-rent growth
2018

+3.4%
L-F-L
Total net rent growth
2018

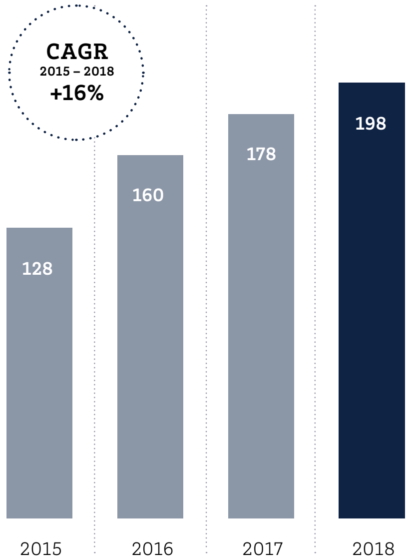
+0.3%
L-F-L
Occupancy growth
2018

Business expertise propelling operational performance...

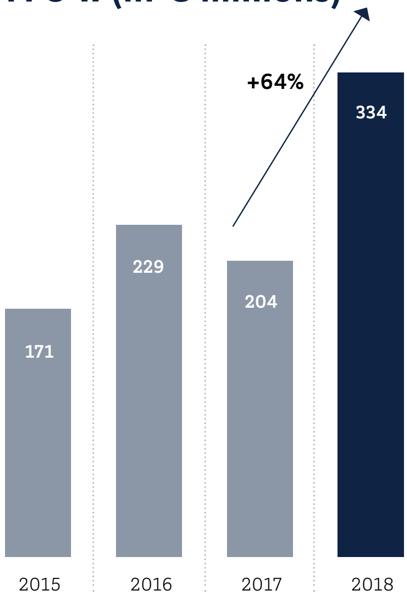
Net rental income (in € millions)



FFO I (in € millions)

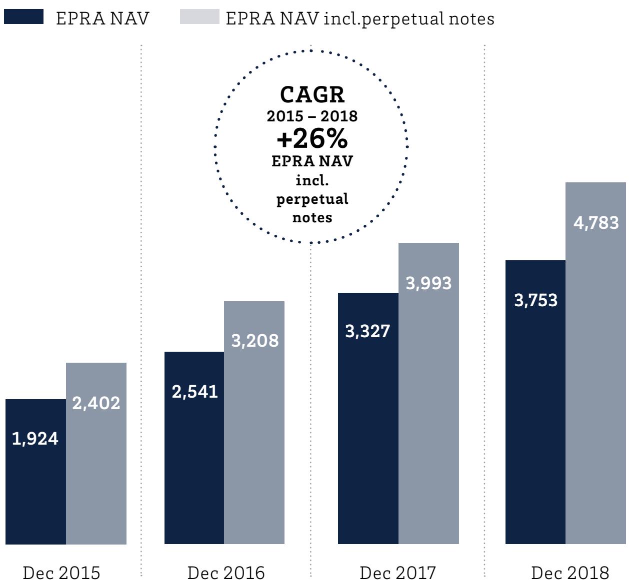


FFO II (in € millions)

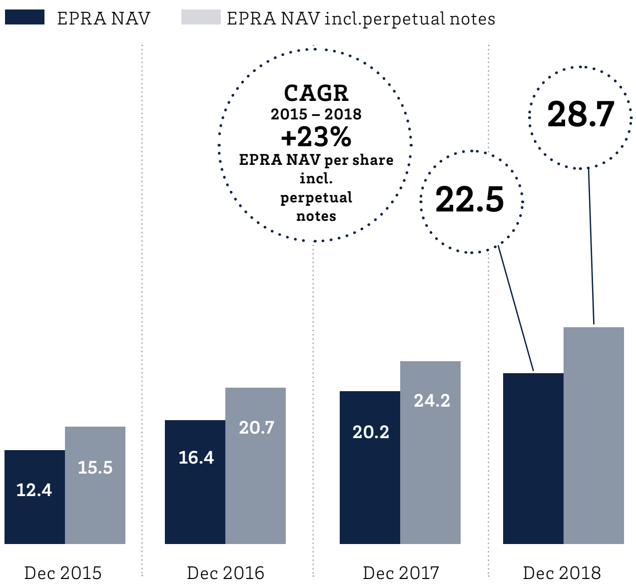


... and robust value creation

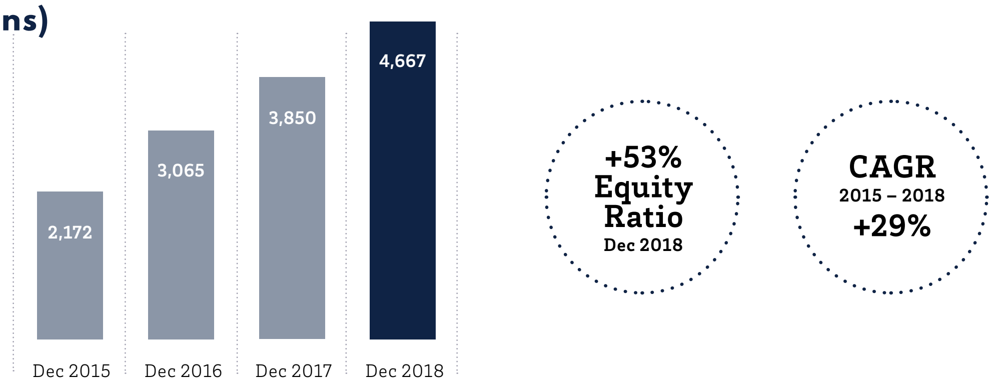
EPRA NAV (in € millions)



EPRA NAV per share (in €)



Equity (in € millions)



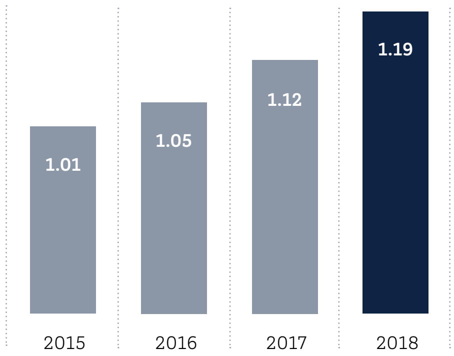
Highlights

Sustained profitability on a per share basis...

FFO I per share (in €)

FFO I Yield 1) +5.3%

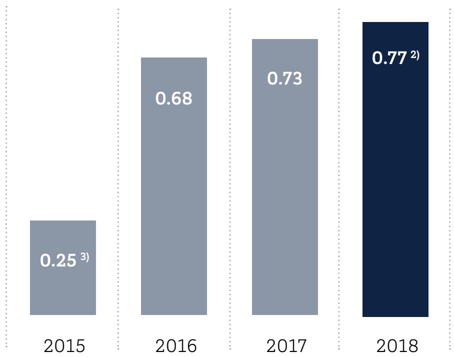
CAGR 2015 – 2018 +6%



Dividend per share (in €)

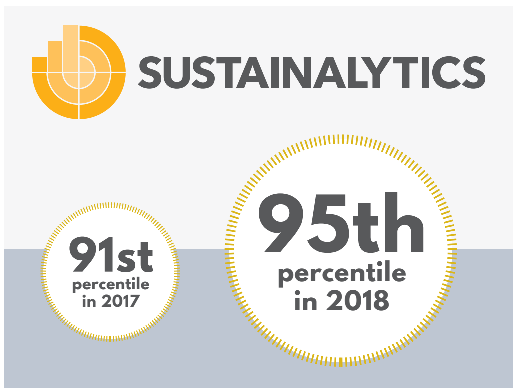
Dividend Yield 1) 2) +3.4%

CAGR 2015 – 2018 2) +45%



1) based on a share price of €22.4
2) 2018 dividend subject to the next AGM approval and based on a payout policy of 65% of FFO I per share
3) Up to 2015 the payout policy was 30% of FFO I

...with a focus on sustainability endorsed by

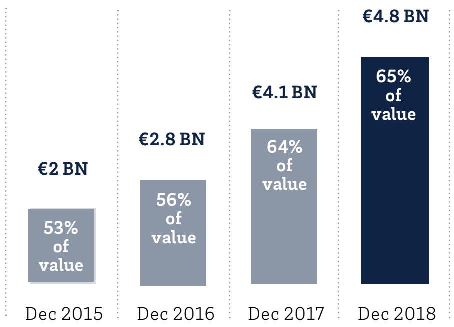


In September 2018, for the second consecutive year, GCP was awarded the EPRA BPR Gold Award for its 2017 annual financial report as well as the EPRA sBPR Gold Award for its EPRA sBPR reporting, underlining the Company's commitment to a very high standard of transparency and reporting.

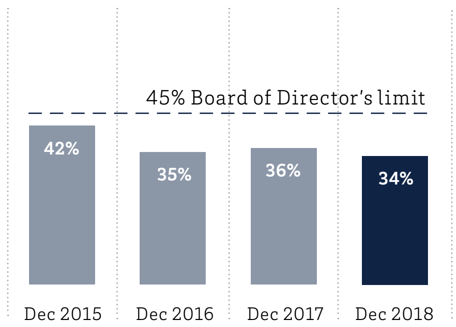
GCP's sustainability measures were evaluated by Sustainalytics, a leading sustainability rating agency, which ranked GCP in the 95th percentile among 300 global real estate peers, higher than the 91st percentile achieved in 2017. Additionally, the Company was also recognised as a leader in its peer group.

Stable financial structure and strong business profile reflected in

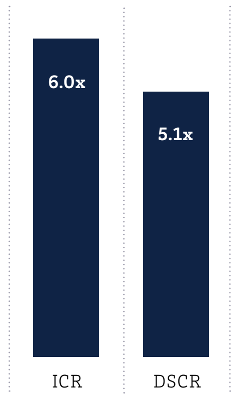
Unencumbered Assets



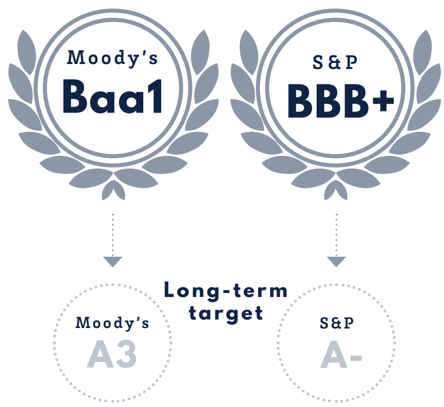
Low Leverage (Loan-To-Value)



Coverage Ratios (1 – 12/2018)



Credit rating



Providing for effective optimisation of debt structure with €1.3 bn raised in 2018

- proceeds utilized to redeem shorter term debt of approx. €370 million as well as to fund strategic investments
- broad investor base including foreign currency issuances with currency hedges in place
- diversified funding sources including €350 million perpetual notes issued in 2018

Letter of the Management Board

Dear Stakeholder,

2018 marked another successful year for GCP, riding on a strong operating performance with a sustainably strong capital structure. This year we further solidified the business, making advancements on multiple fronts including further improved asset quality as well as progress on the ESG front.

We have worked towards further enhancing the quality of our portfolio through capital recycling measures by which half a billion euro of mature and/or non-core assets were disposed at a profit over net book value of 4% and a profit over total cost of 38%. This provided room for further investment into high quality assets that met our acquisition criteria. The disposal gains above book value are also a testament to the conservative values of our portfolio. In 2018 we have established a portfolio in London with newly built properties in high quality locations in the city, which as of December stands at 9% of the total portfolio. The London portfolio complements our portfolio in terms of upside potential and diversification.

Our Portfolio continues to benefit from strong demand drivers due to its positioning in densely populated metropolitans with solid underlying fundamentals and sustained demand-supply mismatches in these areas. All of these put together with our operational excellence and high quality tenant service, have resulted in rising operational profitability, valuation uplifts and consequentially NAV growth. Despite our capital recycling activities, net rental income has grown 11% year-over-year, with a total like-for-like growth of 3.4%. Our focus on increasing in place rents paid off and is reflected in a like-for-like in-place rent growth of 3.1%, while occupancy displayed a steady like-for-like growth of 0.3%. The progress of our rent metrics goes a long way in displaying our successes in strategy formulation, as well as its efficient execution.

The Company's operational excellence has had clear visibility with our FFO I growing 11% to €198 million during 2018 as compared to €178 in 2017. On a per share basis, FFO I at €1.19 per share grew by 6% and based on a payout ratio of 65% the expected dividend per share for the year 2018 (subject to the next AGM approval) will be €0.77, reflecting a strong dividend yield of 3.4% (based on a share price of €22.4). Our successful capital recycling measures have also enabled us to book significant gains over total cost, driving the FFO II to €334 million for the year. At €22.5 per share for 2018, GCP has registered a 11% increase vis-à-vis 2017 with regards to our EPRA NAV per share. This has further reinforced our credentials as sustainable value creators for our shareholders.

The strong business results, driven by a remarkable operating platform with the capacity to extract value from the existing portfolio, coupled with our solid financial structure was endorsed this past year by both S&P and Moody's, reaffirming our solid investment grade credit ratings of BBB+/Baa1. We have maintained our low cost of debt at 1.6% while refinancing shorter term debt at attractive interest rates with longer maturities thus maintaining an impressive average debt maturity of over 8.3 years. Our strong equity base and sustainable capital structure, aided by the broad capital market access that we enjoy has allowed us to continually optimize our debt structure and maintain very conservative debt metrics. We have also mitigated risk through diversifying sources of funds using a wider investor base and various foreign currencies as well as perpetual notes with foreign currency liabilities being hedged.

As an organization, we value social and environmental responsibility with a strong focus on long-term sustainability. This has been evident through a number of our environmental, social and governance (ESG) initiatives including improving energy efficiency, reducing greenhouse gas emissions, lowering water consumption intensity as well as creating strong communities which further improved our high tenant satisfaction. We continue to improve our disclosure efforts and, for the second consecutive year, have been recognized with the EPRA BPR Gold Award, for the 2017 annual financial report, as well as with the EPRA sBPR Gold Award for our EPRA sBPR reporting. Our sustainability measures were assessed by Sustainalytics during the year and we improved on our strong performance last year by ranking in the 95th percentile (91st percentile in 2017) among 300 global peers. High tenant satisfaction remains one of our primary objectives, as it has always been a major pillar of our business model to create long term value. More recently, the high quality of the double-TÜV certified Service Center was reinforced with the ISO 9001:2015 quality certification. In addition to working towards a high quality of living, the Company has also made efforts to provide surrounding common facilities which help foster a strong bond within the community. These include providing facilities such as playgrounds, fitness trails, BBQ areas and even providing books to a tenant library for the benefit of the community.

With our focus on sustainability and going forward, we intend to pursue efforts towards reducing our carbon footprint through targeted strategic actions such as improved energy profiles of buildings & thermal insulation, modernization of heating systems, and a preference to low-emissions technology. We also aim to further advance our data collection and measurement processes related to consumption. This can be utilized in improving tenant awareness and education, which will contribute to the development of an environmentally conscious consumption culture. Our efforts are to build communities that are environmentally conscious and socially responsible, providing for sustainable growth which is holistic in nature.

Looking ahead, we are confidently optimistic about 2019. With an operational and financial platform that is stable, secure and sustainable, a high quality asset portfolio as well as strong and consistent operational performances, GCP is well placed to continue on the accretive value creation path that we have followed so far. We are grateful for your trust and support and look forward to another successful year.

Christian Windfuhr CEO	**Refael Zamir** CFO, Chairman of the Board of Directors	**Simone Runge-Brandner** Member of the Board of Directors	**Daniel Malkin** Member of the Board of Directors

Highlights

Profitability highlights

in €'000 unless otherwise indicated	1–12/2018	1–12/2017
Rental and operating income	**544,977**	**494,889**
EBITDA	782,313	870,535
Adjusted EBITDA	**275,530**	**247,980**
Profit for the year	583,034	639,149
EPS (basic) (in €)	2.95	3.35
EPS (diluted) (in €)	2.76	3.06
FFO I	**197,854**	**178,013**
FFO I per share (in €)	1.19	1.12
FFO I per share after perpetual notes attribution (in €)	1.01	0.96
FFO II	**334,456**	**204,453**
Interest Cover Ratio	6.0	6.2
Debt Service Cover Ratio	5.1	4.8

Financial position highlights

in €'000 unless otherwise indicated	Dec 2018	Dec 2017
Cash and liquid assets 1)	**760,374**	**402,331**
Total Assets	**8,860,526**	**7,508,292**
Investment Property 2)	7,243,915	6,387,868
Total Equity	**4,666,987**	**3,849,662**
EPRA NAV	**3,753,022**	**3,327,186**
EPRA NAV including perpetual notes	**4,783,072**	**3,993,057**
Loans and borrowings 3)	870,507	940,682
Straight bonds	2,177,267	1,422,920 4)
Convertible bond Series F	272,246	432,073
Loan-to-Value	34%	36%
Equity Ratio	53%	51%

1) including cash and cash equivalents held for sale
2) including inventories - trading properties
3) including short-term loans and borrowings, loan redemption, and financial debt held for sale
4) including bond redemption

Munich

EPRA Performance Measures

in €'000 unless otherwise indicated	2018	2017
EPRA Earnings	186,843	167,323
EPRA Earnings per share (in €)	1.13	1.05
EPRA NAV	3,753,022	3,327,186
EPRA NAV per share (in €)	22.5	20.2
EPRA NAV incl. perpetual notes	4,783,072	3,993,057
EPRA NAV incl. perpetual notes per share (in €)	28.7	24.2
EPRA NNNAV	3,752,781	3,206,966
EPRA NNNAV per share (in €)	22.5	19.4
EPRA Net initial yield (NIY)	3.9%	4.0%
EPRA "topped-up" NIY	3.9%	4.0%
EPRA Vacancy	7.1%	7.0%
EPRA Cost Ratio (incl. direct vacancy costs)	24.1%	24.4%
EPRA Cost Ratio (excl. direct vacancy costs)	21.2%	21.3%


Berlin

The Company

Grand City Properties S.A. (the "Company") and its investees ("GCP" or the "Group") Board of Directors (the "Board") hereby submits the consolidated annual report as of December 31, 2018.

The figures presented in this Board of Directors' Report are based on the consolidated financial statements as of December 31, 2018, unless stated otherwise.

GCP is a specialist in residential real estate, investing in value-add opportunities in densely populated areas predominantly in Germany. The Group's portfolio as of December 2018 consists of 84k units (hereinafter "GCP portfolio" or "the Portfolio") located in densely populated areas with a focus on North Rhine-Westphalia, Germany's most populous federal state, Berlin, Germany's capital, the metropolitan regions of Dresden, Leipzig and Halle and other densely populated areas. The portfolio is complemented by a small-scale, but compelling portfolio in London.

Essen

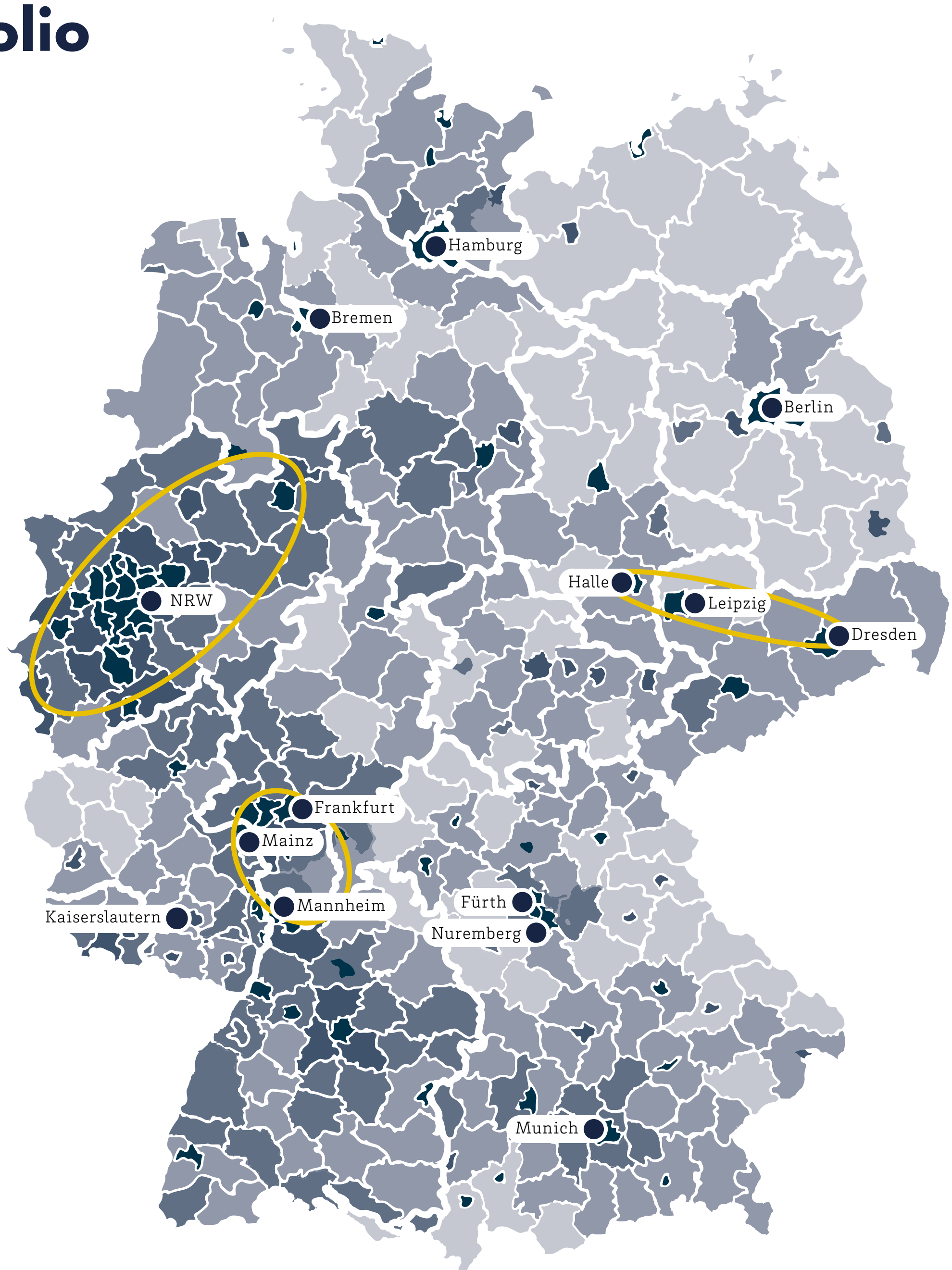
GCP is focused on assets in densely populated urban locations with solid sustainable economic and demographic fundamentals, and with multiple value-add drivers that it can pursue using its skills and capabilities such as vacancy reduction, increasing rents to market levels, improving operating cost efficiency, increasing market visibility, potential for high-return capex investments, and potential for significant benefits from the Company's scale. GCP's management has vast experience in the German real estate market with a long track record of success in repositioning properties using its tenant management capabilities, tenant service reputation, and highly professional and specialized employees.

In addition, GCP's economies of scale allows for considerable benefits of a strong bargaining position, a centralized management platform supported by advanced in-house IT/software systems, and a network of professional connections.

This strategy enables the Company to create significant value in its portfolio and generate stable and increasing cash flows.

The Portfolio

Population density in Germany



inhabitants
per sqkm
(2015)

- > 1000
- 500 – 1000
- 200 – 500
- 100 – 200
- < 100

Attractive portfolio concentrated in densely populated metropolitan areas in Germany with value-add potential

GCP's well-balanced and diversified portfolio is composed of properties in attractive micro-locations with identified value creation potential primarily in major German cities and urban centers.

The Group's well-allocated portfolio provides for strong geographic and tenant diversification, and benefits from economies of scale, supporting the risk-averse portfolio approach. GCP's focus on densely populated areas is mirrored by 27% of its portfolio being located in NRW, 24% in Berlin, 14% in the metropolitan regions of Dresden, Leipzig and Halle, with additional holdings in other major urban centers with strong fundamentals such as Nuremberg, Munich, Mannheim, Frankfurt, Hamburg and Bremen.

Additionally, this diversification is further accompanied by a position of 9% of the total portfolio value in London. London follows the Company's strategy of pursuing opportunities and acquiring properties with significant upside potential in densely populated areas characterized by strong demand and market fundamentals.

Portfolio overview

GCP has assembled a portfolio of high quality assets in densely populated metropolitan regions, benefiting from diversification among dynamic markets with positive economic fundamentals and demographic developments.

December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
NRW	1,950	1,843	8.0%	116	5.6	27,591	1,058	5.9%
Berlin	1,553	635	6.3%	55	7.6	8,141	2,443	3.5%
Dresden/Leipzig/Halle	1,020	1,076	8.3%	59	5.0	18,537	948	5.7%
Mannheim/KL/Frankfurt/ Mainz	395	270	5.0%	22	7.0	4,477	1,464	5.5%
Nuremberg/Fürth/Munich	213	103	4.3%	10	7.9	1,471	2,073	4.6%
Hamburg/Bremen	352	297	4.7%	20	5.9	4,272	1,183	5.7%
London	294	40	9.5%	12	28.8	730	7,326	4.2%
Others	948	1,086	6.6%	65	5.5	18,452	874	6.9%
Development rights and new buildings*	519							
Total	**7,244**	**5,350**	**7.1%**	**359**	**6.0**	**83,671**	**1,257**	**5.3%**

*including land for development, building rights on exisitng buildings (€186m) and pre-marketed buildings in London (€333m)

Berlin portfolio - Best in class

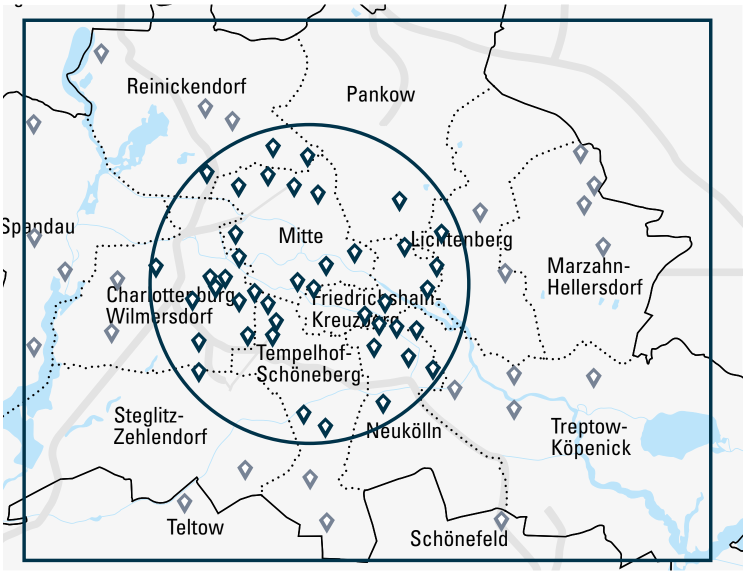
Quality locations in top tier Berlin neighborhoods

24% of GCP's portfolio

2/3 in top tier locations

2/3 of the Berlin portfolio is located in top tier neighborhoods: Charlottenburg, Wilmersdorf, Mitte, Kreuzberg, Friedrichshain, Lichtenberg, Neukölln, Schöneberg, Steglitz and Potsdam.

1/3 is well located in affordable areas like Reinickendorf, Treptow, Köpenick and Marzahn-Hellersdorf.



Berlin - Alexanderplatz

Berlin - Charlottenburg

Berlin - Friedrichshain

Key drivers

Capital city, positive net migration balance, public administration and start-up hub

High quality of talent with affordability attracting young professionals

Diverse economy base with a focus on the service sector

2nd highest population density in Germany and fourth most populous EU inner city

Home to three of the top universities in Germany, with the highest number of international students in Germany

Economy with growth levels consistently above the national average

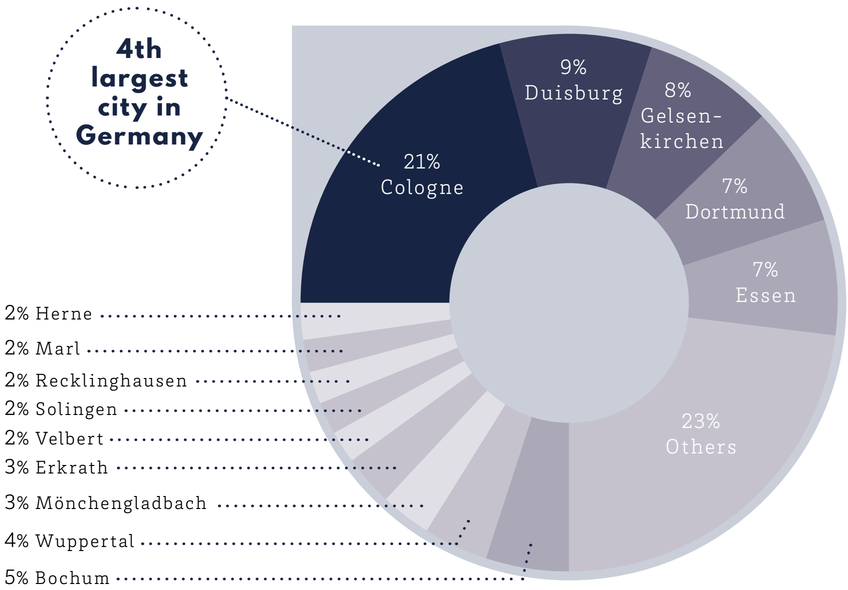
Berlin's low home-ownership rate results in high rental activity and demand, supporting the strong market fundamentals. At 16%, Berlin has the lowest home-ownership rate in the country, compared to the national average of 46%

December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
Berlin	1,553	635	6.3%	55	7.6	8,141	2,443	3.5%

North Rhine-Westphalia

Well positioned in the largest metropolitan area in Germany

27% of GCP's portfolio



The portfolio distribution in NRW is focused on cities with strong fundamentals within the region. 21% of the NRW portfolio is located in Cologne, the largest city in NRW, 9% in Duisburg, 8% in Gelsenkirchen, 7% in Dortmund and 7% in Essen.

Key drivers

Most densely populated federal state in Germany (excluding the three city-states)

4/10 largest cities

NRW is home to 4 of Germany's largest 10 cities

MERCER
QUALITY OF LIVING SURVEY

6th globally

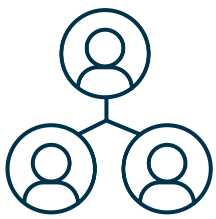
High quality of life demonstrated with Düsseldorf, the capital city of NRW ranking 6th globally in the Mercer Quality of Living Survey, 2018

NRW provides its inhabitants excellent infrastructure, with Germany's most dense and well-connected autobahn network and extensive railway system interconnecting the region to the surrounding areas and the rest of Europe

Largest regional economy in Germany with over 21% of the total GDP and 19% of the country's total exports

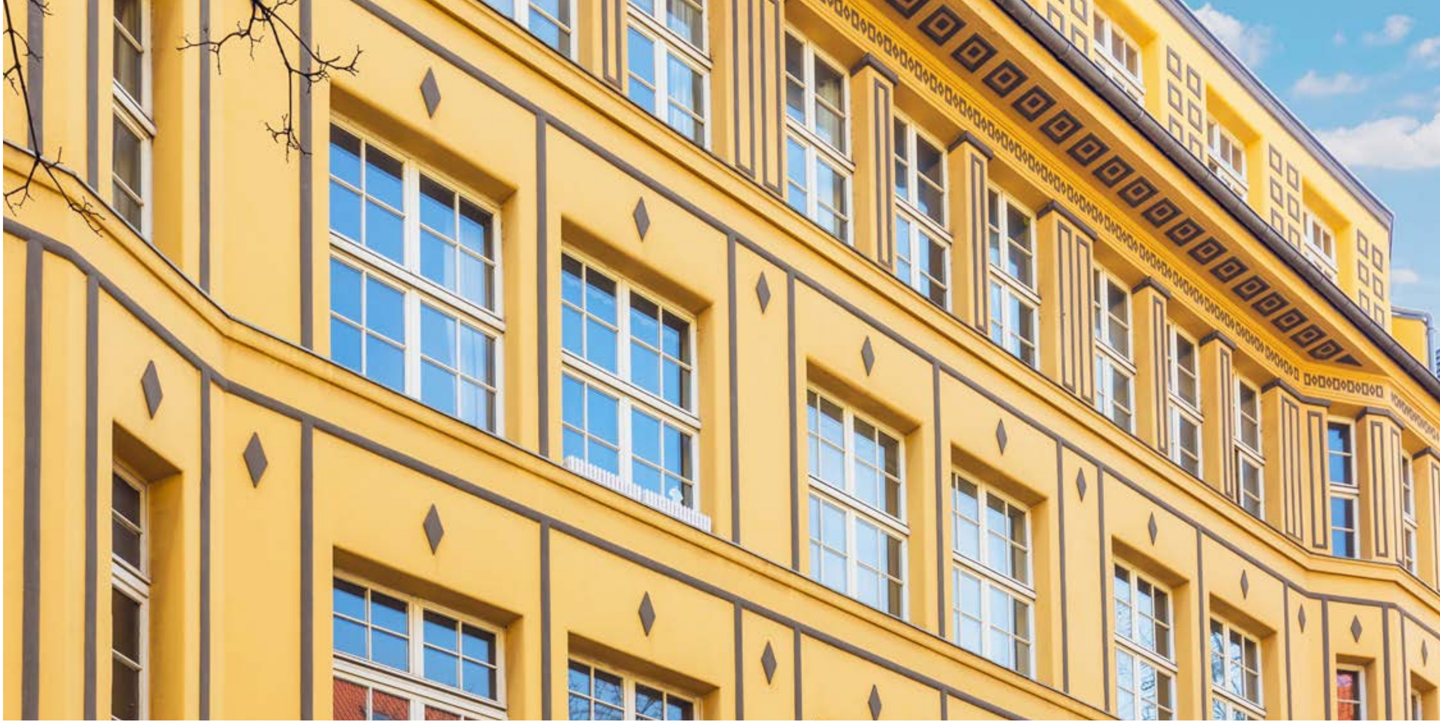
DAX

26 of the 50 largest companies in Germany based in the state, including 10 DAX companies



International business hub. Nearly 20,000 foreign companies, a quarter of all foreign companies in Germany, maintain their German/European headquarters in NRW

GCP's single largest location in NRW is Cologne, the largest city in the state and the 4th largest city in Germany



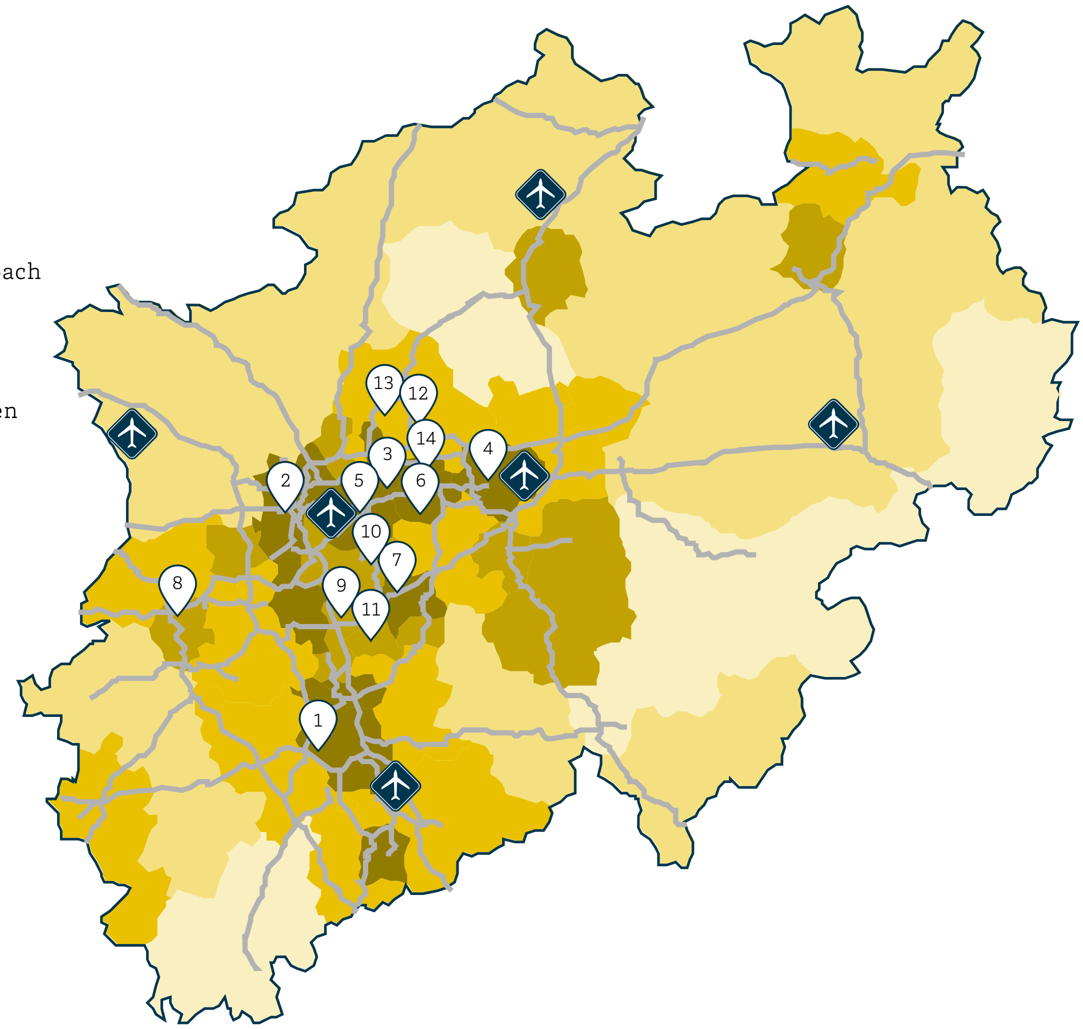
Cologne

Populations density in NRW

1. Cologne
2. Duisburg
3. Gelsenkirchen
4. Dortmund
5. Essen
6. Bochum
7. Wuppertal
8. Mönchengladbach
9. . Erkrath
10. Velbert
11. Solingen
12. Recklinghausen
13. Marl
14. Herne

inhabitants
per sqkm
(2015)

- > 2,000
- 1,000 – 2,000
- 500 – 1,000
- 200 – 500
- 0 - 200



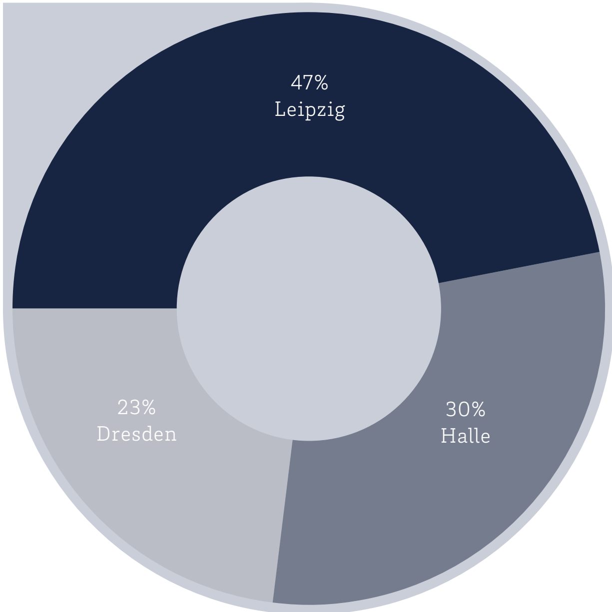
December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
NRW	1,950	1,843	8.0%	116	5.6	27,591	1,058	5.9%

Quality east portfolio

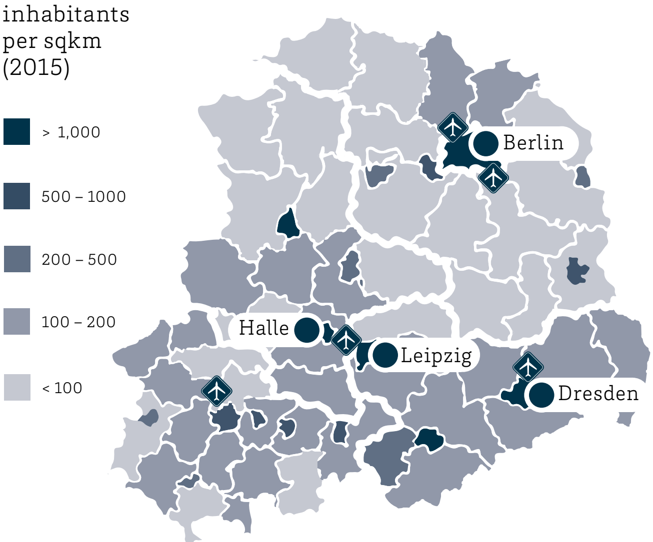
14% of GCP's portfolio

Well distributed in the growing and dynamic cities of Dresden, Leipzig and Halle.

Leipzig



Population density



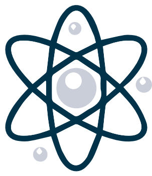
Dresden

Halle

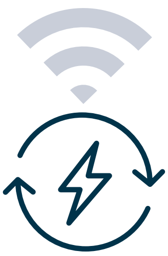
Key drivers

Large and fast growing: combined population of 1.4 million inhabitants while the metropolitan areas combine to 2.8 million. Leipzig has the highest population growth in Germany since 2012

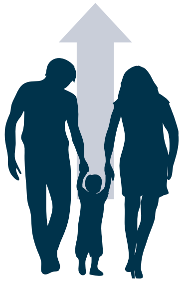
Dresden has the highest birth rate among Germany's largest cities



Halle is an important educational, science and research center, with a focus on innovative sectors such as micro-, nano- and solar technologies, and is home to the largest technology park in central Germany



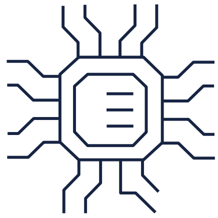
Leipzig's primary focus is smart infrastructure and an emphasis on energy, smart city, e-health, and cross-sectional technologies



Dresden and Leipzig are expected to experience the highest growth in population under 20 years old through to 2030

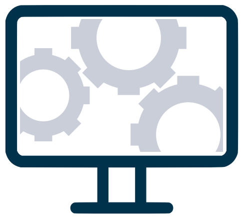
Leipzig takes first place across Germany in terms of employment growth

Dresden & Leipzig have recently been declared one of the 12 digital hubs by the Federal Ministry for Economic Affairs and Energy in Germany leading to increasing number of start-ups in the region and the development of **Germany's very own Silicon Valley**



Home to major industrial clusters connected to microelectronics, biotechnology and the automotive sector

Together with Leipzig, Halle is at the heart of the Central German Metropolitan Region



Dresden's focus is on hardware, software, connectivity components, smart systems, IoT platforms and application-based solutions

Leipzig's city centre was seen as the most attractive city in a study on German city centres with over 500,000 residents in a study by IFH Cologne on Vital City Centres

December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
Dresden/Leipzig/Halle	1,020	1,076	8.3%	59	5.0	18,537	948	5.7%

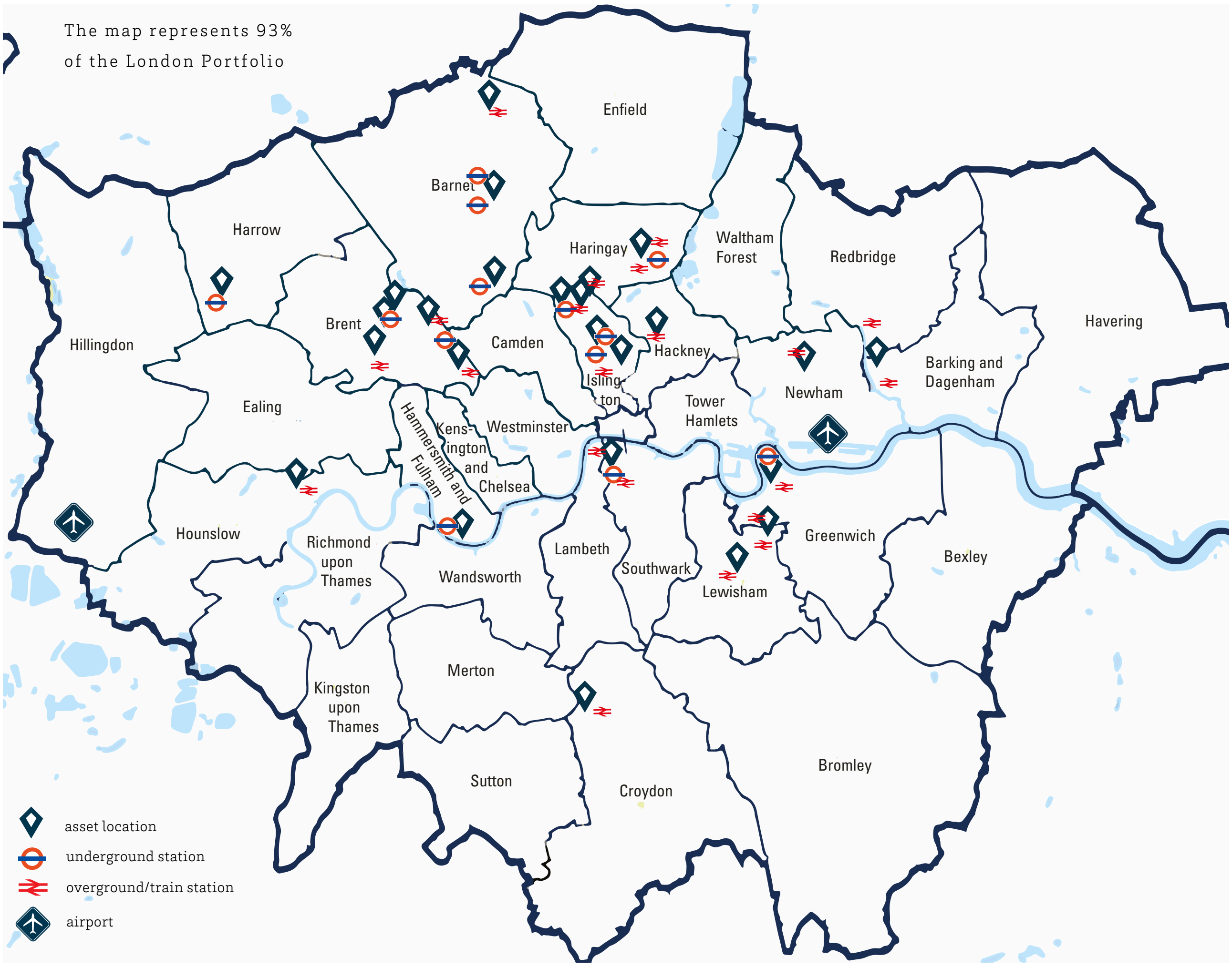
London

High quality assets located in strong middle class neighborhoods

9% of GCP's portfolio

The total London portfolio, including pre-marketed units, amounts to 1,465 units and €627 million value

Over **93%** of the portfolio is situated within a short walking distance to an underground/overground station



London - Southwark

London - Hackney

Key drivers

Growing number of households, including one person households boosting demand for homes/apartments. Households expected to increase by 30% until 2036

Global financial & professional services hub with nearly 50% of the FTSE 100 companies having their HQ location in London

Increasing rental ratio with home ownership declining to 65% - even below the EU average

UK is the 3rd most popular study destination for international students. International students in London account for a third of the total international student population in UK and 41% of London's total student population

Most populous city within the EU - 146% higher than that of the next populous city in EU, Berlin

High population density, being nearly 48 times that of the EU average

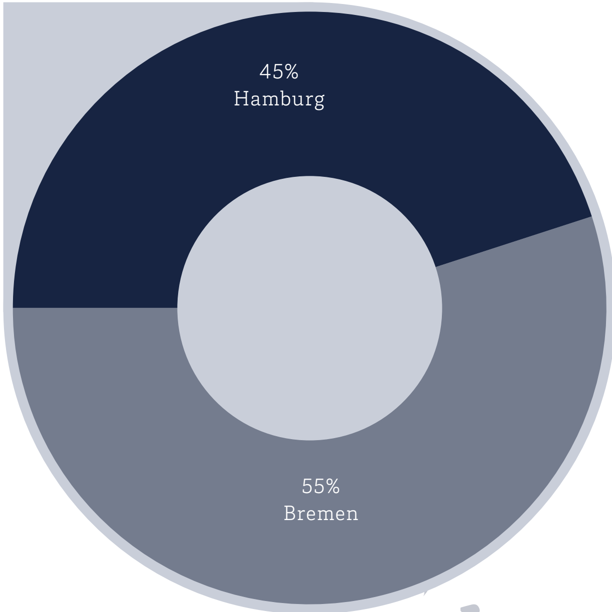
Growing population with growth rate that is twice the growth rate of the UK as a whole

Quality north portfolio

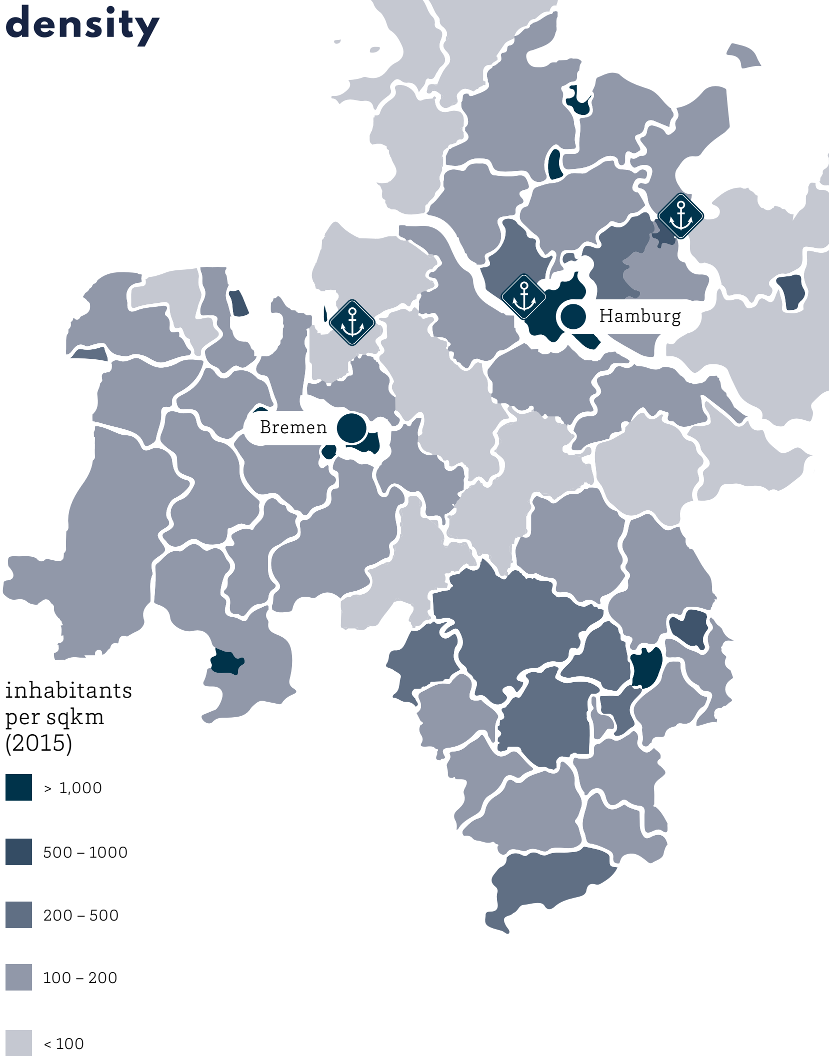
5% of GCP's portfolio

Focused on the major urban centers of Hamburg and Bremen – the largest cities in the north of Germany

Hamburg



Population density



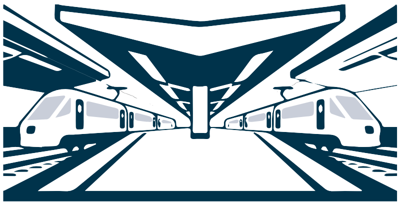
Bremen

Key drivers

Hamburg is the 2nd largest city in Germany

One of the busiest ports worldwide resulting in large international trade in the city

Hamburg



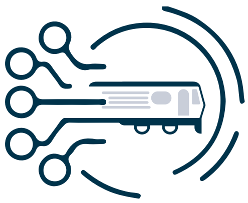
Hamburg is a major transportation hub, with important railway junction connecting Germany & Scandinavia

highest
GDP
per capita

Hamburg boasts the highest GDP per capita of all German states

Major European education, science and research hub, with nearly 20 universities

Hamburg finds itself in the top-20 best cities for quality of life as per the Mercer Quality of Living Survey, 2018



International innovation hub for digital business transformation in the field of logistics attracting young talent in the field

Bremen

highest
export ratio

Bremen has one of the highest export ratios of all German federal states.

Important economic and industrial center with a large focus on international trade, aerospace and automotive industries, as well as food industry

Like Hamburg, Bremen is a major port city with the Port of Bremerhaven the 4th largest in Europe

December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
Hamburg/Bremen	352	297	4.7%	20	5.9	4,272	1,183	5.7%

Strong financial position

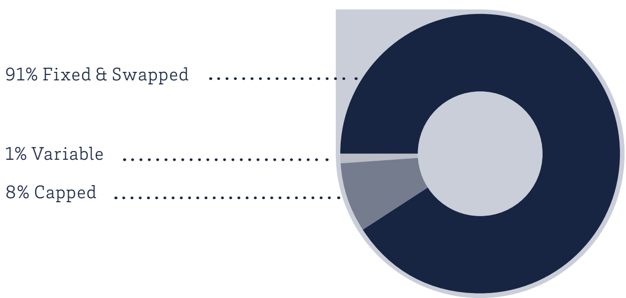
Conservative financial policy

GCP follows a financial policy in order to maintain and improve its strong capital structure:

- **Strive to achieve A- global rating in the long term**
- LTV limit at 45%
- Debt to debt plus equity ratio at 45% (or lower) on a sustainable basis
- Maintaining conservative financial ratios with a strong ICR
- Unencumbered assets above 50% of total assets
- Long debt maturity profile
- Good mix of long-term unsecured bonds and non-recourse bank loans
- Maintaining credit which are not subject to Material Adverse Effect clauses
- Dividend of 65% of FFO I per share

As part of the conservative financial approach adopted by the management the Company continuously maintains high liquidity displayed by the €760 million in cash and liquid assets.

Hedging structure



GCP's bank loans are spread across many loans from many different financial institutions that are non-recourse and have no cross-collateral or cross-default provisions.

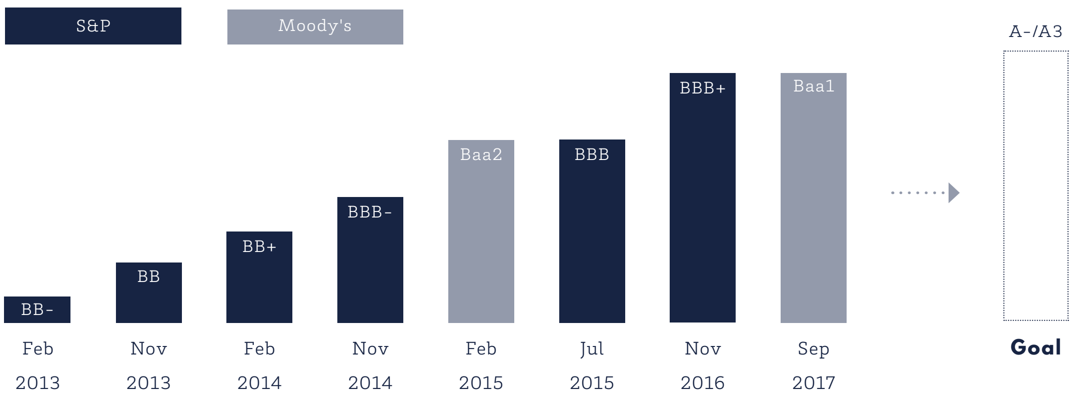
In accordance with the Company's conservative capital structure, 99% of its interest is hedged.

As part of GCP's conservative financial policy, bonds issued in foreign currencies are hedged to Euro until maturity.

Credit rating

GCP maintains investment-grade credit ratings from both Standard & Poor's (S&P) and Moody's Investors Service (Moody's), with current long-term issuer ratings of BBB+ and Baa1, respectively. Additionally, S&P assigned GCP a short-term rating of A-2. The Company has a long-term goal of achieving an A-/A3 credit rating, an important component of its financial policy, and to that effect the Board of Directors has decided to implement policies as well as management and financial strategies to achieve that target.

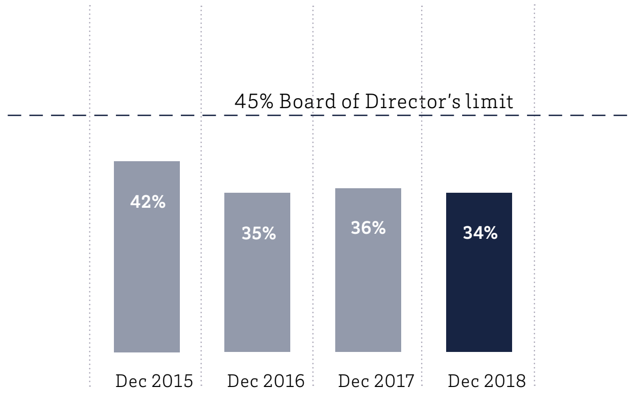
The Company has established a strong track record of achieving rating improvements owing to continuous improvements in its business and financial profile. In September 2017, Moody's increased GCP's issuer rating to Baa1, noting the portfolio's strong diversification, the Company's strong credit metrics, high liquidity and financial flexibility, and strong access to capital markets. In November 2016, S&P increased the Company's issuer rating for the 5th time in four years, to BBB+, owing to the Company's strengthened position within its business risk profile.



Loan-to-value

GCP strategically maintains its strong financial profile characterized by long debt maturities, hedged interest rates, excellent financial coverage ratios, and a low LTV. The LTV as of December 31, 2018 is at 34%, below the management limit of 45%.

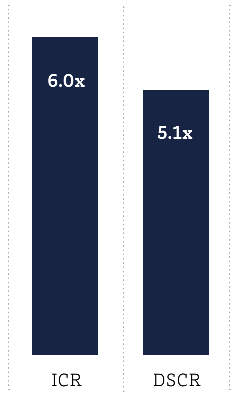
Low Leverage (Loan-To-Value)



Debt and interest cover ratios

GCP's financial flexibility remains strong over time due to its high profitability, which is reflected in consistently high debt cover ratios. The Interest Cover Ratio for the year 2018 was 6.0x and the Debt Service Cover Ratio was 5.1x.

Coverage Ratios (1 – 12/2018)

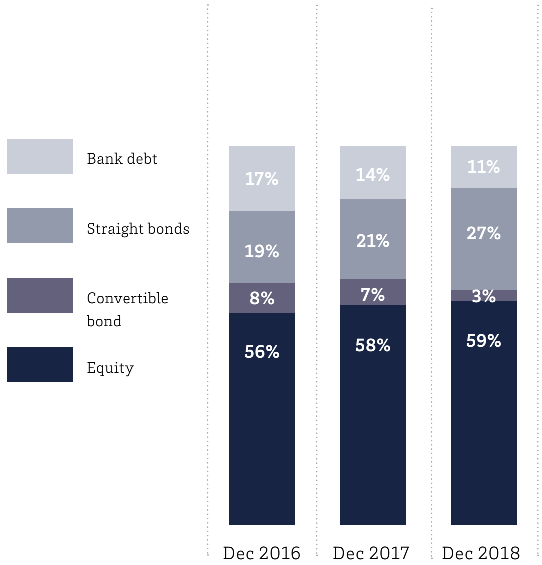


Financing sources mix

An important component of GCP's financial structure is a strong diversification of funding sources, reducing the reliance on any single source and resulting in a diversified financing mix. This is enabled by the Company's wide reach and proven track record in issuing instruments across various capital markets: straight bonds, convertible bonds, perpetual notes and equity capital.

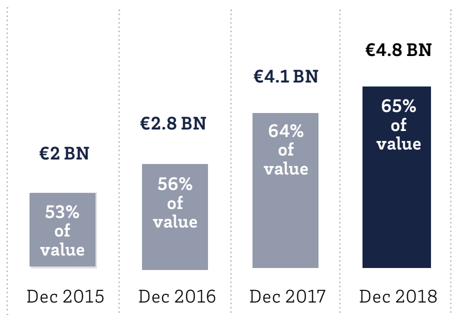
Moreover, GCP's diversity is further improved through issuances in various currencies, issuing straight bonds in CHF, JPY and HKD. All foreign currency issuances are swapped into Euro until maturity. Issuances in various currencies increase the investor base and provide expansion into a wider range of markets to attract funding.

In addition, the Company maintains lasting relationships with numerous banks and financial institutions, providing for access to bank financing.



Unencumbered assets

The Company maintains as part of its conservative financial policy a high proportion of unencumbered assets to provide additional financial flexibility and contribute to a strong credit profile, with €4.8 billion in unencumbered assets as of December 2018, representing 65% of the total portfolio value.



Company strategy and business model

»Focus on value-add opportunities in attractive, densely populated regions, while keeping a conservative financial policy and investment-grade rating«

GCP's investment focus is on the German residential markets that it perceives to benefit from favorable fundamentals that will support stable profit and growth opportunities for the foreseeable future. The Group's current portfolio is predominantly focused on North Rhine-Westphalia, Berlin, the metropolitan regions of Leipzig, Dresden and Halle, as well as other major cities and urban centers in Germany and is complemented by a stake in London.

The Company believes its platform has the right abilities and systems in place to continue its strong performance and to further realize on the high upside potential embedded in the portfolio. The Group also believes that there are acquisition opportunities in these attractive markets to support its external growth strategy.

For its acquisitions, the Company adheres to the following specific criteria:

- Acquisition in densely populated areas and major cities
- High cash flow generating asset
- Vacancy reduction potential
- Rent level per sqm below market level (under-rented), upside potential and low downside risk
- Purchase price below replacement costs and/or below market values
- Potential to reduce the operating cost per sqm

Cash flow improvements through focus on rental income and cost discipline

GCP seeks to maximize cash flows from its portfolio through the effective management of its assets by increasing rent, occupancy and cost efficiency. This process is initiated during the due diligence phase of each acquisition, through the development of a specific plan for each asset. Once taken over, and the initial business plan realized, GCP regularly assesses the merits of ongoing improvements to its properties to further enhance the yield on its portfolio by increasing the quality and appearance of the properties, raising rents and further increasing occupancy. GCP also applies significant scrutiny to its costs, systematically reviewing ways to increase efficiency and thus increase cash flows.

Berlin

Maximize tenant satisfaction

A key pillar of the overall success of GCP is tenant satisfaction. The GCP Service Center ensures prompt responses to queries with the longest time to a response being 24hrs. Urgent cases are taken care of within a time frame of under an hour. The quality of the Service Center offering was validated with the ISO 9001:2015 certification received in February 2019. The Company places strong emphasis on enhancing the living quality and environment of its tenants through various measures. GCP strives to develop a community feeling amongst its tenants by installing playgrounds, improving accessibility at the properties, organizing family-friendly events, supporting local associations as well as through various other initiatives. Some of the Company's regularly organized tenant events include Santa Claus celebrations for Christmas, Easter egg-searching events as well as different summer events, such as the dozens of "GCP Summer Games" parties that are organized annually. The Company has also worked towards providing children with study areas, organizing youth programs, mother-baby groups, and even senior citizen meeting points so as to establish a pleasant environment within the community. In addition, GCP identifies opportunities to work with local authorities to improve the existing infrastructure in the community, contributing to increased demand for the neighborhood.

Operations supported by centralized IT/software

The Group's proprietary and centralized IT / software plays a significant role in enabling GCP to achieve its efficiency objectives. The key to this system is the detailed information that it provides not only on the portfolio but also on existing and prospective tenants, which staff can access on and off the road. This all-encompassing data processing enables the Group to track and respond to market rent trends, spot opportunities for rent increases, and manage re-letting risks on a daily basis. GCP's IT/ software provides management with the detailed information necessary to monitor everything from costs to staff performance.

London

Capital markets

Investor relations activities supporting the strong capital markets position

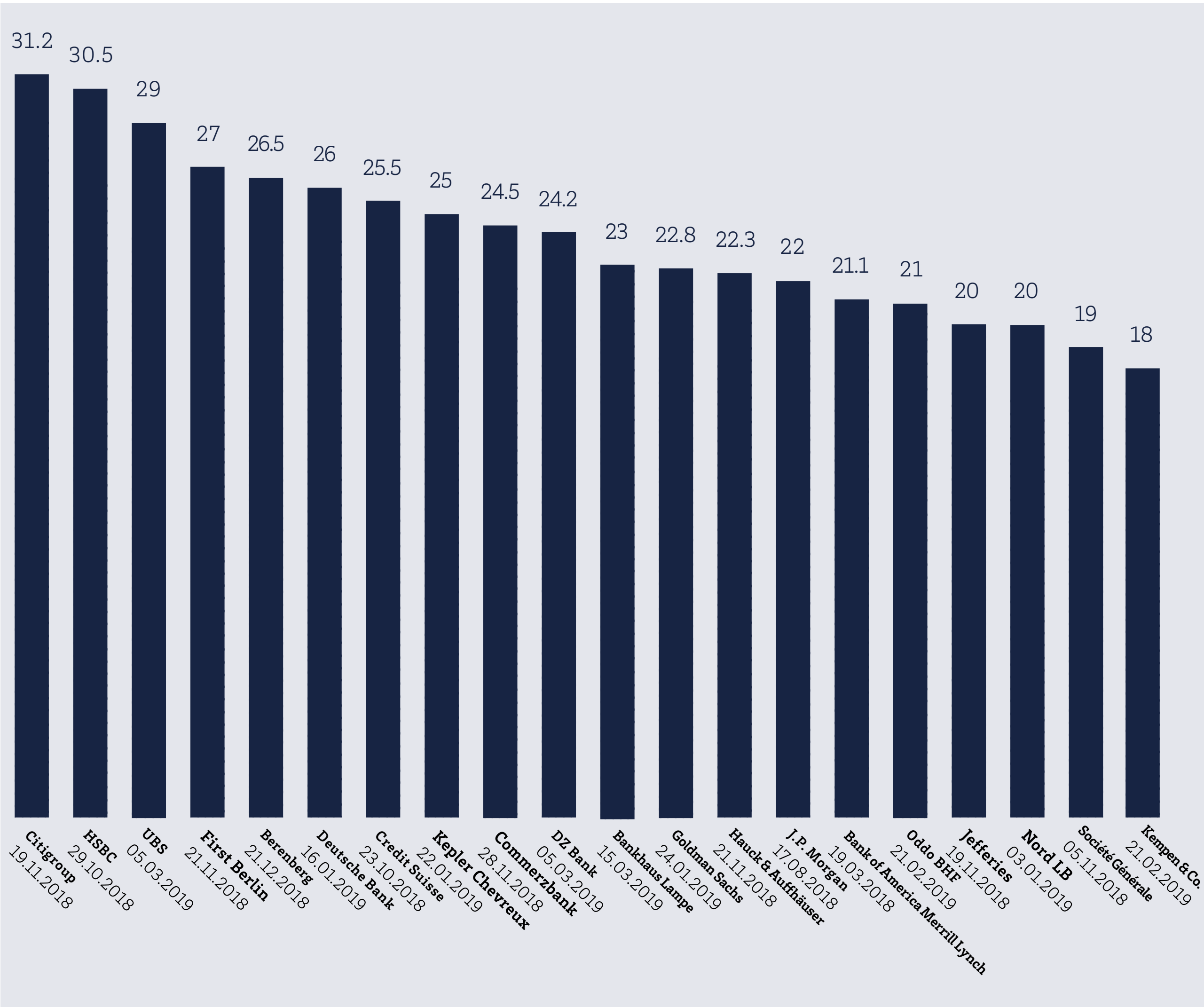
The Company continues to proactively present its business strategy and thus enhance perception, as well as awareness, of the Company among capital market investors. GCP seizes opportunities to present a platform for open dialogue, meeting hundreds of investors in dozens of conferences around the globe as well as hosting investors at the Company's offices. The improved perception leads to a better understanding of GCP's business model, operating platform and competitive advantage, and leads to strong confidence from investors. GCP's strong position in equity capital markets is reflected through its membership in key stock market indices, including the MDAX of the Deutsche Börse, the STOXX All Europe 800 index, the FTSE EPRA/NAREIT Global Index series, GPR 250, DIMAX and the MSCI index family. These index inclusions are the result of many years of success in equity markets and the strong investor perception of the Company.

Placement	Frankfurt Stock Exchange
Market segment	Prime Standard
First listing	Q2 2012
Number of shares (as of 31 December 2018)	166,718,395 ordinary shares with a par value of EUR 0.10 per share
Nominal share capital (as of 31 December 2018)	16,671,839.5 EUR
Number of shares on a fully diluted basis (as of 31 December 2018)	178,996,268
ISIN	LU0775917882
WKN	A1JXCV
Symbol	GYC
Market capitalisation (as of 31 December 2018)	3.2 bn EUR
Shareholder structure (as of 31 December 2018)	Edolaxia Group 38.8% Others: 61.2%
Key index memberships	MDAX FTSE EPRA/NAREIT Index Series STOXX All Europe 800 MSCI Index Series GPR 250 DIMAX

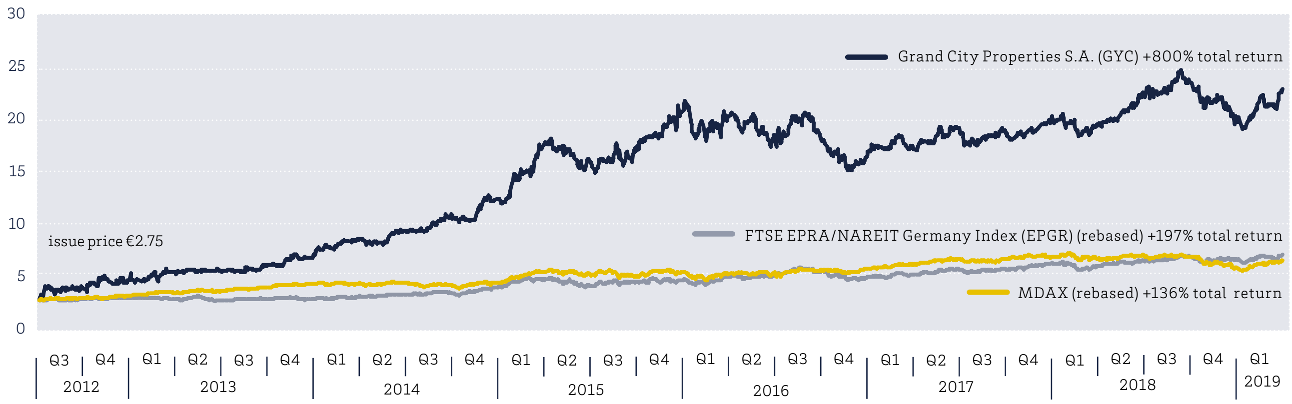
Vast and proven track record in capital markets

The Company has established over the years an impressive track record in capital markets, continuously accessing various markets through its strong relationships with the leading investment banks in the market. Supported by two investment-grade credit ratings (BBB+ from S&P and Baa1 from Moody's), GCP is able to quickly and efficiently source funds at attractive interest rates, significantly contributing to its low average cost of debt (of currently 1.6%). Since 2012, GCP has issued approx. €5.7 billion through dozens of issuances of straight bonds, convertible bonds, equity and perpetual notes. The Company launched an EMTN programme, providing significant convenience and flexibility by enabling the issuance in a short period of time of financial instruments of various kinds, sizes, currencies and maturities. Subsequently, the Company's first non-EUR denominated instruments were issued in 2018: a Hong Kong dollar denominated straight bond (Series I), a Swiss Franc denominated straight bond (Series K), and a Japanese yen denominated straight bond (Series L), all with currency hedges in place, demonstrating the strong demand for the Company's instruments from global investors. Through its strong access to capital markets, GCP is able to proactively and effectively manage its debt structure, contributing to a long average debt maturity of over 8.3 years.

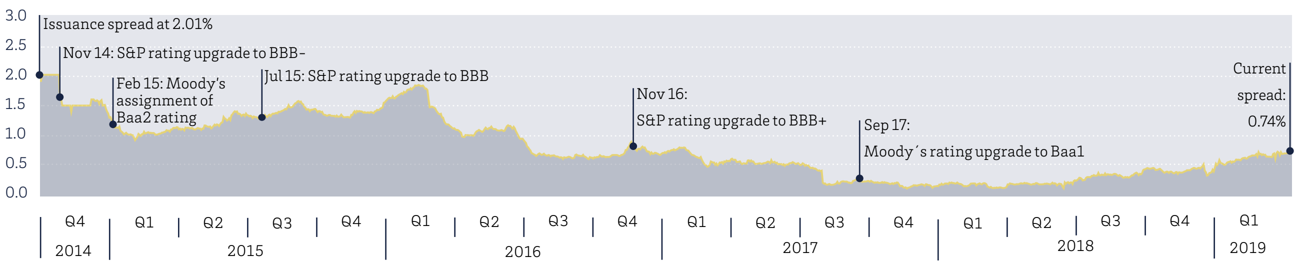
Analyst Recommendations



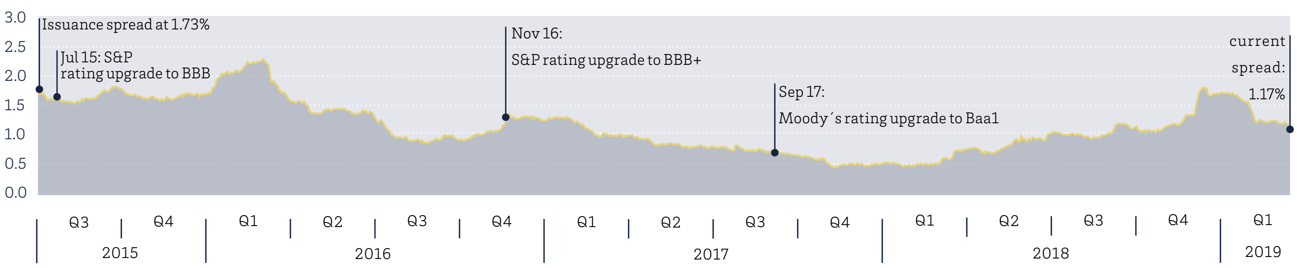
Share price performance and total return comparison since first equity placement (19.07.2012)



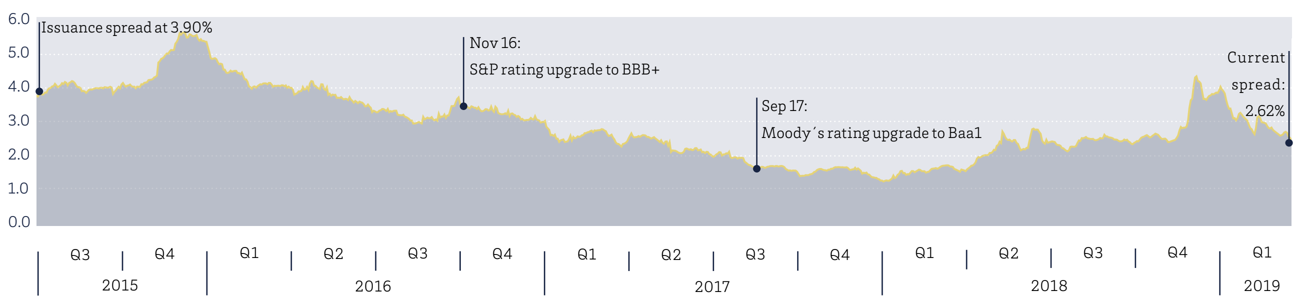
Straight bond Series D – Spread over mid-€-swap, remaining 2.5 years



Straight bond Series E – Spread over mid-€-swap, remaining 6 years



3.75% perpetual notes spread over mid-€-swap



ESG – Environmental, Social and Governance

As a large organization with a wide-reaching impact from its operational activities, it is of crucial importance to Grand City Properties to ensure the sustainability of its operations and properties and maintain a high standard of responsibility to all its stakeholders, from tenants to employees to shareholders, as well as creditors, suppliers, the environment and the communities in which GCP operates. This is carried out through the Company's various ESG measures and initiatives which are conceived and implemented by a dedicated Corporate Responsibility (CR) department with strategic direction and oversight provided by the Corporate Responsibility Steering Committee chaired by the CEO. The Company considers ESG to be a pillar for the overall success of the organization and as such all ESG activity is closely monitored and reviewed by the CEO of the Company. The second full annual Corporate Responsibility Report will be published end of April 2019 and will detail efforts and initiatives undertaken in 2018. The report can be downloaded from GCP's website.

SUSTAINALYTICS 95th percentile in 2018

The Company's continuous effort and ongoing commitment to enhancing and expanding its ESG initiatives and reporting was recognized in February 2019 by **Sustainalytics**, one of the leading sustainability rating agencies, which **ranked GCP in the 95th percentile among 300 global real estate peers,** as well as noting the Company as **a leader in its peer group.**

EPRA BPR GOLD

EPRA sBPR GOLD

In September 2018, for the second consecutive year, GCP was awarded the **EPRA BPR Gold Award** for its 2017 annual financial report as well as the **EPRA sBPR Gold Award** for its EPRA sBPR reporting, underlining the Company's commitment to the very high standards of transparency and reporting.

Environmental responsibility

As a responsible corporate citizen, the Company considers the preservation of the environment to be a key component of its business model. GCP pays great attention to the environmental aspects of the repositioning process and includes, as well as consistently improves upon various environmental measures. The Company sees the implementation of environmentally friendly measures as both an important environmental issue as well as an integral part of the optimization of its cost structure.

GCP sets aside considerable resources in order to ensure the proper oversight of various initiatives in connection with the preservation of the environment. Management reviews of the environmental policies are coupled with the ongoing monitoring of environmental performance such as the use of energy and water as well as the reduction of carbon emissions and waste management. So far the Company has moved a large number of its properties to electricity from renewable sources and aims to continue this process as and when contracts come to an end. GCP has also worked towards modernizing heating systems, moving to climate-neutral gas systems and ensuring all GHG emissions through strategic partners for energy supply are 100% offset, so as to reduce its environmental footprint.

The Company has implemented reporting processes in line with the EPRA sBPR (Sustainability Best Practice Recommendations) guidelines and has published its first full annual Corporate Responsibility Report in April 2018, with the published environmental data being externally assured by GUT Certifizierungsgesellschaft für Managementsysteme.

The Company has implemented a Green Procurement Policy that is supplemental to the Environmental Policy overarching this field. The Company partners with vendors that create products and services to a great extent with renewable energy and that are using supplies made from recycled materials. The Company's Supplier Environmental Programme is supported by our Supplier Code of Conduct which pays reference to the use and compliance to environmental regulations and the compliance to legal standards. Suppliers have to provide proof with external certifications that help assess the environmental impact of their activities and products delivered.

»By building further upon the ESG initiatives which we implemented over the past years, we continue to raise the bar on all fronts. Building sustainable communities that are environmentally conscious and socially responsible continues to be what we strive to achieve, all the while maintaining the highest standards of governance and transparency.«

– Christian Windfuhr, CEO

»When it comes to tenant service, we consider every individual's need as important as our own. This ensures a personal touch during the problem-solving process that reassures the tenant and maximizes their satisfaction.«

– Mandy Kübscholl, Director of Customer Care Quality & Service, Service Center

»What inspires me the most is the impact we have on the society through a number of initiatives that we undertake. This is visible in the lives of the children to whom we provide safe spaces to study, the youth that we train with different life-skills and the community that we bring together for a better tomorrow« – Megi Cenaj, ESG Coordinator

Social responsibility

Tenants & the society

GCP perceives social responsibility as a top priority and is committed towards the well-being of its tenants and its employees. To this end, the Company does not only ensure the quality and accessibility of its residential units and surroundings, but also provides high quality services to its tenants through its ISO certified (DIN EN ISO 9001:2015) Service Centre, which is available 24/7 and in various languages through multiple channels of communication including General Data Protection Regulation-compliant chat systems. The Company's high quality standards connected with its Service Centre was endorsed with the Service Centre receiving the internationally recognized ISO 9001:2015 certification in February 2019.

The social activities organized by GCP are of importance to both the Company and its tenants. These tenant events help to build strong relationships with the tenants, support the community feeling and improve the Company's interactions with its stakeholders. GCP organizes over a hundred interactive tenant events annually, such as Easter egg-hunts, Santa Claus visits, barbecues, sports events, soccer club sponsorship as well as children's parties thereby encouraging community development and an interaction between tenants themselves as well as with Grand City team members. The Company also works with local policy makers, the local Community Relations Officer and other stakeholders to identify local initiatives that enhance and improve the conditions of the community. These include but are not limited to, providing rent free spaces for children to study at, mother-baby groups, senior citizen meeting points, ensuring full accessibility for the disabled, supporting the improvement and development of playgrounds, sports facilities and community centers as well as deploying GCP social workers to support and consult with tenants on a one-on-one basis.

Employees & diversity

As an employer, GCP considers providing opportunities for personal development and internal advancement as its responsibility to its employees. To this end, the Company provides an ongoing Leadership Program and ongoing employee support. The Company founded its own in-house academy in 2014 which provides employees and managers with training and development. The Company cares for the well-being of its employees and to that end provides them with a fitness center at its operational headquarters in Berlin free of charge. The fitness center is managed by qualified trainers, who develop and supervise individual training programs for those who wish to take advantage of this service. Additionally, yoga and aerobic classes are offered by specialized coaches.

Not only does GCP view its cultural diversity as being essential to its success, but also values and respects perspectives of its employees from different nationalities, ages, genders, ethnicities, races, cultures, religions, ideologies, sexual identities and physical abilities. GCP puts a large focus on diversity, and has published its Diversity Policy, available on the Company's website and introduced to new employees. Supporting the diversification policy, the Company has established an Anti-discrimination policy. For details on the Company's diversity and key figures can be found in the Corporate Responsibility Report published on the Company's website. Discrimination on the basis of any of the above mentioned aspects is strictly prohibited within the Company. Employees are provided with a diversity training on joining the organization. The Company's commitment to diversity is overseen by a Diversity Committee, made up of representation across different levels of the organization.

Corporate Responsibility Steering Committee

The Company's CR Steering Committee is made up of the heads of all relevant departments and is chaired by the CEO, Mr Christian Windfuhr. The Committee discusses various developments and CR topics routinely and is responsible for the overall CR strategy of the Company. Having set up a comprehensive CR Strategy for the organization, the CR department takes ownership of the operational implementation of the same.

Corporate governance

GCP emphasizes the importance of corporate governance with a high standard of transparency, executed by the Board of Directors with a majority of independent directors and the management. The Company directs its efforts in maintaining the high trust it receives from its shareholders and bondholders. GCP is proud of the high confidence of its investors, which is reflected in the impressive placement of funds by major global investment banks. GCP's shares and bonds are regularly placed with international leading institutional investors and major global investment and sovereign funds.

In order to maintain high corporate governance and transparency standards, the Company has implemented the Advisory Board, the Risk Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Furthermore, the Company ensures that its Board of Directors and its senior executives have vast experience and skills in the areas relevant to its business.

The Company has a very strict Code of Conduct which applies to business partnerships as well as employees. The Code of Conduct addresses issues related to corruption, conflicts of interest, bribery, human rights abuses as well as discrimination based on a range of factors such as age, gender, ethnicity, race, culture, religion, ideology, sexual identity, physical disabilities among others. The Code also clearly lays down a reporting framework for any violations. The Code has been updated with a focus on improved transparency in its reporting lines, which are now supported by the Compliance Department and the whistleblower system.

The Company is not subject to any compulsory corporate governance code of conduct or respective statutory legal provisions and therefore is not required to adhere to the "Ten Principles of Corporate Governance" of the Luxembourg Stock Exchange or to the German corporate governance regime, which are only applicable to domestic issuers. Nevertheless the Company already complies with most of the principles and intends to comply with the remaining principles in the future as well as continues to take steps to implement environmental, social and corporate governance best practices throughout its business.

Annual General Meeting

The Annual General Meeting of the shareholders of Grand City Properties S.A. for 2019 is scheduled to take place on June 26, 2019 in Luxembourg. The meeting will resolve on, among others, the approval of €0.77 dividend per share for the 2018 fiscal year to be distributed to shareholders of the Company.

Compliance, Code of Conduct and Data Protection

The Company considers reputational risk as a significant risk and has therefore incorporated a high compliance with statutory laws as well as Company guidelines into the corporate management and culture. Employees are provided with initial as well as on-going training related to issues connected with the Code of Conduct. The GCP compliance and risk management framework includes the corresponding internal audit procedures and covers all areas of the business including acquisitions, asset management, administrative and operative functions.

Internally, the Company's Code of Conduct for Employees is a mandatory component for all employment contracts and includes policies such as, Anti-Corruption Policy, Anti-discrimination Policy, Whistle-blowing Policy and a Data Protection Declaration. Externally, business partners are required to adhere to the strict Code of Conduct for Business Partners. This Code of Conduct lays out the legal and ethical framework to be followed and includes references to a number of important issues such as prohibition of corruption and bribery, conflicts of interest, health and safety of employees, environmental protection, money laundering practices, respect of basic human rights of employees, prevention of child labour as well as forced labour, data protection and recognition of employees' rights pertaining to freedom of association

The Company´s Code of Conduct includes the prohibition of insider dealing. The Company is subject to several obligations under Regulation (EU) No. 596/2014 (Market Abuse Regulation, "MAR"). The Company notifies pursuant to Article 19 para. 5 subpara. 1 sentence 1 of MAR all person discharging managerial responsibilities of their obligations in the context of managers' transactions. Memorandums, notifications and information are distributed regularly.

One of GCP's important objectives has been to ensure the best-possible protection of personal data from manipulation or abuse and compliance with General Data Protection Regulation (GDPR). In this regard, various modern IT systems with high standards of data privacy are a key technical solution utilized by the Company. At the same time, staff are sensitized to the topic of data protection through video training modules as well as seminars with legal experts. Displaying its proactive nature, the Company has also prepared clearly communicated standard operating procedures (SOPs) which assist all stakeholders in their daily operations involving data as well as ensure the effective protection of data.

Board of Directors

The Company is administered by a Board of Directors that is vested with the powers to perform and manage in the Company's best interests.

The Board of Directors represents the shareholders as a whole and makes decisions solely in the Company's best interests and independently of any conflicts of interest. The Board of Directors and senior management regularly evaluate the effective fulfillment of their remit and compliance with strong corporate governance standards. This evaluation is also performed by the Audit Committee and the Risk Committee.

The members of the Board of Directors are elected by the shareholders at the annual general meeting for a term not exceeding six years and are eligible for re-election. The directors may be dismissed with or without any cause at any time and at the sole discretion of the shareholders at the annual general meeting. The Board of Directors, a majority of whom are independent, resolves on matters on the basis of a simple majority, in accordance with the articles of incorporation. The Board of Directors chooses amongst the directors a chairperson who shall have a casting vote. All directors have been appointed and the mandate renewed at AGM 2017 until AGM 2019.

Members of the Board of Directors

Name	Position
Mr. Refael Zamir	Director, chairman, CFO
Ms. Simone Runge-Brandner	Independent Director
Mr. Daniel Malkin	Independent Director

CEO

The Board of Directors resolved to delegate the daily management of the Company to Mr. Christian Windfuhr, as Daily Manager (administrateur-délégué) of the Company, under the endorsed denomination (Zusatzbezeichnung) Chief Executive Officer (CEO) for an undetermined period.

Remuneration of the Management

for the year ended 31 December 2018

	Executive Management		Independent Directors		Total
	€'000				
	Christian Windfuhr (CEO) (*)	**Refael Zamir** (CFO - Director) (*)	**Daniel Malkin**	**Simone Runge-Brandner**	**2018**
Fix Remuneration (**)	192	350	78	78	698
Incentive:					
Fix and Variable	354	195	-	-	549
Total Remuneration	546	545	78	78	1,247

(*) based on employer's costs
(**) including supplementary payments

Advisory Board

The Board of Directors established an Advisory Board to provide expert advice and assistance to the Board of Directors. The Board of Directors decides on the composition, tasks, and term of the Advisory Board as well as the appointment and dismissal of its members. The Advisory Board has no statutory powers under Luxembourg law or the articles of incorporation of the Company but applies rules adopted by the Board of Directors. The Advisory Board is an important source of guidance for the Board of Directors when making strategic decisions.

Audit Committee

The Board of Directors established an Audit Committee and decides on the composition, tasks and term of the Audit Committee as well as the appointment and dismissal of its members. The responsibilities of the Audit Committee relate to the integrity of the consolidated financial statements, including reporting to the Board of Directors on its activities and the adequacy of internal systems controlling the financial reporting processes, and monitoring the accounting processes.

The Audit Committee provides guidance to the Board of Directors on the auditing of the annual consolidated financial statements of the Company and, in particular, shall monitor the independence of the approved independent auditor, the additional services rendered by such auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points, and the fee agreement with the auditor.

Risk Committee

The Board of Directors established a Risk Committee to assist and provide expert advice to the Board of Directors in fulfilling its oversight responsibilities relating to the different types of risks the Company is exposed to, recommend a risk management structure including its organization and processes, as well as assess and monitor effectiveness of the overall risk management. The Risk Committee provides advice on actions of compliance, in particular by reviewing the Company's procedures for detecting risk, the effectiveness of the Company's risk management and internal control systems and by assessing the scope and effectiveness of the systems established by the management to identify, assess and monitor risks.

Remuneration Commitee

The Board of Directors established a Remuneration Committee. The Remuneration Committee shall submit proposals regarding the remuneration of executive managers to the Board, ensuring that these proposals are in accordance with the remuneration policy adopted by the Company and the performance evaluation results of the persons concerned. To that end, the committee shall be informed of the total remuneration paid to each member of the executive management by other companies affiliated with the group.

Nomination Committee

The Board of Directors established a Nomination Committee. The Nomination Committee shall be composed of a majority of Non-Executive Directors. For every significant position to be filled, the committee will make an evaluation of the existing and required skills, knowledge and experience. Based on this assessment, a description of the role, together with the skills, knowledge and experience required shall be drawn up. As such, the committee shall act in the best interests of the Company, and among others, prepare plans for succession of Directors, evaluate existing and required skills, knowledge, and experience, consider proposals from shareholders, the Board and executive management, and suggest candidates to the Board.

Internal controls and risk management systems

The Company closely monitors and manages potential risks and sets appropriate measures in order to mitigate the occurrence of possible failures to a minimum. The risk management is led by the Risk Committee, which constructs the risk management structure, organization, and processes. The Risk Committee monitors the effectiveness of risk management functions throughout the organization, ensures that infrastructure, resources, and systems are in place for risk management and are adequate to maintain a satisfactory level of risk management discipline. The Company categorizes the risk management systems into two main categories: internal risk mitigation and external risk mitigation.

Internal risk mitigation

Internal controls are constructed from five main elements:

- Risk assessment – set by the Risk Committee and guided by an ongoing analysis of the organizational structure and by identifying potential weaknesses.
- Control discipline – based on the organizational structure and supported by employee and management commitments. The discipline is erected on the foundations of integrity and ethical values.
- Control features – the Company sets physical controls, compliance checks, and verifications such as cross departmental checks. Grand City Properties S.A. puts strong emphasis on separation of duties, as approval and payments are done by at least two separate parties. Payment verification is cross checked and confirmed with the budget and the contract. Any payment exceeding a certain set threshold amount requires additional approval by the head of the department as a condition for payment.
- Monitoring procedures – the Company monitors and tests unusual entries, mainly through a detailed monthly actual vs. budget analysis and check. Strong and sustainable control and organizational systems reduce the probability of errors and mistakes significantly. The management sees high importance in constantly improving all measures, adjusting to market changes and organizational dynamics.
- ESG risk-related expenditures – the Group has included identification of potential financial liabilities and future expenditures linked to ESG risks in the organizational risk assessment. Future expenditures on ESG matters and opportunities are included in the financial budget.

External risk mitigation

Through ordinary course of business, the Company is exposed to various external risks. The Risk Committee is constantly determining whether the infrastructure, resources, and systems are in place and adequate to maintain a satisfactory level of risk. The potential risks and exposures are related, inter alia, to volatility of interest risks, liquidity risks, credit risk, regulatory and legal risks, collection and tenant deficiencies, the need for unexpected capital investments, and market downturn risk.

Grand City Properties S.A. sets direct and specific guidelines and boundaries to mitigate and address each risk, hedging and reducing to a minimum the occurrence of failure or potential default.

Brexit

On 23 June 2016, voters in the United Kingdom voted in a referendum in favor of the United Kingdom leaving the European Union, a decision known as "Brexit". On 29 March 2017 the United Kingdom submitted a formal departure notice to the European Council pursuant to Article 50(2) of the Treaty on European Union (the EU Treaty) and to the date of writing this report if no change will occur till the 29th of March 2019, the UK is due to leave the European Union.

As many questions relating to Brexit remain open, the outcome of the negotiations regarding the withdrawal of the United Kingdom from the European Union is impossible to predict. Among other consequences, departure from the European Union may result in the United Kingdom no longer having access to the European Single Market. Since the United Kingdom is currently the second largest economy in the European Union, a withdrawal from the European Single Market is expected to have significant negative impacts on the economy of the United Kingdom.

If the United Kingdom no longer had access to the European Single Market, the Member States of the European Union would face greater barriers to trade and commerce with the United Kingdom, which may in turn diminish overall economic activity between the European Union and the United Kingdom, resulting in a general economic downturn throughout the United Kingdom, the European Union or both. The Brexit vote may also give rise to or strengthen tensions in other Member States regarding their membership in the European Union, potentially resulting in additional referendums or other actions in Member States regarding withdrawal from the European Union. The withdrawal of other Member States from the European Union would have unpredictable consequences and may have adverse effects on levels of economic activity in Germany. Therefore, Brexit may have an adverse effect on the GCP Group's business.

In addition, as of December 2018, 9% of the GCP Group's Portfolio consisted of properties held in London. This percentage may increase in the future, and this portion of the GCP Group's Portfolio may be particularly exposed to the economic and political impact of Brexit. The final outcome of Brexit may have a significant impact on the currency exchange rate between the Pound Sterling and the Euro, which should have a low effect on GCP, as GCP has hedged itself against the Pound Sterling, but may have an adverse effect on the net assets.

The uncertainty around the timing of Brexit and its economic and other terms cause volatility in the financial markets. Since the GCP Group relies on access to the financial markets in order to refinance its debt liabilities and gain access to new financing, on-going political uncertainty and any worsening of the economic environment may reduce its ability to refinance its existing and future liabilities or gain access to new financing, in each case on favorable terms or at all. Furthermore, the GCP Group's counterparties, in particular its hedging counterparties, may not be able to fulfil their obligations under their respective agreements due to a lack of liquidity, operational failure, bankruptcy or other reasons.

Shareholders' rights

The Company respects the rights of all shareholders and ensures that they receive equal treatment. All shareholders have equal voting rights and all corporate publications are transmitted through general publication channels as well as in a specific section on the Company's website. The Company discloses its share ownership and additionally discloses any shareholder position above 5% when it is informed by the respective shareholder.

The shareholders of Grand City Properties S.A. exercise their voting rights at the Annual General Meeting of the shareholders, whereby each share is granted one vote. The Annual General Meeting of the shareholders takes place on the last Wednesday of the month of June at 11:00 a.m. at the registered office of the Company, or at such other place as may be specified in the notice of the meeting. If such day is a legal holiday, the Annual General Meeting of the shareholders shall be held on the following business day.

The Annual General Meeting resolves, among others, on the statutory and consolidated financial statements of Grand City Properties S.A., the allocation of the statutory financial results, the appointment of the approved independent auditor, and the discharge to the (re-)election of the members of the Board of Directors. The convening notice for the Annual General Meeting of the shareholders contains the agenda and is publicly announced twice, with a minimum interval of eight days, and eight days before the meeting in the Mémorial, in a Luxembourg newspaper, and on the Company's website.

Compliance to the transparency law

The Company is committed to adhere to best practices in terms of corporate governance by applying, among others, rules arising from the Luxembourg law of 11 January 2008 on transparency requirements for issuers (the "Transparency Law"). In particular, the Company continuously monitors the compliance with the disclosure requirements with respect to regulated information within the meaning of article 1 (10) (the "Regulated Information") of the Transparency Law and therefore publishes, stores with the OAM of the Luxembourg Stock Exchange and files with the Commission de Surveillance du Secteur Financier (the "CSSF") the Regulated Information on an ongoing basis.

The quarterly, half-yearly and annual financial reports, investor presentations, press releases and ad-hoc notifications are available in English language on the Company´s website. In addition, the Company provides on its website information about its organization, its management and upcoming and the last annual general meeting. The Company´s website further provides a financial calendar announcing the financial reporting dates as well as other important events. The financial calendar is published before the beginning of a calendar year and is regularly updated.

The individual GCP SA financial statements, based on Luxembourg GAAP, is published annually in the same day of GCP SA consolidated report.

Dortmund

Information according to article 11(2) of the Luxembourg takeover law

The following disclosure is provided pursuant to article 11 of the Luxembourg law of 19 May 2006 transposing Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, as amended (the "**Takeover Law**"):

a) With regard to article 11 (1) (a) and (c) of the Takeover Law (capital structure), the relevant information is available on pages 31, 41, and note 18 on pages 125, 126 of this annual report. In addition, the Company's shareholding structure showing each shareholder owning 5% or more of the Company's share capital is available on page 31 of this annual report and on the Company's website, where the shareholding structure chart is updated monthly.

b) With regard to article 11 (1) (b) of the Takeover Law, the ordinary shares issued by the Company are admitted to trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) and are freely transferable according to the Company's articles of association (the "Articles of Association").

c) In accordance with the requirements of Article 11 (1) c of the Takeover Law, the following significant shareholdings were reported to the Company, as of 31 December 2018:

Shareholder name	Amount of Shares [1]	Percentage of voting rights
Edolaxia Group Ltd	64,610,350	38.8%

1) Total number of Grand City Properties S.A. shares as of 31 December 2018: 166,718,395

d) With regard to article 11 (1) (d) of the Takeover Law, each ordinary share of the Company gives right to one vote according to article 8 of the Articles of Association. There are no special control rights attaching to the shares.

e) With regard to article 11 (1) (e) of the Takeover Law, control rights related to the issue of shares are directly exercised by the relevant employees. The key terms and conditions in relation to the Company's incentive share plan are described on page 126, 127 note 19.1 of this annual report.

Potsdam

f) With regard to article 11 (1) (f) of the Takeover Law, the Articles of Association impose no voting rights limitations. However, the sanction of suspension of voting rights automatically applies, subject to the Luxembourg law of 11 January 2008 on transparency requirements for issuers, as amended (the "Transparency Law") to any shareholder (or group of shareholders) who has (or have) crossed the thresholds set out in the Transparency Law but have not notified the Company accordingly. In this case, the exercise of voting rights relating to the shares exceeding the fraction that should have been notified is suspended. The suspension of the exercise of voting rights is lifted the moment the shareholder makes the notification.

g) With regard to article 11 (1) (g) of the Takeover Law, as of December 31, 2018, the Company was not aware of any agreements between shareholders that would lead to a restriction on the transfer of shares or voting rights .

h) With regard to article 11 (1) (h) of the Takeover Law, according to article 9 of the Articles of Association, the members of the board of directors of the Company (the "Board") shall be elected by the shareholders at their annual general meeting by a simple majority vote of the shares present or represented. The term of the office of the members of the Board shall not exceed six years, but they are eligible for re-election. Any member of the Board may be removed from office with or without specifying a reason at any time. In the event of a vacancy in the office of a member of the Board because of death, retirement or otherwise, this vacancy may be filled out on a temporary basis until the next meeting of shareholders, by observing the applicable legal prescriptions. Further details on the rules governing the appointment and replacement of a member of the Board are set out in pages 37, 38 of this annual report.

According to article 18 of the Articles of Association, any amendment to the Articles of Association made by the general meeting of shareholders shall be adopted with a quorum and majority pursuant to article 450-3 of the law of 10 August 1915 on commercial companies, as amended.

i) With regard to article 11 (1) (i) of the Takeover Law, the Board of Directors is endowed with wide-ranging powers to exercise all administrative tasks in the interest of the Company including the establishment of an Advisory Board, an Audit Committee, a Risk Committee, a Remuneration Committee and a Nomination Committee. Further details on the powers of the Board are described on pages 37-39 and page 79 of this annual report.

Pursuant to article 5.2 of the Articles of Association, the Board is authorized to issue shares under the authorised share capital as detailed on page 125, note 18.1. and pages 126, 127, note 19 of this annual report. According to article 5.1 of the Articles of Association, the Company may redeem its own shares to the extent and under the terms permitted by law. The shareholders' meeting did not authorise yet the Board to acquire own shares pursuant to articles 430-15 (1) of the 1915 Law.

j) With regard to article 11 (1) (j) of the Takeover Law, the Company's (listed on pages 128, 129 and note 20.2.1) convertible bonds, hybrid bonds and security issuances under the EMTN programme contain change of control provisions that provide noteholders with the right to require the Company to repurchase their notes upon a change of control of the issuer. The Company's ISDA master agreement securing derivate transactions with regard to its listed debts contains a termination right if the Company is financially weaker after a takeover.

k) With regard to article 11 (1) (k) of the Takeover Law, there are no agreements between the Company and members of the Board or employees according to which, in the event of a takeover bid, the Company may be held liable for compensation arrangements if the employment relationship is terminated without good reason or due to a takeover bid.

Notes on business performance

Selected consolidated income statement data

For the year ended December 31,	2018	2017
	€'000	
Revenue	545,227	496,875
Rental and operating income	**544,977**	**494,889**
Net rental income	364,365	328,056
Property revaluations and capital gains	506,553	616,459
Property operating expenses	(262,684)	(238,894)
Administrative & other expenses	(10,515)	(10,961)
Share of profit from investment in equity-accounted investees	1,350	6,491
Operating profit	779,737	868,482
Adjusted EBITDA	**275,530**	**247,980**
Finance expenses	(45,929)	(40,208)
Other financial results	(35,786)	(42,727)
Current tax expenses	(29,845)	(28,040)
Deferred tax expenses	(85,143)	(118,358)
Profit for the year	**583,034**	**639,149**
FFO I	**197,854**	**178,013**
FFO II	**334,456**	**204,453**

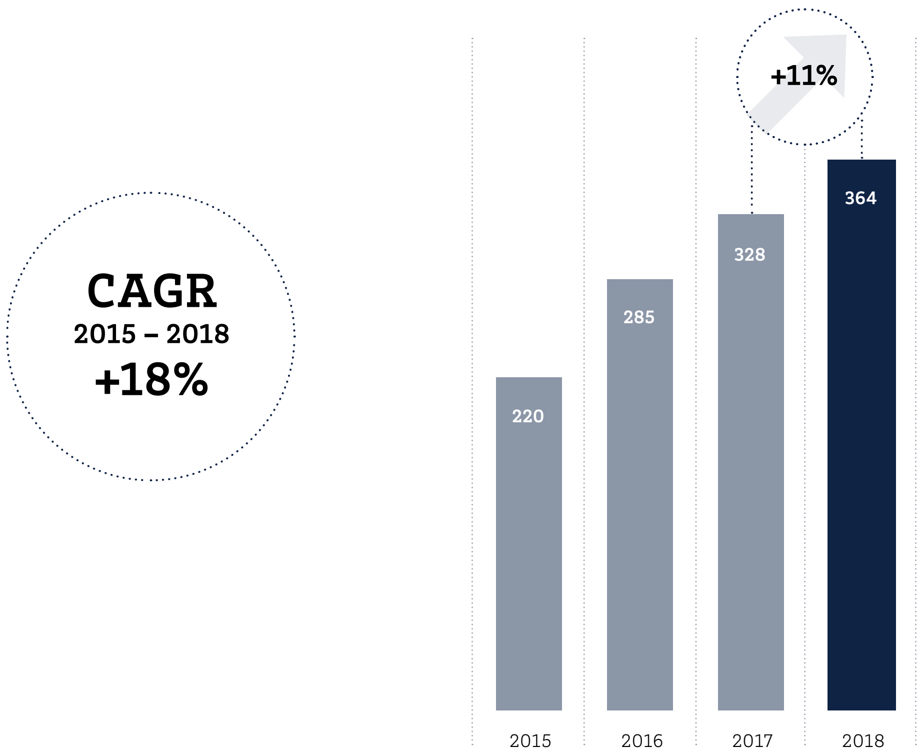
Revenue

For the year ended December 31,	2018	2017
	€'000	
Net rental income	**364,365**	**328,056**
Operating and other income	180,612	166,833
Rental and operating income	**544,977**	**494,889**
Revenue from sale of apartments	250	1,986
Revenue	**545,227**	**496,875**

GCP generated total revenues of €545 million in 2018, reflecting an increase of 10% over €497 million recorded in 2017. Rental and operating income, the main revenue item grew by 10% to €545 million in 2018 from €495 million in 2017. Net rental income grew 11% to €364 million in 2018 from €328 million in 2017. During 2018, GCP was able to maintain its steady organic growth and continued to extract the potential embedded in the portfolio demonstrated by net rent growing 3.4% on a like-for-like basis - driven by in-place rent growth of 3.1% and occupancy growth of 0.3%. The management's capacity and commitment in executing GCP's business model through rent and occupancy increases has been unwavering and continues to support its revenue growth. The Company also carried out strategic external growth initiatives which were instrumental in the growth of the net rental income for the year as well. The growth in rental income was offset from disposals of approx. half a billion euro of assets that were identified as mature and/or non-core in nature during the year 2018. Since these disposals were during the year, the complete impact of these will be seen in the next reporting periods. As at December 2018, after the completion of the asset disposals and excluding properties held for sale, the annualized net rent of the portfolio stands at €359 million.

GCP also recorded a revenue of €0.3 million during the year from sales of apartments that were held as inventory – trading properties.

Net rental income annual development (in € millions)



Property revaluations and capital gains

For the year ended December 31,	2018	2017
	€'000	
Property revaluations	489,151	615,359
Capital gains	17,402	1,100
Property revaluations and capital gains	**506,553**	**616,459**

Property revaluations and capital gains was €507 million in 2018, compared to €616 million in the previous year. The consistent strong gains in fair value of the investment property are testament to the management's record of over a decade and a half, in sourcing acquisitions with substantial upside potential and subsequently executing repositioning processes and of operational improvements successfully so as to capture this value in the most efficient manner. Furthermore, GCP benefits from the strong market dynamics in its locations, which are characterized by a high demand, low supply and thus increasing market rents.

In 2018, the Company executed various capital recycling measures that led to the disposal of half a billion euro of assets which were either mature and/or non-core in nature. These assets were sold at a margin of over €17 million translating to 4% gain over net book values. These robust gains reflect the ability of the management to deliver on its value creation goals by extracting the value potential of these properties, as well as verifying the conservative valuations of the portfolio.

The fair values of the properties are externally appraised by independent, certified valuators at least once a year. The external valuators are Jones Lang LaSalle (JLL), Savills, NAI Apollo, CBRE, Cushman & Wakefield, Colliers, Winters & Hirsch, Knight Frank and Strettons. As of the end of 2018, the average value per sqm was €1,257 compared to €1,155 at the end of 2017, resulting in a net rental yield of 5.3%.

Disposal analysis

As an asset progresses along its life cycle, the management assesses its strategic contribution to the portfolio at large and selectively disposes properties that are identified as being either mature and/or non-core in nature. Proceeds from such disposals are utilized in acquisitions that further augment the portfolio and allow for additional upside potential. During the year 2018, GCP undertook accretive capital recycling initiatives to the sum of €499 million, reflecting a 4% profit over net book value. The profit over total costs is €137 million (sales income minus acquisition costs incl. capex), representing a margin of 38%. The disposals are of non-core properties which are located in areas which are not our main focus, or mature properties where the upside is already priced in. These properties being disposed at premiums to its existing book value, substantiates GCP's conservative asset valuations and illustrates the value creation objective that the Company holds fast to.

For the year ended December 31,	2018	2017
	€'000	
Acquisition cost including capex of disposed properties	362,354	23,778
Total revaluation gains on disposed investment property since acquisition	119,144	24,842
Book Value (IFRS)	481,498	48,620
Disposal value of non-core investment property	498,900	49,720
Capital gain	**17,402**	**1,100**
Disposal value of non-core investment property	498,900	49,720
Acquisition cost including capex of disposed properties	(362,354)	(23,778)
Realized profit from disposal of investment properties	**136,546**	**25,942**
Disposal profit margin on investment property	**38%**	**109%**
Revenue from sale of apartments	250	1,986
Cost of buildings sold	(194)	(1,488)
Result on the disposal of buildings sold	**56**	**498**
Disposal profit margin on buildings sold	**29%**	**33%**
Total result from disposal of properties	**136,602**	**26,440**
Total disposal profit margin on properties	**38%**	**105%**

Notes on business performance

Braunschweig

Property operating expenses

For the year ended December 31,	2018	2017
	€'000	
Purchased services	(187,390)	(168,732)
Maintenance and refurbishment	(34,494)	(32,905)
Personnel expenses	(22,434)	(21,969)
Depreciation and amortization	(1,991)	(1,610)
Other operating costs	(16,375)	(13,678)
Property operating expenses	**(262,684)**	**(238,894)**

During the year 2018, GCP recorded €263 million under property operating expenses, higher by 10% as compared to the €239 million recorded in 2017. The increase is mainly related to the increase in purchased services, which amounted to €187 million in 2018 up from €169 million in 2017. Purchased services consist mainly of ancillary expenses such as heating, water and cleaning costs and most of them are recoverable from tenants.

Providing a high quality of service to its tenants remains an important driver of GCP's success and a conscious effort is made to ensure this service quality is maintained. GCP continued to strengthen its operational platform in 2018, which in return provided a bigger scope of services, both through our Service Center and through our onsite personnel. GCP's state-of-the-art, 24/7 Service Center recently received the DIN EN ISO 9001:2015 certification reinforcing its high-caliber quality standards.

Due to GCP's scalable operational platform, personnel expenses in 2018 have been stable at €22 million, while other operating costs have shown a €3 million increase mainly due to various marketing and promotional activities related to leases. Operational efficiencies, as well as benefits from economies of scale were slightly offset by cost inflation, mostly related to cost of materials and in manpower.

Maintenance and refurbishment expenses, together with capex efforts executed during the year, are described on the next page.

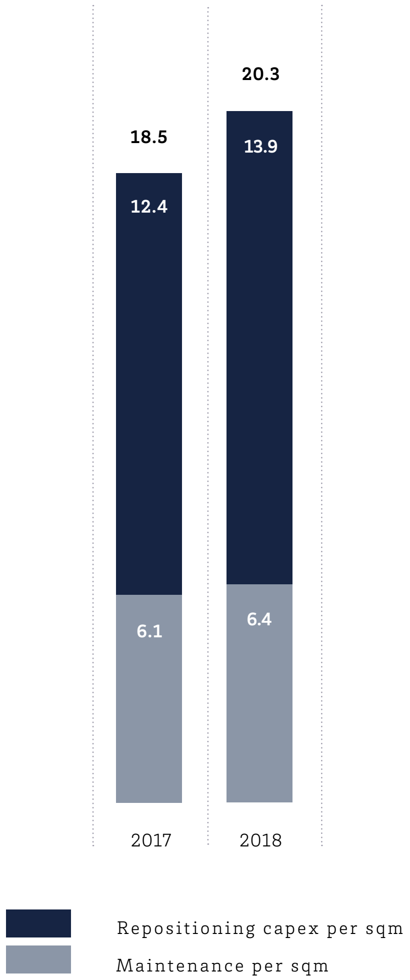
Maintenance, capex and modernization

GCP undertakes ongoing maintenance as well as refurbishment activities so as to ensure assets in its portfolio are of high quality. The Company has worked towards implementing various cost-efficient maintenance and refurbishment initiatives as well as capex programs, both of which are meant to further capture the portfolio's potential. This, in turn enables increases in rent as well as occupancy, not to mention the improved tenant satisfaction. Such initiatives in developing the asset quality of the portfolio are undertaken by the Company based on a long term perspective. Accordingly, in the long run, the Company expects such exercises to result in cost savings as well as value appreciation of the asset.

Maintenance and refurbishment expenses primarily include general costs related to the upkeep of properties so as to preserve the high standard of living for all the tenants concerned. During the year 2018, the Company recorded €34 million under this item at €6.4 per average sqm, slightly higher than the €33 million and €6.1 per average sqm recorded in 2017. GCP's 24/7 Service Center has set up additional channels of communication including General Data Protection Regulation compliant chat systems which can be used by tenants in case of reporting of damage incidents or maintenance requests.

For the year ending December 2018, GCP invested €75 million in repositioning capex and €21 million in modernization. As part of the Company's long term business strategy, the endeavor has always been to realize the value inherent to an asset through repositioning efforts and operational improvements. GCP diligently undertakes capex projects based on their expected return on costs. GCP pursues ways to increase efficiency in this process, by applying scrutiny to its cost discipline and maximizing cash flows through increasing occupancy and rent levels and reducing churn rates. At the same time, GCP regularly evaluates and implements various modernization initiatives that allow for asset enhancement and rent increases.

Maintenance and capex development (€/sqm)



Repositioning capex is targeted at generating long term value creation of the portfolio and enhancing the quality of the portfolio, as well as its attractiveness. This is a key component in the value creation cycle and includes apartment upgrades, improvements to the staircases as well as common/public areas within a building, safety improvements, and other such enhancements to the asset. Among other improvements, the installation of playgrounds and common facilities are targeted at improving the surrounding areas of the properties. Repositioning capex amounted to €13.9 per average sqm for the year 2018, compared to €12.4 per average sqm for 2017. The increase is also the result of the rise in costs of labor and materials across the industry leading to an unavoidable cost inflation.

Modernization capex is directed towards increasing the standards of specific units, as well as their energy saving levels. Modernization includes investments such as addition of balconies, improving the energy savings or insulation of a unit, reconditioning of the façade, replacement of windows, additional upscale apartments refurbishing as well as other refurbishment exercises undertaken towards targeted rent increases. In 2018, such expenses summed up to €3.9 per average sqm as compared to the €2.4 per average sqm in 2017. These expenses also contributed 0.7% towards the net rent growth on a like-for-like basis thereby reinforcing its utility value to the business.

Additionally in 2018, GCP invested €14 million in pre-letting modifications, which account mainly for investments in snagging and final preparation of new buildings and/or re-opening of converted/refurbished buildings prior to letting.

Notes on business performance

Administrative and other expenses

For the year ended December 31,	2018	2017
	€'000	
Personnel expenses	(4,191)	(3,516)
Audit and accounting costs	(1,733)	(2,116)
Legal and professional consultancy fees	(1,822)	(2,286)
Depreciation and amortization	(585)	(443)
Marketing and other expenses	(2,184)	(2,600)
Administrative and other expenses	**(10,515)**	**(10,961)**

GCP's administrative and other expenses have remained steady at €11 million for the year 2018, as compared to the previous year. The increase in personnel expenses, which includes salaries and employee related expenses and amounted to €4 million, up from €3.5 million in 2017, has been offset by lower expenses for audit and accounting, legal and consultancy as well as marketing and other expenses which contributed together €5.7 million, down from €7 million in 2017.

Finance expenses

For the year ended December 31,	2018	2017
	€'000	
Finance expenses	**(45,929)**	**(40,208)**

Finance expenses amounted in 2018 to €46 million, compared to €40 million in 2017. The growth in finance expenses is due to the Company's increased initiatives on its debt profile optimization. The Company issued approx. €1 billion straight bonds in the last twelve months, resulting in higher finance expenses. Some of the proceeds of these new issuances have been used to redeem/repay shorter term debt of approx. €370 million in notional value. The main objective of the issuances, as well as refinancing, was to optimize the debt profile of the Company, by sustaining the long average debt maturity to 8.3 years while maintaining a low cost of debt at 1.6%

The Company also enjoys a strong credit profile as endorsed by investment grade credit ratings from both Moody's (Baa1) as well as S&P (BBB+). This allowed GCP to easily access capital markets for additional funds at attractive interest rates and for longer maturity terms. In 2018, GCP issued approx. €1 billion worth of debt in the form of straight bonds with some of them in foreign currencies. The Company issued €145 million through Series H straight bonds (tap issuance), HKD 900 million (equivalent to €90 million, with a full currency hedged to maturity) through Series I straight bonds, €500 million through Series J straight bonds, CHF 125 million (equivalent to approx. €110 million, with full currency hedge of principle amount to maturity) through Series K straight bonds, JPY 7.5 billion (equivalent to approx. €60 million, with a full currency hedged to maturity) through Series L straight bonds and €55 million through Series M straight bonds. The bonds were issued at long duration with historically low interest rates, locking in a strong debt structure for the long term. After the reporting period, the Company further issued over €135 million of straight bonds. In addition, during 2018 GCP has repurchased €155 million nominal amount of Series D, a shorter bond maturing at 2021 and bearing a 2% coupon, €170 million nominal amount of convertible bond series F and repaid €45 million straight bond series CHF, bearing a coupon rate of 4.75%.

GCP continues to maintain a conservative financial structure, endorsed by its strong investment grade credit ratings mentioned above. In addition to this endorsement, the Company's low borrowing costs combined with the strong operational performance result in consistently strong debt coverage ratios, as stipulated in the Company's financial policy, with an ICR of 6.0x and DSCR of 5.1x for 2018.

Other financial results

	2018	2017
For the year ended December 31,	€'000	
Change in fair value of financial assets and liabilities, net	(28,527)	(34,983)
Finance-related costs	(7,259)	(7,744)
Other financial results	**(35,786)**	**(42,727)**

The Company reported an expense of €36 million under other financial results during the year 2018, as compared to the €43 million that was expended in 2017. Most of these items are non-recurring in nature and thus vary from one period to another. They include costs attributable towards fees incurred to the repayment of debt as well as fees related to new issuances and amortization of issuance costs. During the year, the Company refinanced approx. €370 million in notional value of Series D, Series F and the CHF Series straight bonds as well as issued further debt of approx. €1 billion, both of which have contributed to finance-related costs. Finance-related costs decreased slightly in 2018 to €7.3 million, down from €7.7 million and also include bank fees and cost of financial services.

In comparison, for the year ended December 2017, GCP incurred €43 million under this heading, mainly impacted by the buyback of the shorter and higher coupon of €321 million worth of Series D bonds. Such expenses are incurred so as to support a low average cost of debt and bolster the debt profile for GCP, thereby improving business profitability. Changes in fair value of financial assets and liabilities include non-cash items such as mark-to-market movements in the value of financial derivatives and other traded securities.

London

Notes on business performance

Taxation

For the year ended December 31,	2018	2017
	€'000	
Current tax expenses	(29,845)	(28,040)
Deferred tax expenses	(85,143)	(118,358)
Total tax expenses	**(114,988)**	**(146,398)**

GCP recorded a total tax expenses of €115 million during the year 2018, compared to €146 million 2017. The decrease is mainly related to lower deferred tax expenses which amounted to €85 million in 2018 compared to €118 million in 2017, driven by lower revaluation gains and deferred tax assets, which the Company recognized during 2018. Deferred tax expenses are a non-cash item that is the result of the strong portfolio revaluation gains recorded during the year, and accounts for a theoretical future disposal in the form of an asset deal. These expenses do not, however, usually materialize due to GCP's strategy of holding assets over the long term and largely remains a non-cash item. Although the Company accounts for the theoretical future property disposal through asset deal structures at the full corporate tax rate to the location of the property, it should be noted that GCP's assets are mainly held in separate SPV's, which enables sales through share deals where the effective capital gain tax is minimized.

Current tax expenses amounted to €30 million for the year ending December 2018, slightly higher as compared to the previous year 2017.

Profit for the year

For the year ended December 31,	2018	2017
	€'000	
Profit for the year	**583,034**	**639,149**
Profit attributable to the owners of the Company	488,632	534,568
Profit attributable to the perpetual notes investors	30,267	24,250
Profit attributable to non-controlling interests	64,135	80,331

GCP recorded a net profit of €583 million during the year 2018 as compared to the €639 million for 2017. At the same time, the Company further improved its recurring operating profitability as displayed by the 11% growth in Adjusted EBITDA and in FFO I. The decrease in net profits is broadly due to lower non-recurring property revaluations during the year 2018. However, GCP's robust top-line growth was bolstered by the consistent like-for-like development in net rent of 3.4% contributed by occupancy growth of 0.3% as well as in-place rent growth of 3.1%. Put together with a disciplined cost base, this has enabled the Company to maintain strong operational profitability as demonstrated by a growing Adjusted EBITDA and FFO I.

Profits attributable to perpetual notes investors grew from €24 million in 2017 to €30 million in 2018, driven by the issuance of €350 million 2.5% perpetual notes during in the first half of 2018.

Earnings per share

For the year ended December 31,	2018	2017
Basic earnings per share (in €)	2.95	3.35
Diluted earnings per share (in €)	2.76	3.06
Weighted average basic shares (in thousands)	165,624	159,605
Weighted average diluted basic shares (in thousands)	178,229	176,579

Basic earnings per share was €2.95 while diluted earnings per share was €2.76 for the year ending 2018 as compared to €3.35 and €3.06 respectively during the previous year. The Company continued its strong operational profitability growth with a positive development year over year in its recurring operating profitability with a 11% in the Adjusted EBITDA and in FFO I. However, due to lower non-recurring property revaluations during the year, there has been a decline in the net profit for the year. The basic earnings per share were also impacted by a higher average share count for the year resulting from new shares out of scrip dividends and management shares. The diluted earnings per share was positively impacted by a lower dilution effect from the repurchase of the Series F convertible bonds, which now reflects the theoretical impact of the remaining €281 million bonds which are out-of-the-money.

Notes on business performance

Adjusted EBITDA and Funds From Operations (FFO I)

For the year ended December 31,	2018	2017
	€'000	
Operating profit	779,737	868,482
Depreciation and amortization	2,576	2,053
EBITDA	**782,313**	**870,535**
Property revaluations and capital gains	(506,553)	(616,459)
Result on the disposal of buildings sold	(56)	(498)
Share of profit from investments in equity-accounted investees	(1,350)	(6,491)
Other adjustments	1,176	893
Adjusted EBITDA	**275,530**	**247,980**
Finance expenses	(45,929)	(40,208)
Current tax expenses	(29,845)	(28,040)
Contribution to minorities	(1,902)	(1,719)
FFO I	**197,854**	**178,013**
Weighted average basic shares in thousands*	165,624	159,605
FFO I per share (in €)	**1.19**	**1.12**

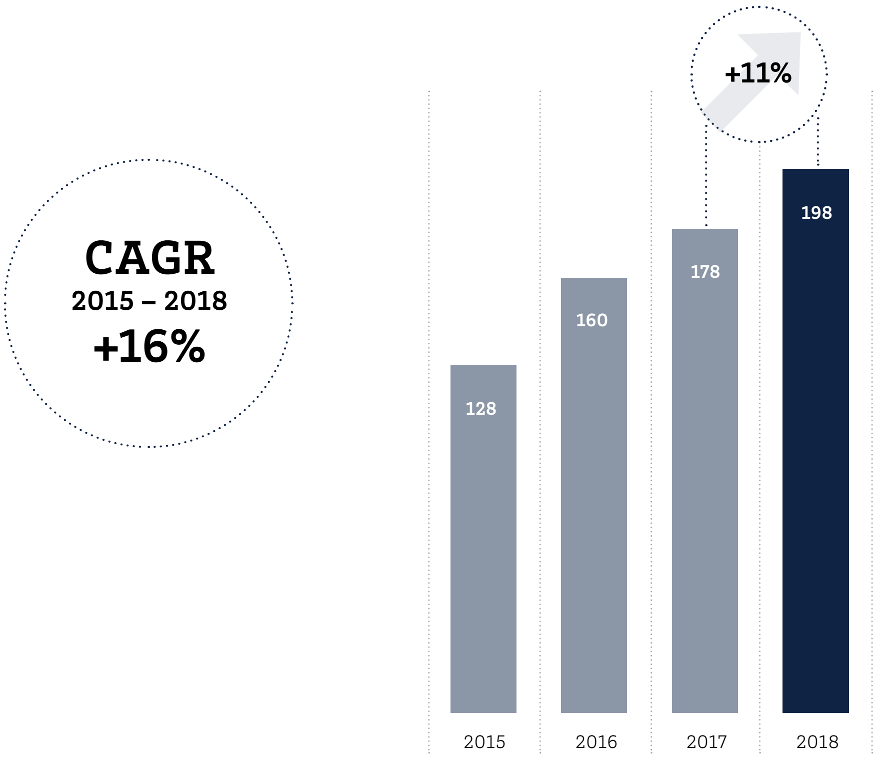
*not considering the dilution effect of the management share plan as it is immaterial

The Adjusted EBITDA is an industry standard figure indicative of the Company's recurring operational profits before interest and tax expenses, excluding the effects of capital gains, revaluations, and other non-operational income statement items such as profits from disposal of inventories, share of profit from investment in equity-accounted investees and other adjustments. GCP has consistently maintained a strong operational profit growth which was also seen in 2018. Adjusted EBITDA recorded during the year was at €276 million 11% higher as compared to the €248 million recorded in 2017. This increase can be attributed to the operating platform that GCP maintains which is able to capitalize on economies of scale as well as robust efficiency. The growth of operational profits in spite of various capital recycling measures is also testament to the internal growth of the portfolio providing for substantial future growth potential.

On a like-for-like basis, net rent increased by 3.4%, this stemmed from an in-place rent increase of 3.1% as well as an occupancy increase of 0.3%.

Funds From Operations I (FFO I) is an industry-wide standard measure of the recurring operational cash flow of a real estate company, often utilized as a key bottom line industry performance indicator. It is calculated by deducting finance expenses, current tax expenses and contribution to minorities from the Adjusted EBITDA. During the year 2018, GCP recorded an FFO I of €198 million which grew by 11% as compared to the previous year's FFO I of €178 million. This growth was made possible primarily by a robust top-line growth as well as a marginally improved operating and administrative cost margin.

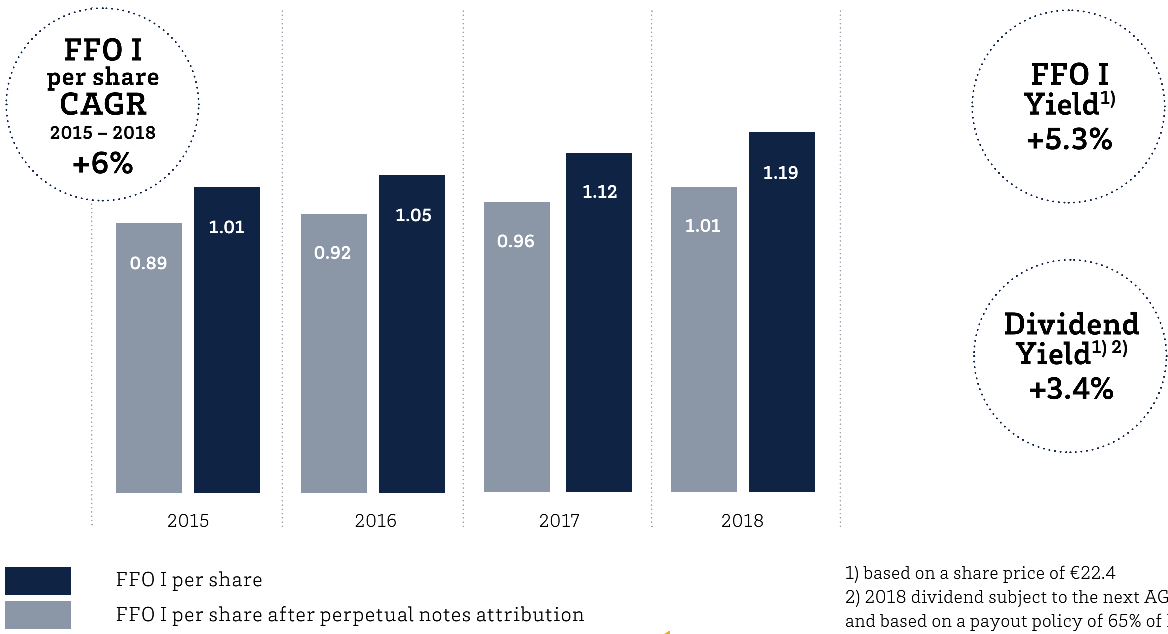
FFO I annual development (in € millions)



FFO I per share

GCP has maintained a track-record of consistent shareholder value creation, a trend that has continued and is demonstrated through the robust growth in FFO I per share of €1.19 in 2018, up 6% from €1.12 reported in 2017. This increase follows the growth in FFO I and was partially offset by higher average share count for the year 2018 from new shares out of scrip dividends and management shares as well as the full year impact of the equity increase in June 2017. As a result of this performance, the FFO I yield of 5.3% (based on a share price of €22.4) presents the case for GCP being an attractive investment proposition with a high proportion of returns being distributed to the investor due to the dividend payout policy of 65% of FFO I per share.

FFO I per share development (in €)



1) based on a share price of €22.4
2) 2018 dividend subject to the next AGM approval and based on a payout policy of 65% of FFO I per share

Notes on business performance

FFO I per share after perpetual notes attribution

For the year ended December 31,	2018	2017
	€'000	
FFO I	**197,854**	**178,013**
Adjustment for accrued perpetual notes attribution	(30,267)	(24,250)
FFO I after perpetual notes attribution	**167,587**	**153,763**
Weighted average basic shares in thousands*	165,624	159,605
FFO I per share after perpetual notes attribution (in €)	**1.01**	**0.96**

* not considering the dilution effect of the management share plan as it is immaterial

According to IFRS accounting treatment, attribution to perpetual notes are recorded through changes in equity and not as a financial expense and thus not otherwise reflected in the FFO. For enhanced transparency, GCP additionally reports its FFO I per share after attributing the share of profit attributable to the Company's perpetual notes investors. Accordingly, GCP had an FFO I per share after perpetual notes attribution of €1.01, growing by 5% as compared to €0.96 in 2017. The growth was partially offset by higher perpetual notes attributions arising from €350 million of additional perpetual notes issued in April 2018, bearing a low coupon of 2.5%. Issuances of perpetual notes enable GCP to attract different funding sources and provide further diversification in the capital structure, as well in the investor base.

Adjusted Funds From Operations (AFFO)

For the year ended December 31,	2018	2017
	€'000	
FFO I	**197,854**	**178,013**
Repositioning capex	(75,487)	(67,015)
AFFO	**122,367**	**110,998**

Adjusted Funds from Operations (AFFO) is an additional indicator for the Company's recurring operational cash flow and derived by deducting the repositioning capex from the Company's FFO I. GCP provides a further distinction of its capital expenditures into repositioning capex, modernization capex and pre-letting modifications which are treated differently. Among the three, modernization capex is aimed towards increasing rents, therefore treated similarly to the acquisition of properties and so is the case with pre-letting modifications. On the other hand, repositioning capex targets value creation and quality increase in the portfolio, which GCP deems relevant for its AFFO calculation. GCP's AFFO for the year 2018 was €122 million, which is 10% higher as compared to the €111 million reported in 2017

FFO II

For the year ended December 31,	2018	2017
	€'000	
FFO I	**197,854**	**178,013**
Result from disposal of properties*	136,602	26,440
FFO II	**334,456**	**204,453**

* the excess amount of the sale price to cost price plus capex of the disposed properties

FFO II is an additional measure that incorporates the disposals effects on top of FFO I by adding the results from disposal of properties. Result from disposal of properties is the excess amount of the sale price to cost price plus capex of disposed properties. FFO II for the year ended December 2018 was €334 million, reflecting a 64% growth over €204 million reported in the previous year.

During the year 2018, GCP undertook various accretive capital recycling measures leading to an increase in disposals and a surge in FFO II. These disposals totaled nearly half a billion euros with gains over total costs of 38%. In addition, the disposals were at a 4% premium over their last fair values, testifying to the high demand in these properties, as well as their conservative valuations.

Dortmund

Notes on business performance


Berlin

Cash flow

For the year ended December 31,	2018	2017
	€'000	
Net cash provided by operating activities	224,524	202,306
Net cash used in investing activities	(718,426)	(608,427)
Net cash provided by financing activities	785,478	268,519
Net change in cash and cash equivalents	**291,576**	**(137,602)**

Net cash flow provided by operating activities for 2018 was robust at €225 million, which grew 11% in line with the growth of the Adjusted EBITDA. This growth has been primarily driven by GCP's strong operational performance from internal positive rental development as well as revenue-accretive acquisitions.

Net cash flow used in investing activities during the year 2018 was €718 million, an increase of 18% from the €608 million reported for the year 2017. Leading this increase was the comparatively higher net acquisitions as well as capex investments during the course of the year, partially offset by the disposals during the year. The Company continues to evaluate investment opportunities based on its selective acquisition criteria, with a focus on accretive investments with a high upside potential. In addition, GCP has invested €100 million in traded securities and other non-current financial assets in order to maintain the value of the liquid assets of the Company during the period, which grew substantially during the period.

Net cash flow provided by financing activities was a significant €785 million, expanding by more than half a billion euros over the €269 million provided by financing activities in 2017. This growth was primarily driven by GCP's strong capital market presence demonstrated by easy access to issuances of approx. €1 billion through straight bonds as well as €350 million through perpetual notes. Funds from these issuances were partially utilized to repay or redeem debt, bolstering the Company's debt structure. Dividend distribution for the financial year 2017, paid out in 2018 amounted to almost €80 million and offset the increase in financing cash flows to some extent.

Accordingly the net increase in cash and cash equivalents during 2018 was €292 million as compared to a decrease of €138 million at the end of 2017, leaving the Company with a strong cash balance and liquid assets balance of €760 million as of December 2018. GCP's substantial cash balance as well as the significant value and proportion of its unencumbered assets provides it with lots of room to maneuver potential uncertainties, but also demonstrates the conservative approach followed by the Company with regards to the financial structure it maintains.

Assets

	Dec 2018	Dec 2017
	€'000	
Non-current assets	**7,622,911**	**6,712,360**
Investment property [1]	7,243,915	6,387,868
Current assets	**1,237,615**	**795,932**
Cash and liquid assets [2]	760,374	402,331
Total Assets	**8,860,526**	**7,508,292**

1) including inventories – trading properties
2) including cash and cash equivalents held for sale

Total assets as at the end of 2018 amounted to €8.9 billion, expanding 18% during the year from the €7.5 billion reported in 2017. This increase was mainly driven by the growth in the value of investment property, driven by acquisitions and revaluations, as well as by a higher liquidity balance arising from capital market activities. GCP's capital recycling of half a billion euro undertaken during the year and various capital market activities as well as the positive operating cash flow generated by the business has fueled a €358 million increase in cash and liquid assets.

Non-current assets as at December 2018 was €7.6 billion increasing 14% from €6.7 billion reported at the end of December 2017. Leading this increase has been the growth in investment property which amounted to €7.2 billion in 2018 from €6.4 billion reported in December, the previous year. During the year 2018, the Company acquired over 2,200 units in densely populated regions of London, Berlin and NRW at an average multiple of 26x. Additionally, GCP acquired 735 units in the pre-letting stage in London, which are expected to be marketed and rented in the upcoming quarters. The London portfolio now presents 9% of the total portfolio and comprises of nearly 1,500 units. While value appreciation and accretive acquisitions have been the primary reasons for this growth, the same was offset to a small extent by disposal activities. During the year, GCP disposed half a billion euro of properties which are either not located in GCP's core locations or are mature properties which embedded further lower upside potential.

Other non-current assets includes additionally advanced payment for investment property, investment in equity accounted investees, deferred tax assets as well as other non-current assets, such as prepayment and investments in financial assets such as NPLs, loans which are connected to future real estate transactions and deal options.

The fair values of the properties are externally appraised by independent, certified valuators at least once a year. The external valuators are Jones Lang LaSalle (JLL), Savills, NAI Apollo, CBRE, Cushman & Wakefield, Colliers, Winters & Hirsch, Knight Frank and Strettons. The primary valuation approach is based on the discounted cash flow (DCF) model based on a certain time period (predominantly 10-years). The below table summarizes the key valuation parameters used by external independent valuators.

Average Valuation Parameters	2018	2017
Rental multiple	18.9	18.2
Value per sqm	€1,257	€1,155
Market rental growth p.a.	1.5%	1.5%
Management cost per unit	€258	€262
Ongoing maintenance cost per sqm	€8.4	€8.3
Average discount rate	5.3%	5.5%
Average cap rate	4.6%	4.7%

Notes on business performance

Current Assets as of December 2018 amounted to €1.2 billion, higher by 55% from €0.8 billion as of December 2017. This increase was primarily driven by the increase in cash and liquid assets, provided by the capital market activities during the year. With the intention of funding the growth of the Company, GCP exercised its strong capital market access via various issuances, issuing approx. €1 billion in debt as well as €350 million in perpetual notes during the year. Part of these proceeds were used to refinance shorter term debt to the extent of approx. €370 million in notional value. A higher cash and liquidity balance not only enables the Company to quickly act on attractive acquisition opportunities but also provides financial flexibility and headroom.

Investment Property 1)

December 2018	Value (in €M)	Area (in k sqm)	EPRA vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Number of units	Value per sqm (in €)	Rental yield
NRW	1,950	1,843	8.0%	116	5.6	27,591	1,058	5.9%
Berlin	1,553	635	6.3%	55	7.6	8,141	2,443	3.5%
Dresden/Leipzig/Halle	1,020	1,076	8.3%	59	5.0	18,537	948	5.7%
Mannheim/KL/Frankfurt/ Mainz	395	270	5.0%	22	7.0	4,477	1,464	5.5%
Nuremberg/Fürth/Munich	213	103	4.3%	10	7.9	1,471	2,073	4.6%
Hamburg/Bremen	352	297	4.7%	20	5.9	4,272	1,183	5.7%
London	294	40	9.5%	12	28.8	730	7,326	4.2%
Others	948	1,086	6.6%	65	5.5	18,452	874	6.9%
Development rights and new buildings 2)	519							
Total	**7,244**	**5,350**	**7.1%**	**359**	**6.0**	**83,671**	**1,257**	**5.3%**

1) including Inventories – Trading property
2) including land for development, building rights on exisitng buildings (€186m) and pre-marketed buildings in London (€333m)

Liabilities

	Dec 2018	Dec 2017
	€'000	
Loans and borrowings [1]	870,507	940,682
Straight bonds	2,177,267	1,422,920 [2]
Convertible bond	272,246	432,073
Deferred tax liabilities [3]	525,278	501,999
Other long-term liabilities and derivative financial instruments	69,224	59,229
Current liabilities [4]	279,017	301,727
Total Liabilities	**4,193,539**	**3,658,630**

1) including short-term loans and borrowings, loan redemption, and financial debt held for sale
2) including bond redemption
3) including deferred tax liabilities of assets held for sale
4) excluding short-term loans and borrowings, debt redemption and financial debt held for sale

GCP reported total liabilities of €4.2 billion as at the end of December 2018 representing an increase of 15% over the €3.7 billion in 2017, a lower increase in comparison to the 18% increase in total assets. Much of the increase in total liabilities has been due to an increase in non-current liabilities primarily driven by straight bonds issued in 2018, which result in an increase of the total straight bond balance to €2.2 billion, up from €1.4 billion in the end of 2017. GCP's strong credit profile allows it to access long-term and cheap sources of funding. Latching onto this opportunity, the Company worked towards issuing debt at attractive rates while, refinancing existing debt as well as maintaining its strong debt metrics. In Feb 2018, the Company issued HKD 900 million (over €90 million) worth of bonds through Series I, its first foreign currency bond, providing access to a new market and diversifying the financing sources. Thereafter, it had additional foreign currency bond issuances vis-à-vis Series K with CHF 125 million (approx. €110 million) and Series L with JPY 7.5 billion (approx. €60 million). GCP also issued additional straight bonds of €500 million with Series J, €145 million with Series H through a tap issue and €55 million with Series M. These issuances provided the Company with the ability to maintain its low average cost of debt as well as its long average maturity through refinancing of shorter term debt. During the year, GCP bought back €170 million of Series F convertible bonds, €155 million of Series D straight bonds and also redeemed €45 million of Series CHF straight bonds, which offset the increase in straight bonds balance and reduced the convertible bonds balance.

When compared to the previous year 2017, the overall rise in total liabilities was offset to some extent by a lower total loans and borrowings balance. The decline in loans and borrowings is mainly due to prepayment of loans as well as disposals of encumbered assets.

Another major item among the remaining liabilities relates to the deferred tax liabilities which amounted to 13% of the total liabilities and are impacted by the valuation gains. GCP follows a conservative approach in its deferred taxes accounting treatment by accounting for the full corporate tax effect, assuming the theoretical future disposals in the form of asset deals. It should be noted that GCP's assets are mainly held in separate SPV's, enabling sales through share deal structures where the effective capital gain tax is minimized.

Notes on business performance

Equity

	Dec 2018	Dec 2017
	€'000	
Total Equity	**4,666,987**	**3,849,662**
of which equity attributable to the owners of the Company	3,227,496	2,819,302
of which equity attributable to Perpetual notes investors	1,030,050	665,871
of which non-controlling interests	409,441	364,489

GCP's equity base expanded by 21% to €4.7 billion as at year end 2018 when compared to €3.8 billion as at year end 2017. This increase in equity is primarily due to the profit but was also aided by the €350 million issuance of perpetual notes. This was partially offset by the dividend distribution of nearly €80 million for the year 2017, distributed in July 2018. This equity growth provides the Company with a stable and conservative capital structure, providing financial comfort and headroom for external growth. Driven by proportionally larger increase in equity balance compared to liabilities, the equity ratio as of year-end 2018 is 53% compared to 51% in 2017 year-end.

Non-controlling interest increased to €409 million in December 2018 from €365 million in December 2017. The increase is mainly due to partial disposals of GCP's holdings in several properties as well as due to profits attributable to non-controlling interests.

Debt Financing KPIs

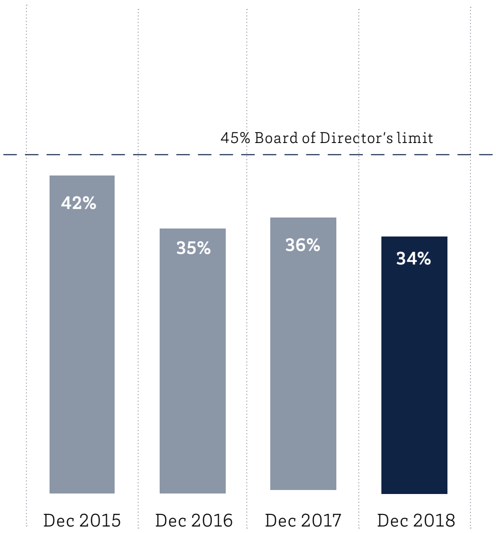
Loan-To-Value

	Dec 2018	Dec 2017
	€'000	
Investment property [1]	7,298,879	6,425,430
Investment properties of assets held for sale	132,137	117,246
Equity-accounted investees	26,207	37,261
Total value	**7,457,223**	**6,579,937**
Total debt [2]	3,320,020	2,795,675
Cash and liquid assets [3]	760,374	402,331
Net debt	**2,559,646**	**2,393,344**
LTV	**34%**	**36%**

1) including advanced payments for investment property and inventories – trading properties
2) including loans and borrowings held for sale
3) including cash and cash equivalents held for sale

GCP follows a conservative approach in its financial structure, demonstrated by its consistently low leverage with the LTV for 2018 at 34%, lower than the 36% reported in 2017. The current LTV level is well below the internal limit of 45% set by the board of directors for the Company and accordingly provides for sufficient headroom and protection in case of a market downturn. Value appreciation in the portfolio, combined with accretive external growth and higher liquidity balance resulted in the lower LTV for the year. The conservative approach followed by GCP as well as its low leverage position are factors that enables the Company to have robust credit metrics, endorsed by both Moody's (Baa1) as well as S&P (BBB+).

Loan-To-Value



GCP's strong credit profile is evident in its robust operational cash flows displayed by solid interest and debt service coverage ratios. In addition, its substantial ratio of unencumbered assets to its total investment properties provide it with a healthy buffer. As at the year-end of 2018, GCP had an ICR of 6.0x and a DSCR of 5.1x, while its ratio of unencumbered assets to its total investment properties stood at 65%, thereby giving it sufficient headroom above its debt covenants.

Unencumbered Assets

	Dec 2018	Dec 2017
	€'000	
Unencumbered Assets	4,777,824	4,132,274
Total Investment properties [1)]	7,376,052	6,505,114
Unencumbered Assets Ratio	**65%**	**64%**

1) including investment property held for sale and inventories - trading properties

Interest Coverage Ratio (ICR)

	2018	2017
For the year ended December 31,	€'000	
Adjusted EBITDA	275,530	247,980
Finance Expenses	45,929	40,208
Interest Coverage Ratio	**6.0**	**6.2**

Debt Service Coverage Ratio (DSCR)

	2018	2017
For the year ended December 31,	€'000	
Adjusted EBITDA	275,530	247,980
Finance Expenses	45,929	40,208
Amortization of loans from financial institutions	8,597	10,996
Debt Service Coverage Ratio	**5.1**	**4.8**

EPRA Performance Measures

The European Public Real Estate Association (EPRA) is the widely-recognized market standard guidance and benchmark provider for the European real estate industry. EPRA's Best Practices Recommendations dictate the ongoing reporting of a set of performance metrics intended to enhance the quality of reporting by bridging the gap between the regulated IFRS reporting presented and specific analysis relevant to the European real estate industry. These standardized EPRA Performance Measures provide additional relevant earnings, balance sheet and operational metrics, and facilitate for the simple and effective comparison of performance-related information across different companies. The information presented below is based on the materiality and importance of information. For example, as GCP has no material properties under development those are not taken into consideration.

	2018	2017
	€'000	
EPRA Earnings	186,843	167,323
EPRA Earnings per share (in €)	1.13	1.05
EPRA NAV	3,753,022	3,327,186
EPRA NAV per share (in €)	22.5	20.2
EPRA NNNAV	3,752,781	3,206,966
EPRA NNNAV per share (in €)	22.5	19.4
EPRA Net initial yield (NIY)	3.9%	4.0%
EPRA "topped-up" NIY	3.9%	4.0%
EPRA Vacancy	7.1%	7.0%
EPRA Cost Ratio (incl. direct vacancy costs)	24.1%	24.4%
EPRA Cost Ratio (excl. direct vacancy costs)	21.2%	21.3%

EPRA earnings

The EPRA Earnings indicator is intended to serve as a key indicator of the underlying operational profits for the year in the context of a real estate company, intended to measure the extent to which the Company's dividend distribution is covered by its operational income. GCP also provides a reconciliation of the EPRA Earnings to the FFO I, another widely-recognized and key performance measure, as it believes it to be a better measure of recurring operational profits and given that its dividend payout policy is based on the FFO I, supporting its importance and relevance.

For the year ended December 31,	2018	2017
	€'000	
Earnings per IFRS income statement	583,034	639,149
Property revaluations and capital gains	(506,553)	(616,459)
Result on the disposal of inventories - trading properties	(56)	(498)
Change in fair value of financial assets and liabilities, net	28,527	34,983
Deferred tax expenses	85,143	118,358
Share in profit from investment in equity-accounted investees	(1,350)	(6,491)
Contribution to minorities	(1,902)	(1,719)
EPRA Earnings	**186,843**	**167,323**
Weighted average basic shares in thousands*	165,624	159,605
EPRA Earnings per share (in €)	**1.13**	**1.05**
Bridge to FFO I		
Add back: Depreciation	2,576	2,053
Add back: Finance-related costs	7,259	7,744
Add back: Other adjustments	1,176	893
FFO I	**197,854**	**178,013**
FFO I per share (in €)	**1.19**	**1.12**

* not considering the dilution effect of the management share plan as it is immaterial

GCP's EPRA Earnings amounted to €187 million, or €1.13 on a per share basis for the year 2018, higher by 12% as compared to €167 million on a standalone basis, and 8% higher than €1.05 on a per share basis in 2017. The year-over-year increase is expectedly in line with a similar increase in FFO I during the year.

EPRA Performance Measures

EPRA NAV

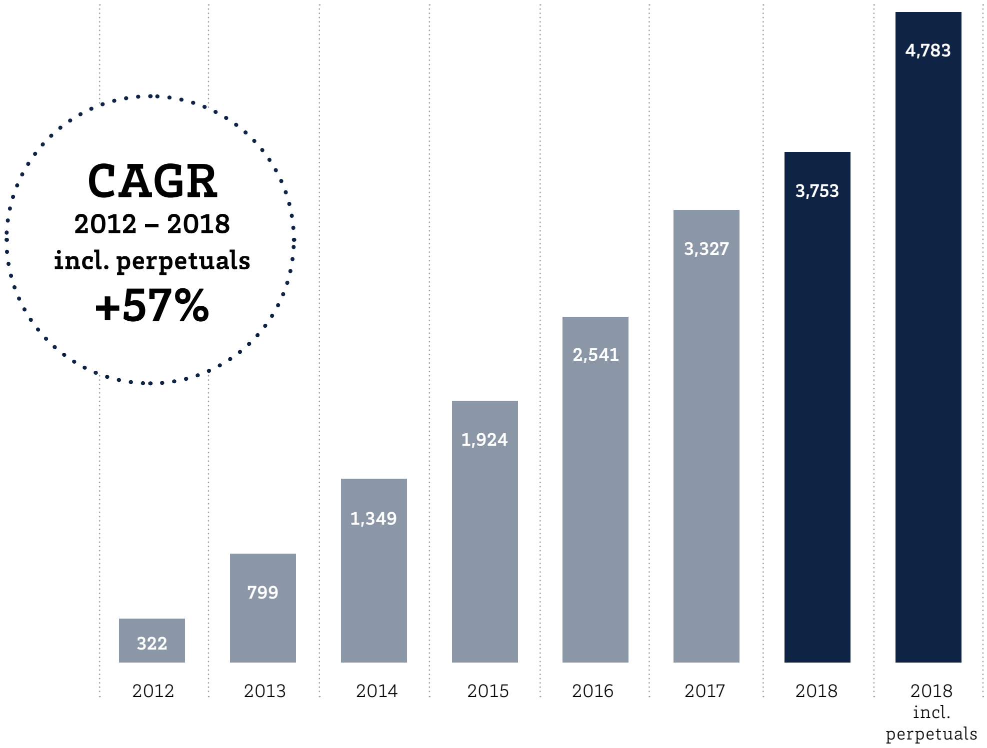
The EPRA NAV is defined by EPRA as the net asset value of the Company adjusted to include real estate properties and other investment interests at fair values and exclude certain items that are not expected to materialize in a long-term real estate business model. The purpose of the EPRA NAV is to adjust the IFRS NAV in order to provide stakeholders with the most relevant information on the Group's balance sheet items in the context of a true real estate investment company with a long-term oriented investment strategy. As perpetual notes are classified as equity in accordance with IFRS treatment, GCP additionally reports the EPRA NAV including the perpetual notes.

	Dec 2018		Dec 2017	
	€'000	€ per share	€'000	€ per share
Equity per the financial statements	**4,666,987**		**3,849,662**	
Equity attributable to perpetual notes investors	(1,030,050)		(665,871)	
Equity excluding perpetual notes	**3,636,937**		**3,183,791**	
Fair value measurements of derivative financial instruments, net	248		5,885	
Deferred tax liabilities*	525,278		501,999	
NAV	**4,162,463**	**24.9**	**3,691,675**	**22.4**
Non-controlling interests	(409,441)		(364,489)	
EPRA NAV	**3,753,022**	**22.5**	**3,327,186**	**20.2**
Equity attributable to perpetual notes investors	1,030,050		665,871	
EPRA NAV incl. perpetual notes	**4,783,072**	**28.7**	**3,993,057**	**24.2**
Basic amount of shares including in-the-money dilution effects (in thousands)	166,903		165,004	

* including balances held for sale

For the year ending 2018, GCP reported an EPRA NAV of €3.8 billion or €22.5 per share, an increase of 13% from the €3.3 billion and 11% from €20.2 per share in 2017. The Company continued to deliver robust value growth for its shareholders and this is demonstrated in the EPRA NAV gains on a standalone basis as well as on a per share basis. Following the growth in equity, high profits were the primary contribution to the increase of EPRA NAV year-over-year. This was partially offset by €80 million dividend distribution for the financial year 2017, distributed in July 2018. EPRA NAV including perpetual notes increased by 20% to €4.8 billion at year-end 2018 from €4.0 billion at year-end 2017, also increasing by 19% on a per share basis to €28.7 from €24.2 as of year-end 2017. This growth was supported by the issuance of €350 million perpetual notes in April 2018.

EPRA NAV development (in € millions)



EPRA NNNAV

The EPRA NNNAV is derived by adjusting the EPRA NAV by marking to market the values of the Company's financial debt, derivative financial instruments and deferred taxes. The purpose of the EPRA NNNAV is to provide stakeholders with the most relevant information on the Company's financial liabilities by reporting them at their fair values as of the end of the period.

	Dec 2018	Dec 2017
	€'000	
EPRA NAV	**3,753,022**	**3,327,186**
Fair value measurements of derivative financial instruments	(248)	(5,885)
Adjustment to reflect fair value of debt	29,217	(86,420)
Deferred tax liabilities*	(29,210)	(27,915)
EPRA NNNAV	**3,752,781**	**3,206,966**
Basic amount of shares including in-the-money dilution effects	166,903	165,004
EPRA NNNAV per share (in €)	**22.5**	**19.4**

* adjustment based on the Company's corporate structure and from actual transactions

GCP's EPRA NNNAV as at year-end 2018 amounted to €3.8 billion and €22.5 per share while the same for 2017 was €3.2 billion and €19.4 per share, reflecting an increase of 17% and 16% respectively.

EPRA Net Initial Yield (NIY) and EPRA 'topped-up' NIY

The EPRA Net Initial Yield (NIY) is intended to serve as a standardized portfolio valuation indicator. It is calculated by subtracting the passing non-recoverable operating costs from the passing net rental income as of the end of the period, and dividing the result by the fair value of the full property portfolio (including held-for-sale properties and inventories – trading properties and excluding assets classified as development rights and new buildings) plus an allowance for estimated purchasers' costs. EPRA 'topped-up' NIY is an additional calculation that factors into consideration the effects of rent-free periods and other lease incentives.

	2018	2017
	€'000	
Investment property	7,227,290	6,376,224
Investment properties of assets held for sale	132,137	117,246
Inventories - trading properties	16,625	11,644
Less: Classified as development rights and new buildings	(519,134)	0
Complete property portfolio	**6,856,918**	**6,505,114**
Allowance for estimated purchasers' costs	560,778	535,053
Gross up complete property portfolio valuation	**7,417,696**	**7,040,167**
End of period annualized net rental income [1)]	367,000	358,000
Operating costs [2)]	(80,071)	(77,883)
Annualized net rent, after non-recoverable	**286,929**	**280,117**
Notional rent expiration of rent-free periods or other lease incentives	N/A	N/A
Topped-up net annualized rent	286,929	280,117
EPRA NIY	**3.9%**	**4.0%**
EPRA "topped-up" NIY	**3.9%**	**4.0%**

1) including net rental income from assets held for sale
2) to reach annualized operating costs, cost margins were used for each respective period

The EPRA NIY of the GCP portfolio as of year-end 2018 was 3.9%, decreased from 4.0% as of year-end 2017 due to the strong operational performance achieved during the year which resulted in positive valuation movements, as well as general yield compression in GCP's main strategic locations.

EPRA Vacancy

EPRA Vacancy is an operational measure that calculates a real estate company's economic vacancy rate as based on the prevailing market rental rates, as opposed to in-place rents and physical vacancy. It is calculated by dividing the market rental value of the vacant spaces in the portfolio by the market rental value of the entire portfolio.

	Dec 2018	Dec 2017
EPRA Vacancy	**7.1%**	**7.0%**

The EPRA Vacancy of the Company's investment properties as of year-end 2018 was 7.1%, a slight increase from 7.0% at year-end 2017 as a result of acquisitions of properties with high vacancy. On a like-for-like basis, excluding the effect of acquisitions and disposals during the period, the occupancy in 2018 has increased by 0.3%.

EPRA Cost Ratios

The EPRA Cost Ratios provide a detailed analysis of a Company's operating costs structure and provide for increased comparability across companies. The cost ratio is derived by dividing the Company's direct administrative expenses and property operating expenses (including non-recoverable service charges) by the rental income for the year, excluding ground rents. The ratio is calculated both including and excluding the direct vacancy costs.

	2018	2017
	€'000	
Operational expenses	47,578	40,517
Maintenance and refurbishment	34,494	32,905
Administrative expenses	10,515	10,961
Exclude:		
Depreciation	(2,576)	(2,053)
Ground rents	(2,870)	(2,819)
EPRA Costs (including direct vacancy costs)	**87,141**	**79,511**
Direct vacancy costs	(10,521)	(10,356)
EPRA Costs (excluding direct vacancy costs)	**76,620**	**69,155**
Rental and operating income	544,977	494,889
Less: ground rents	(2,870)	(2,819)
Less: operating income	(180,612)	(166,833)
Rental income, net	**361,495**	**325,237**
EPRA Cost Ratio (including direct vacancy costs)	**24.1%**	**24.4%**
EPRA Cost Ratio (excluding direct vacancy costs)	**21.2%**	**21.3%**

GCP's EPRA Cost Ratio including as well as excluding direct vacancy costs improved marginally as compared to 2017. The stability in cost margins demonstrate the scalability of the operating platform as well as the significance assigned to maintaining cost efficiency. The increase in operational costs is related to the improved service quality provided to tenants as well as various maintenance expenditures needed in order to ensure a high asset quality. For more details on the development of the operational and administrative expenses, please see the analysis in pages 48-50 in the board report.

Hamburg

Alternative Performance Measures

In this section, GCP provides an overview of the use of its alternative performance measures.

For enhanced transparency and more industry specific comparative basis, the Company provides market and industry standard performance indicators. GCP provides a set of measures that can be utilized to assess the Company's operational earnings, net value of the Company, leverage position, debt coverage abilities as well as liquidity headroom. Following measurements apply to the real estate industry's specifications and include adjustments where necessary that are in compliance with the standards.

Reconciliation of Adjusted EBITDA

The adjusted EBITDA is an industry standard figure indicative of the Company's recurring operational profits before interest and tax expenses, excluding the effects of capital gains, revaluations, and other non-operational income statement items such as profits from disposal of inventories, share of profit from investment in equity-accounted investees and other adjustments. GCP starts from its *Operating profit* and adds back the item *Depreciation and amortization* to arrive at *EBITDA* value. Non-recurring and non-operational items are deducted such as the *Capital gains, property revaluations and other income, Result on the disposal of inventories-trading properties* and *Share in profit from investment in equity-accounted investees*. Further adjustments are labeled as *Other adjustments* which are equity settled share-based payments since these are non-cash expenses.

Adjusted EBITDA reconciliation

Operating Profit
(+) Depreciation and amortization
(=) EBITDA
(-) Capital gains, property revaluations and other income
(-) Result on the disposal of inventories - trading properties
(-) Share in profit from investment in equity-accounted investees
(+) Other adjustments
(=) Adjusted EBITDA

Reconciliation of Funds From Operations I (FFO I)

Funds From Operations I (FFO I) is an industry-wide standard measure of the recurring operational cash flow of a real estate company, often utilized as a key industry performance indicator. It is calculated by deducting the *Finance expenses*, *Current tax expenses* and *Contribution to minorities* from the *Adjusted EBITDA*.

FFO I reconciliation

Adjusted EBITDA
(-) Finance expenses
(-) Current tax expenses
(-) Contribution to minorities
(=) FFO I

Reconciliation of FFO I after perpetual notes attribution

In line with the IFRS standards, GCP recognizes perpetual notes as equity in its balance sheets. Therefore, attributions to this item is recorded through changes in equity. GCP reports FFO I after perpetual notes attribution for enhanced transparency. In this case, GCP deducts the *Adjustment for accrued perpetual notes attribution* from the *FFO I*.

FFO I after perpetual notes attribution reconciliation

FFO I
(-) Adjustment for accrued perpetual notes attribution
(=) FFO I after perpetual notes attribution

Reconciliation of Adjusted Funds From Operations (AFFO)

The Adjusted Funds From Operations (AFFO) is an additional measure of comparison which factors into the FFO I, the Company's repositioning capex, which targets value enhancement and quality increase in the portfolio. Modernization and pre-letting capex are not included in the AFFO as they are considered as additional investment programs, similar to the property acquisitions, which are conducted at the Company's discretion. Therefore, in line with the industry practices, GCP deducts the *Repositioning capex* from the *FFO I* to arrive at the *AFFO*. As a result, AFFO is another widely-used indicator which tries to assess residual cash flow for the shareholders by adjusting FFO I for recurring expenditures that are capitalized.

AFFO reconciliation

FFO I
(-) Repositioning capex
(=) AFFO

Reconciliation of Funds From Operations II (FFO II)

FFO II additionally incorporates on top of the FFO I the results from asset disposals, calculated as the difference between the disposal values and the property acquisition costs plus capex, reflecting the economic profit generated on the sale of the assets. Although, property disposals are non-recurring, disposal activities provide further cash inflow that increase the liquidity levels. As a result, this measure is an indicator to evaluate operational cash flow of a company including the effects of disposals.

FFO II reconciliation

FFO I
(+) Result from disposal of properties*
(=) FFO II

* the excess amount of the sale price to cost price plus capex of the disposed properties

Reconciliation of EPRA Earnings

The EPRA Earnings indicator is intended to serve as a key indicator of the underlying operational profits for the year in the context of a real estate company, intended to measure the extent to which the Company's dividend distribution is covered by its operational income. GCP computes EPRA Earnings by excluding from its IFRS Earnings, *capital gains, property revaluations and other income, results on the disposal of properties identified as trading properties, changes in the fair value of financial assets and liabilities (net), deferred tax expenses, its share in profit from investments in equity-accounted investees* and the *contribution to minorities.*

GCP also provides a reconciliation of the EPRA Earnings to the FFO I, another widely-recognized and key performance measure, as it believes it to be a better measure of recurring operational profits and given that its dividend payout policy is based on the FFO I, supporting its importance and relevance.

EPRA Earnings Reconciliation

EPRA Earnings
Earnings per IFRS income statement
Excluding:
Capital gains, property revaluations and other income
Result on the disposal of inventories - trading properties
Change in fair value of financial assets and liabilities, net
Deferred tax expenses
Share in profit from investment in equity-accounted investees
Contribution to minorities
EPRA Earnings

Bridge to FFO I
Including:
Depreciation
Finance-related costs
Other adjustments
FFO I

Alternative Performance Measures

Reconciliation of the Net Asset Value according to EPRA (EPRA NAV)

The EPRA NAV is defined by EPRA as the net asset value of the Company adjusted to include real estate properties and other investment interests at fair values and exclude certain items that are not expected to materialize in a long-term real estate business model. The purpose of the EPRA NAV is to adjust the IFRS NAV in order to provide stakeholders with the most relevant information on the Group's balance sheet items in the context of a true real estate investment company with a long-term oriented investment strategy. As perpetual notes are classified as equity in accordance with IFRS treatment, GCP additionally reports the EPRA NAV including the perpetual notes.

The reconciliation of the EPRA NAV starts from the *Equity per the financial statements* and deducts the *Equity attributable to perpetual notes investors* to get to the *Equity excluding perpetual notes*. Adding the *Fair value measurements of derivative financial instruments* and the *Deferred tax liabilities* which include balances from held for sale results into the *NAV*. Both of these items are added back in line with EPRA standards since they are not expected to materialize in a long-term basis. Finally, equity that is attributable to the *Non-controlling interests* is deducted from the *NAV* to derive at the *EPRA NAV*. Adding to the *EPRA NAV* the balance of the *Equity attributable to perpetual investors* results in the *EPRA NAV including perpetual notes*.

EPRA NAV reconciliation

Equity per the financial statements
(-) Equity attributable to perpetual notes investors
(=) Equity excluding perpetual notes
(+) Fair value measurements of derivative financial instruments, net
(+) Deferred tax liabilities*
(=) NAV
(-) Non-controlling interests
(=) EPRA NAV
(+) Equity attributable to perpetual investors
(=) EPRA NAV incl. perpetual notes

* including balances held for sale

Reconciliation of the Triple Net Asset Value according to EPRA (EPRA NNNAV)

The EPRA NNNAV is derived by adjusting the EPRA NAV by marking to market the values of the Company's financial debt, derivative financial instruments and deferred taxes. The purpose of the EPRA NNNAV is to provide stakeholders with the most relevant information on the Company's financial liabilities by reporting them at their fair values as of the end of the period. Accordingly, to derive at the EPRA NNNAV, the *Fair value measurements of derivative financial instruments* is deducted from the EPRA NAV as well as an *Adjustment to reflect fair value of debt*. The adjustment is the difference between the market value of debt and book value of debt, adjusted for taxes. Lastly, *Deferred tax liabilities*, which according to EPRA's best practice recommendations should be based on evidence observed in the market, are deducted to reach to the *EPRA NNNAV.*

EPRA NNNAV reconciliation

EPRA NAV
(-) Fair value measurements of derivative financial instruments
(-) Adjustment to reflect fair value of debt
(-) Deferred tax liabilities*
(=) EPRA NNNAV

*adjustment based on the Company's corporate structure and from actual transactions

EPRA Net Initial Yield (NIY) and EPRA 'topped-up' NIY

The EPRA Net Initial Yield (NIY) is intended to serve as a standardized portfolio valuation indicator. It is calculated by subtracting the passing non-recoverable operating costs from the passing net rental income as of the end of the period, and dividing the result by the fair value of the full property portfolio (including held-for-sale properties and inventories – trading properties and excluding assets classified as development rights and new buildings) plus an allowance for estimated purchasers' costs. EPRA 'topped-up' NIY is an additional calculation that factors into consideration the effects of rent-free periods and other lease incentives.

The fair value of the full property portfolio is the sum of *investment property*, *investment properties from assets held for sale* as well as the *inventories of trading properties* and excluding *assets classified as development rights and new buildings*. In addition, this sum is grossed up with an *allowance for estimated purchaser's cost*. The *annualized net rental income* is arrived by subtracting *non-recoverable property operating costs* based on cost margins for comparability.

EPRA NIY and 'topped-up' NIY reconciliation

EPRA Net Initial Yield (NIY) and EPRA 'topped-up' NIY
(+) Investment property
(+) Investment properties of assets held for sale
(+) Inventories - trading properties
(-) Classified as development rights and new buildings
Complete property portfolio
(+) Allowance for estimated purchasers' costs
(A) Gross up complete property portfolio valuation
(+) End of period annualized net rental income [1]
(+) Operating costs [2]
(B) Annualized net rent, after non-recoverable
(+) Notional rent expiration of rent-free periods or other lease incentives
(C) Topped-up net annualized rent
(B/A) EPRA NIY
(C/A) EPRA "topped-up" NIY

1) including net rental income from assets held for sale
2) to reach annualized operating costs, cost margins were used for each respective period

Halle

Alternative Performance Measures

EPRA Cost Ratios

EPRA Cost Ratio is a key measure to enable meaningful measurement of the changes in a company's operating costs as well as comparability between companies. EPRA Costs (including direct vacancy costs) is the sum of non-recoverable *operational expenses*, *maintenance and refurbishment expenses* and *administrative expenses*. *Depreciation* and *Ground rent* costs are excluded. *EPRA Costs (excluding direct vacancy costs)* eliminate direct *vacancy costs* from the *EPRA Costs (including direct vacancy costs)*.

EPRA Cost Ratios reconciliation

EPRA Cost Ratios
(+) Operational expenses
(+) Maintenance and refurbishment
(+) Administrative expenses
Excluding:
Depreciation
Ground rents
(A) EPRA Costs (including direct vacancy costs)
Including:
Direct vacancy costs
(B) EPRA Costs (excluding direct vacancy costs)
Rental and operating income
Less: ground rents
Less: operating income
(C) Rental income, net
(A/C) EPRA Cost Ratio (including direct vacancy costs)
(B/C) EPRA Cost Ratio (excluding direct vacancy costs)

Reconciliation of Loan-to-Value (LTV)

LTV ratio is an acknowledged measurement of the leverage position of a given firm in the real estate industry. This ratio highlights to which extent financial liabilities are covered by the Company's real estate asset value as well as how much headroom of the fair value of real estate portfolio is available compared to the net debt. Following the industry specifications, GCP calculates the LTV ratio by dividing the total net debt to the total value at the balance sheet date. Total value of the portfolio is a combination of the *Investment property* which includes the *Advanced payments for investment properties and inventories - trading properties*, *Investment properties of assets held for sale* and the *Equity-accounted investees*. For the calculation of net debt, total *Cash and liquid assets* are deducted from the *Straight bonds*, *Convertible Bonds* and *Total loan and borrowings*. Total loan and borrowings include the Short-term loans and borrowings, Loan redemption, and *Financial debt held for sale* while Straight bonds include the *Bond redemption*. Cash and liquid assets is the sum of *Cash and cash equivalents*, *Traded securities at fair value through profit and loss*, and *Cash and cash equivalents held for sale*.

Loan-To-Value reconciliation

(+) Investment property [1]
(+) Investment property of assets held for sale
(+) Investment in equity-accounted investees
(=) (a) Total value
(+) Total debt [2]
(-) Cash and liquid assets [3]
(=) (b) Net debt
(=) (b/a) LTV

1) including advanced payments for investment properties and inventories - trading properties
2) including loans and borrowings held for sale
3) including cash and cash equivalents held for sale

Reconciliation of Unencumbered Assets Ratio

The unencumbered assets ratio is a liquidity measure as it reflects the Company's ability to raise secure debt over these assets and thus provides an additional layer of financial flexibility and liquidity. Moreover, the unencumbered assets ratio is important for unsecured bondholders, providing them with an asset backed security. Hence, the larger the ratio is, the more flexibility a firm has in terms of headroom and comfort to its debtholders. Unencumbered assets ratio is calculated by dividing the *Unencumbered investment property* of the portfolio by the *Total investment properties* which is the sum of *Investment property*, *Inventories - trading property* and *Investment property of assets held for sale*.

Unencumbered Assets Ratio reconciliation

(a) Unencumbered assets
(b) Total investment properties*
(=) (a/b) Unencumbered Assets Ratio

* including investment properties, investment properties of assets held for sale and inventories - trading property

Reconciliation of ICR and DSCR

Two widely-recognized debt metrics Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) are utilized to demonstrate the strength of GCP's credit profile. These metrics are often used to see the extent to which interest and debt servicing are covered by recurring operational profits and provides implications on how much of cash flow is available after debt obligations. Therefore, ICR is calculated by dividing the *Adjusted EBITDA* by the *Finance expenses* and DSCR is calculated by dividing the *Adjusted EBITDA* by *Finance expenses* plus *Amortization of loans from financial institutions*. With this ratio, GCP is able to show that with its high profitability and long-term oriented conservative financial structure, GCP consistently exhibits high debt cover ratios.

ICR reconciliation

(a) Finance expenses
(b) Adjusted EBITDA
(=) (b/a) ICR

DSCR reconciliation

(a) Finance expenses
(b) Amortization of loans from financial institutions
(c) Adjusted EBITDA
(=) [c/(a+b)] DSCR

Berlin

Responsibility Statement

To the best of our knowledge, the annual consolidated financial statements of Grand City Properties S.A., prepared in accordance with the applicable reporting principles for financial statements, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the management report of the Group includes a fair view of the development of the business, and describes the main opportunities, risks, and uncertainties associated with the Group

Disclaimer

The financial data and results of the Group are affected by financial and operating results of its subsidiaries. Significance of the information presented in this report is examined from the perspective of the Company including its portfolio with the joint ventures. In several cases, additional information and details are provided in order to present a comprehensive representation of the subject described, which in the Group's view is essential to this report.

By order of the Board of Directors,
Luxembourg, March 18, 2019

Refael Zamir CFO, Chairman of the Board of Directors	**Simone Runge-Brandner** Member of the Board of Directors	**Daniel Malkin** Member of the Board of Directors

To the Shareholders of
Grand City Properties S.A.
1, Avenue du Bois
L-1251 Luxembourg

Report of the Réviseur d'Enterprises Agréé (Independent auditor)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Grand City Properties S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 on the audit profession (the "Law of July 23, 2016") and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (the "CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of the "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Properties

a) Why the matter was considered to be one of most significant in the audit?

We refer to the accounting policy 2.3 "Use of estimates and judgments" on page 94, 3.13 "Investment Property" and 3.14 "Assets and liabilities held for sale" on page 103, Note 16 "Investment Property" on page 123 and Note 25.2 "Disposal group held for sale" on the page 134 in the consolidated financial statements of Grand City Properties S.A.

As at December 31, 2018 the Group held a portfolio of investment properties with a fair value of TEUR 7,227,290 (December 31, 2017: TEUR 6,376,224) and investment properties within Assets held for sale with a fair value of TEUR 132,137 (December 31, 2017: TEUR 117,246).

The valuation of investment properties is a significant judgement area and is underpinned by a number of assumptions.

The fair value measurement of investment property is inherently subjective and requires valuation experts and the Group's management to use certain assumptions regarding rates of return on the Group's assets, future rent, occupancy rates, contract renewal terms, the probability of leasing vacant areas, asset operating expenses, the tenants' financial stability and the implications of any investments made for future development purposes in order to assess the future expected cash flows from the assets. Any change in the assumptions used to measure the investment property could cause a significant change its fair value.

The Group uses external valuation reports issued by external independent professionally qualified valuers to determine the fair value of its investment properties.

The external valuers were engaged by management, and performed their work in compliance with the Royal Institute of Chartered Surveyors ("RICS") Valuation – Professional Standards, TEGoVA European Valuations Standards and IVSC International Valuation Standard. The Valuers used by the Group have considerable experience of the markets in which the Group operates. In determining a property's valuation, the valuers take into account property-specific characteristics and information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation.

The significance of the estimates and judgments involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement in the consolidated statement of comprehensive income and consolidated statement of financial position, warrants specific audit focus in this area.

b) How the matter was addressed during the audit?

Our procedures over valuation of investment properties include but are not limited to the following:

- We tested the design and implementation of the key controls around the determination and monitoring of the fair value measurement of the investment properties;
- We assessed the competence, capabilities, qualifications, independence and integrity of the external valuers and read their terms of engagement by Grand City Properties S.A. to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- We assessed that that the valuation approach applied by the external valuer is in accordance with relevant valuation and accounting standards and suitable for use in determining the carrying value in the consolidated statement of financial position;
- We tested the integrity, accuracy and completeness of inputs used by the external valuers, as well as appropriateness of valuation parameters used, such as discount capitalisation rates, market rents per square meter and capital expenditure and comparable price per square meter;
- We assessed the valuation process and significant assumptions and critical judgement areas by benchmarking the key assumptions to external industry data and comparable property transactions, in particular the yields applied;

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the consolidated management report, the Corporate Governance Statement and Corporate Social Responsibility report but does not include the consolidated financial statements and our report of the "Réviseur d'Entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on June 27, 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 7 years.
The Board of Directors' Report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement is presented on pages 34 to 43. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Luxembourg, March 18, 2019

KPMG Luxembourg
39, avenue John F. Kennedy
L-1855, Luxembourg

Société coopérative
Cabinet de révision agréé

Joseph de Souza

Berlin

Consolidated statement of profit or loss

		For the year ended 31 December,	
		2018	2017
	Note	€'000	
Revenue	6	**545,227**	**496,875**
Property revaluations and capital gains	7	506,553	616,459
Share of profit from investments in equity-accounted investees	14	1,350	6,491
Property operating expenses	8	(262,684)	(238,894)
Cost of buildings sold		(194)	(1,488)
Administrative and other expenses	9	(10,515)	(10,961)
Operating profit		**779,737**	**868,482**
Finance expenses	10.1	(45,929)	(40,208)
Other financial results	10.2	(35,786)	(42,727)
Profit before tax		**698,022**	**785,547**
Current tax expenses	11.2	(29,845)	(28,040)
Deferred tax expenses	11.3	(85,143)	(118,358)
Profit for the year		**583,034**	**639,149**
Profit attributable to:			
Owners of the Company		488,632	534,568
Perpetual notes investors		30,267	24,250
Non controlling interests		64,135	80,331
		583,034	**639,149**
Net earnings per share attributable to the owners of the Company (in €):			
Basic earnings per share	12.1	2.95	3.35
Diluted earnings per share	12.2	2.76	3.06

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

	For the year ended 31 December,	
	2018	2017
	€'000	
Profit for the year	**583,034**	**639,149**
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods, net of tax:		
Foreign currency translation, net of investment hedges of foreign operations	(9,160)	(511)
Cost of hedging	(39)	-
Total other comprehensive income for the year, net of tax	**(9,199)**	**(511)**
Total comprehensive income	**573,835**	**638,638**
Total comprehensive income attributable to:		
Owners of the Company	479,433	534,057
Perpetual notes investors	30,267	24,250
Non-controlling interests	64,135	80,331
	573,835	**638,638**

The notes on pages 92 to 144 form an integral part of these consolidated financial statements


Hannover

Consolidated statement of financial position

		As at 31 December,	
		2018	2017
	Note	€'000	
Assets			
Equipment and intangible assets	15	24,065	19,649
Investment property	16	7,227,290	6,376,224
Advanced payment for investment property		54,964	37,562
Investment in equity-accounted investees	14	26,207	37,261
Derivative financial assets		7,517	-
Other non-current assets	13	246,192	213,920
Deferred tax assets	11.3	36,676	27,744
Non current assets		**7,622,911**	**6,712,360**
Cash and cash equivalents		603,158	312,058
Financial assets at fair value through profit and loss	26	156,822	89,426
Inventories – Trading property		16,625	11,644
Trade and other receivables	17	319,465	259,774
Derivative financial assets		5,060	-
Assets held for sale	25.2	136,485	123,030
Current assets		**1,237,615**	**795,932**
Total assets		**8,860,526**	**7,508,292**

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

	Note	2018	2017
		As at 31 December,	
		€'000	
Equity			
Share capital	18.1.1	16,672	16,479
Share premium	18.1.4	673,288	753,226
Other reserves	18.1.5	27,258	43,842
Retained earnings		2,510,278	2,005,755
Total equity attributable to the owners of the Company		**3,227,496**	**2,819,302**
Equity attributable to Perpetual notes investors	18.2	1,030,050	665,871
Total equity attributable to the owners and Perpetual notes investors		**4,257,546**	**3,485,173**
Non-controlling interests	18.3	409,441	364,489
Total equity		**4,666,987**	**3,849,662**
Liabilities			
Loans and borrowings	20.1	845,646	918,669
Convertible bond	20.2	272,246	432,073
Straight bonds	20.2	2,177,267	1,378,299
Derivative financial instruments		12,825	5,885
Other non-current liabilities	22	56,399	53,344
Deferred tax liabilities	11.3	523,097	499,674
Non-current liabilities		**3,887,480**	**3,287,944**
Current portion of long-term loans	20.1	12,934	11,485
Loan and straight bond redemption	20.2.1, 20.1	8,687	50,832
Trade and other payables	21	242,320	266,587
Tax payable		8,220	8,954
Provisions for other liabilities and charges	23	25,011	20,232
Liabilities held for sale	25.2	8,887	12,596
Current liabilities		**306,059**	**370,686**
Total liabilities		**4,193,539**	**3,658,630**
Total equity and liabilities		**8,860,526**	**7,508,292**

The Board of Directors of Grand City Properties S.A. authorised these consolidated financial statements for issuance on March 18, 2019.

Refael Zamir CFO, Chairman of the Board of Directors	**Simone Runge-Brandner** Member of the Board of Directors	**Daniel Malkin** Member of the Board of Directors

Consolidated statement of changes in equity

€'000	Share capital	Share Premium	Equity portion of convertible bond	Cost of hedging reserve	Foreign exchange translation reserves, net	Other reserves	Retained earnings	Total	Equity attributable to Perpetual notes investors	Equity attributable to owners of the Company and Perpetual notes investors	Non-controlling interests	Total equity
	Equity attributable to the owners of the Company											
Balance as at 31 December 2017	**16,479**	**753,226**	**20,284**		**(511)**	**24,069**	**2,005,755**	**2,819,302**	**665,871**	**3,485,173**	**364,489**	**3,849,662**
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	-	-	(8,394)	(8,394)	-	(8,394)	-	(8,394)
Restated balance as at 1 January 2018	**16,479**	**753,226**	**20,284**		**(511)**	**24,069**	**1,997,361**	**2,810,908**	**665,871**	**3,476,779**	**364,489**	**3,841,268**
Profit for the year	-	-	-	-	-	-	488,632	488,632	30,267	518,899	64,135	583,034
Other comprehensive income for the year	-	-	-	(39)	(9,160)	-	-	(9,199)	-	(9,199)	-	(9,199)
Total comprehensive income for the year	**-**	**-**	**-**	**(39)**	**(9,160)**	**-**	**488,632**	**479,433**	**30,267**	**509,700**	**64,135**	**573,835**
Transactions with owners of the Company												
Contributions and distributions												
Buyback of convertible bond F	-	(375)	(7,627)	-	-	-	-	(8,002)	-	(8,002)	-	(8,002)
Dividend distribution (*)	187	(79,560)	-	-	-	-	-	(79,373)	-	(79,373)	-	(79,373)
Share based payment	6	(3)	-	-	-	126	-	129	-	129	-	129
Disposal of foreign operation	-	-	-	-	116	-	-	116	-	116	-	116
Total contributions and distributions	**193**	**(79,938)**	**(7,627)**	-	**116**	**126**	**-**	**(87,130)**	**-**	**(87,130)**	**-**	**(87,130)**
Changes in ownership interests												
Transactions with Non-controlling interest	-	-	-	-	-	-	24,285	24,285	-	24,285	(19,183)	5,102
Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**24,285**	**24,285**	**-**	**24,285**	**(19,183)**	**5,102**
Total transactions with owners of the Company	**193**	**(79,938)**	**(7,627)**	**-**	**116**	**126**	**24,285**	**(62,845)**	**-**	**(62,845)**	**(19,183)**	**(82,028)**
Transactions with Perpetual notes investors												
Issuance of perpetual notes, net	-	-	-	-	-	-	-	-	340,891	340,891	-	340,891
Amount due to Perpetual notes investors	-	-	-	-	-	-	-	-	(6,979)	(6,979)	-	(6,979)
Total transactions with Perpetual notes investors	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**333,912**	**333,912**	**-**	**333,912**
Balance as at 31 December 2018	**16,672**	**673,288**	**12,657**	**(39)**	**(9,555)**	**24,195**	**2,510,278**	**3,227,496**	**1,030,050**	**4,257,546**	**409,441**	**4,666,987**

(*) see note 18.1.6

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

€'000	Share capital	Share Premium	Equity portion of convertible bond	Hedge reserves	Foreign exchange translation reserves, net	Other reserves	Retained earnings	Total	Equity attributable to Perpetual notes investors	Equity attributable to owners of the Company and Perpetual notes investors	Non-controlling interests	Total equity
	Equity attributable to the owners of the Company											
Balance as at 31 December 2016	**15,379**	**670,038**	**20,284**	**-**	**-**	**23,176**	**1,472,128**	**2,201,005**	**667,393**	**2,868,398**	**196,666**	**3,065,064**
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	-	-	(6,353)	(6,353)	-	(6,353)	-	(6,353)
Restated balance as at 1 January 2017	**15,379**	**670,038**	**20,284**	-	**-**	**23,176**	**1,465,775**	**2,194,652**	**667,393**	**2,862,045**	**196,666**	**3,058,711**
Profit for the year	-	-	-	-	-	-	534,568	534,568	24,250	558,818	80,331	639,149
Other comprehensive income for the year	-	-	-	-	(511)	-	-	(511)	-	(511)		(511)
Total comprehensive income for the year	**-**	**-**	**-**	-	**(511)**	**-**	**534,568**	**534,057**	**24,250**	**558,307**	**80,331**	**638,638**
Transactions with owners of the Company												
Contributions and distributions												
Issuance of new ordinary shares	1,100	195,656	-	-	-	-	-	196,756	-	196,756	-	196,756
Share-based payment	-	-	-	-	-	893	-	893	-	893	-	893
Dividend distribution	-	(112,468)	-	-	-	-	-	(112,468)	-	(112,468)	-	(112,468)
Total contributions and distributions	**1,100**	**83,188**	**-**	-	**-**	**893**	**-**	**85,181**	**-**	**85,181**	**-**	**85,181**
Changes in ownership interests												
Change in NCI due to change of ownership	-	-	-	-	-	-	(941)	(941)	-	(941)	87,492	86,551
Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**(941)**	**(941)**	**-**	**(941)**	**87,492**	**86,551**
Total transactions with owners of the Company	**1,100**	**83,188**	**-**	**-**	**-**	**893**	**(941)**	**84,240**	**-**	**84,240**	**87,492**	**171,732**
Transactions with Perpetual notes investors												
Amount due to Perpetual notes investors	-	-	-	-	-	-	-	-	(25,772)	(25,772)	-	(25,772)
Total transactions with Perpetual notes investors	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,772)**	**(25,772)**	**-**	**(25,772)**
Balance as at 31 December 2017	**16,479**	**753,226**	**20,284**	**-**	**(511)**	**24,069**	**1,999,402**	**2,812,949**	**665,871**	**3,478,820**	**364,489**	**3,843,309**

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

Consolidated statement of cash flows

		For the year ended 31 December,	
		2018	2017
	Note	€'000	
Cash flows from operating activities:			
Profit for the period		583,034	639,149
Adjustments for the profit:			
Depreciation and amortization	15	2,576	2,053
Property revaluations and capital gains	7	(506,553)	(616,459)
Share of profit from investments in equity-accounted investees	14	(1,350)	(6,491)
Net finance expenses	10	81,715	82,935
Tax and deferred tax expenses	11	114,988	146,398
Equity settled share-based payment	19	1,176	893
Change in working capital		(22,768)	(23,654)
Taxes paid		(28,294)	(22,518)
Net cash provided by operating activities		**224,524**	**202,306**
Cash flows from investing activities:			
Acquisition of equipment and intangible assets, net		(6,441)	(5,833)
Acquisitions of investment property, Capex and advances paid, net		(500,622)	(374,072)
Disposal (acquisition) of investees and loans, net of cash acquired (disposed)		(111,599)	(323,768)
Investment (Proceeds) in (from) trade securities and other non-current assets		(99,764)	95,246
Net cash used in investing activities		**(718,426)**	**(608,427)**

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

	Note	2018	2017
		For the year ended 31 December,	
		€'000	
Cash flows from financing activities:			
Amortization of loans from financial institutions		(8,597)	(10,996)
Proceeds (Repayments) of loans from financial institutions, net		(4,583)	(72,397)
Proceeds from issuance of ordinary shares		-	196,756
Proceeds from straight bonds, net	20.2	928,680	680,356
Proceeds (payments) from (to) Perpetual notes investors, net	18.2	312,254	(20,583)
Repayment straight bond CHF	20.2	(49,934)	-
Buyback straight bond series D	20.2	(163,628)	(344,365)
Buyback convertible bond series F	20.2	(170,892)	-
Transactions with non-controlling interests		78,000	(926)
Dividend distributed to the shareholders	18.1.6	(79,393)	(112,468)
Interest and other financial expenses, net		(56,429)	(46,858)
Net cash provided by financing activities		**785,478**	**268,519**
Net increase (decrease) in cash and cash equivalents		**291,576**	**(137,602)**
Assets held for sale – cash	25.2	453	787
Cash and cash equivalents at the beginning of the year		312,058	448,873
Effect of foreign exchange rate changes		(929)	-
Cash and cash equivalents at the end of the year		**603,158**	**312,058**

The notes on pages 92 to 144 form an integral part of these consolidated financial statements

Notes to the consolidated financial statements

for the year ended December 31, 2018

1. General

1.1 Incorporation and principal activities

Grand City Properties S.A. ("the Company") was incorporated in Luxembourg on December 16, 2011 as a société anonyme (public limited liability company). Its registered office is at 1, Avenue du Bois L-1251 Luxembourg.

The Company is a specialist in residential real estate, value-add opportunities in densely populated areas, mainly in Germany. The Company's strategy is to improve its properties through targeted modernization and intensive tenant management, and then create value by subsequently raising occupancy and rental levels.

These consolidated financial statements for the year ended 31 December 2018 comprise the Company and its investees ("the Group" or "GCP").

1.2 Listing on the Frankfurt Stock Exchange

Since 2012, the Company's shares are listed on the Frankfurt Stock Exchange. On May 9, 2017 the Company's shares were up-listed to the Prime Standard of the Frankfurt Stock Exchange.

Effective September 18, 2017 the Company's shares were included in the MDAX index of the Deutsche Börse.

As at 31 December 2018,the issued share capital consists 166,718,395 shares with a par value of euro 0.10 per share.

1.3 Capital and bond increases during the reporting period

Since 2012, the Company undertook several capital market transactions which include the issuance of straight bonds, convertible bonds, perpetual notes and equity.

In addition, the Company established Euro Medium Term Notes programme ("the EMTN programme").

For more information see notes 18 and 20.2.1, respectively.

London

1.4 Group credit rating

On 23 November 2016, S&P upgraded its long-term corporate credit rating of the Company to 'BBB+' with a stable outlook from 'BBB'. In addition, S&P has revised the ratings of the senior unsecured debt of the Company to 'BBB+' from 'BBB' and on its subordinated perpetual notes to 'BBB-' from 'BB+'.

On 21 December 2016, S&P assigned the Company a short-term corporate credit rating of 'A-2'.
In September 2017, Moody's Investors Service ("Moody's") upgraded the long-term issuer rating of the Company to 'Baa1' from 'Baa2'. Concurrently, Moody's upgraded to 'Baa1' from 'Baa2' the Company's senior unsecured debt and to 'Baa3' from 'Ba1' the subordinated perpetual notes.

As at 31 December 2018, the Group rating remained unchanged, as described above.

1.5 Definitions

In these consolidated financial statements:

The Company	Grand City Properties S.A.
The Group	The Company and its investees
Subsidiaries	Companies that are controlled by the Company (as defined in IFRS 10) and whose financial statements are consolidated with those of the Company
Associates	Companies over which the Company has significant influence (as defined in IAS 28) and that are not subsidiaries. The Company's investment therein is included in the consolidated financial statements of the Company using equity method of accounting
Investees	Subsidiaries, jointly controlled entities and associates
Related parties	As defined in IAS 24

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Certain consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows' items related to the year ended 31 December 2017 have been reclassified to enhance comparability with 2018 figures and are marked as "reclassified".

The consolidated financial statements were authorised for issue by the Company's board of directors on 18 March 2019.

2.2 Basis of measurement

The consolidated financial statements have been prepared on a going concern basis, applying the historical cost convention, except for the measurement of the following:

- Financial assets at fair value through profit or loss;
- Investment properties are measured at fair value;
- Investment in equity-accounted investees;
- Derivative financial assets and liabilities;
- Assets and liabilities classified as held for sale;
- Deferred tax assets and liabilities on fair value gains and losses on investment property and derivative financial assets and liabilities.

2.3 Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires from management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on current knowledge available at that time. Actual results may differ from such estimates.

The estimates and underlying assumptions are revised on a regular basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

- **Fair value of investment property**
  The Group uses external valuation reports issued by independent professionally qualified valuers to determine the fair value of its investment properties. Changes in their fair value are recognised in the consolidated statement of comprehensive income.

  The fair value measurement of investment property requires the use of assumptions, judgement, estimates and special assumptions regarding rates of return on the Group's assets, future rent, occupancy rates, contract renewal terms, the probability of leasing vacant areas, asset operating expenses, the tenants' financial stability, building rights, building permits, capital expenditure estimates, and discount and cap rates in order to assess the future expected cash flows from the assets. Any change in the assumptions used to measure the investment property could affect its fair value.

- **Impairment of financial assets measured at amortised cost**
  When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- **Tax and deferred tax expenses**
  Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Impairment of intangible asset**
  Intangible assets are initially recorded at acquisition cost and are amortised on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with an indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs to.

- **Impairment of goodwill**
  Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units of the Group on which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units using a suitable discount rate in order to calculate present value.

- **Legal claims**
  In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the Group relies on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

- **Provisions**
  Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

- **Fair value hierarchy**
  Please see note 4.2.

2.4 Functional and presentation currency

The consolidated financial statements of the Group are presented in euro which is the main functional currency of the Group, and rounded to the nearest thousand (euro '000), except when otherwise indicated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations in the UK which operate in pound (GBP), are expressed in euro (EUR) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign exchange translation reserve.

In addition, as at 31 December 2018, the Company has financial instruments in Pound (GBP), Hong Kong Dollar (HKD), Swiss Franc (CHF) and Japanese Yen (JPY).

The exchange rates versus the euro were as follows:

	EUR/ GBP	EUR/ HKD	EUR/ CHF	EUR/ JPY
As of December 31, 2018	0.895	8.968	1.127	125.850
As of December 31, 2017	0.887	9.372	1.170	135.010
Change (%)	0.82%	(4.32%)	(3.70%)	(6.78%)
Average exchange rate during the period	0.885	9.256	1.155	130.396

3. Accounting policies

3.1 Changes in accounting policies and disclosures

The Group applied IFRS 15 and IFRS 9 in these consolidated financial statements for the first time. The nature and effect of the changes as a result of adoption of these new standards are described below.

- **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurements; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 using an exemption not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings (increase/(decrease)).

	Adjustments	As at 1 January 2018	As at 1 January 2017
Retained earnings	b	(8,394)	(6,353)

The change did not have material impact on the Group's operating, investing and financing cash flows and the basic and diluted EPS.

The nature of the impact of the initial application on the Group's consolidated financial statements is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have material impact on the Group.

- The Group continued measuring at fair value through profit or loss all financial assets and financial liabilities held at fair value through profit or loss under IAS 39.
- Trade and other receivables and other non-current financial assets previously classified as Loans and receivables are held to collect conttractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost. The measurement basis has not been changed compared to prior year.
- The Group has not elected to classify irrevocably any of its equity instruments as equity instruments at fair value through OCI.
- The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9, the Group recognised additional loss allowance t on the Group's Trade and other receivables and other non-current assets , which resulted in a decrease in opening balance of Retained earnings of euro 8,394 thousands and euro 6,353 thousands as at 31 December 2017 and 31 December 2016, respectively.

(c) Hedge accounting

As at 31 December 2017, the Group has not applied hedge accounting under IAS 39 and therefore the hedge accounting requirements of IFRS 9 did not have any impact on the Group.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires further disclosures.

- **Rental and operating income**

Lease contracts are scoped out of IFRS 15, and are accounted for under IAS 17 Leases (from 2019: IFRS 16 Leases), and therefore the application of the new standard did not have any impact in terms of amounts and timing on the revenue recognition of rental income.

Any other components of contract which are not lease components should be accounted for under IFRS 15.

IFRS 15 requires the remaining transaction price after the deduction of the lease element in accordance with IAS 17 (from 2019: IFRS 16), to be allocated to all other performance obligations identified. The Group identified several performance obligations which include ancillary services provided to tenants, and allocated the remaining transaction price between the performance obligations based on their estimated relative selling prices. Since the billing of the ancillary services is made in market values, the Group uses these market value as an estimation for the stand-alone selling prices. These performance obligations are satisfied over-time, that is, as ancillary services are rendered. As there are no changes regarding the period-based recognition of operating income or the total amount recognised as operating income, the initial application of IFRS 15 did not have any impact in terms of amount or timing on the revenue recognition of operating income, and therefore no adjustment was required to any financial statement line item.

- **Sales of properties**

For the sale of properties held as inventory or the disposal of investment property, the Group identified the transfer of ownership on the property as a performance obligation which is satisfied at the point in time. The Group identified the completion date in which hand-over of the property to the customer has occurred as the point in time in which the customer obtains control on the property and legally bears substantially all the rewards and risks derive from the ownership of the property. As the control model of IFRS 15 has not changed the point in time in which the performance obligation was satisfied there was no effect on the timing of revenue and gain or loss recognition. IFRS 15 did not have any impact on the amount in which revenue and gain or loss from sale of properties held as inventory or investment property respectively. As a result, no adjustment was required to any financial statement line item.

The Group has elected to make use of the following practical expedients:

- Completed contracts before the date of transition have not been reassessed.
- The Group applies the practical expedient in paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations and explanation of when the Group expects to recognise that amount as revenue for the year ended 31 December 2017.

The following amendments to IFRS and interpretations also apply for the first time in 2018:

- **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any material impact on the Group's consolidated financial statements.

- **Amendments to IAS 40: Transfers of Investments Property**

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

- **Amendments to IFRS 2 – Classifications and Measurement of Share-based Payment Transactions**

  The issued amendments to IFRS 2 Share-based payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments do not have a material impact on the Group's consolidated financial statements.affected the Group's share-based payment agreements with net settlement features for withholding tax obligation. For the year ended 31 December 2018, euro 1,028 thousands of withholding tax related to share-based payment were recognised in equity.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3.2 Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the parent company Grand City Properties S.A. and the financial statements of its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied by all entities in the Group.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement.

3.3 Business combinations

Acquisitions of businesses are accounted for using the acquisition method, i.e. when control is transferred to the Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share based Payment at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is initially measured as the excess of the sum of the consideration transferred, the fair value of any non controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in consolidated income statements. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Where a transaction or other event does not meet the definition of a business combination due to the acquiree not meeting the definition of a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed, and allocates the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

Such a transaction or event does not give rise to goodwill.

3.4 Investments in associates and equity - accounted investees

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A jointly controlled entity is an entity in which two or more parties have interest.

The results and assets and liabilities of associates and equity-accounted investees are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the consolidated income statement and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount; any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements, however only to the extent of interests in the associate that are not related to the Group.

3.5 Revenue recognition

Rental income

Rental income from operating lease of investment property is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

Operating income (service charges)

The Group enters as a lessor into lease agreements that include ancillary services provided to tenants by the Group or by other parties acting on its behalf, and other charges billed to tenants, for which the Group is entitled to payments.

Operating income is measured based on the consideration to which the Group expects to be entitled in a contract with a tenant and excludes amounts collected on behalf of third parties. Revenue from service charges is recognised over time as services are rendered.

The Group arranges for third parties to provide certain services to the tenants. The Group is primarily responsible for fulfilling the promise to perform the specific services and the Group bears inventory risk and credit risk on these transactions as it is obliged to pay the service provider even if the customer defaults on a payment. The Group controls the service before it is provided to the tenant and, hence, is principal rather than agent in these contracts, and thus reports revenue on a gross basis, that is, the amounts billed to the tenants are recorded as Revenue from contracts with customers and operating costs are recorded as an expense in purchased services.

Sale of property

The Group enters into contracts with customers to sell properties that are either complete or under development.

The sale of completed property is generally expected to be the only performance obligation which will be satisfied at the point in time when the control is transferred to the customer, which is generally expected to be when legal title is transferred.

For contracts relating to the sale of properties under development, the Group is responsible for the overall management of the project and identifies various goods and services to be provided. In such contracts, the goods and services are not distinct and will generally be accounted for as a single performance obligation. Depending on the terms of each contract, the Group will determine whether control is transferred at a point in time or over time.

The Group has elected to make use of the following practical expedients:

- Contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred.
- The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations for contracts in which the Group has a right to consideration from tenants in an amount that corresponds directly with the value to the tenant of the Group's performance completed to date.
- The Group does not adjust the transaction price for the effects of significant financing component since at contract inception it is expected that the period between when the entity transfers the services to tenants and when the tenants pay for these services will be one year or less.

3.6 Finance income and expenses

Finance income comprises interest income on funds invested.

Finance expenses comprise interest expense on bank loans, third party borrowings and bonds.

3.7 Other financial results

Other financial results represent changes in the time value of provisions, changes in the fair value of traded securities, profit or losses on derivative financial instruments, borrowing and redemption costs, loan arrangement fees, dividend income and other one-time payments.

Financial expenses are recognised as they are incurred in the statement of profit or loss, using the effective interest method.

3.8 Deferred tax, income tax and property taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax expenses include also property taxation on the holding of real estate property and construction.

3.9 Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax expenses also includes taxes on the holding of real estate property.

3.10 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. The Company estimates such utilization of the deferred tax assets to be taken in place within the period of 1-5 years from the balance sheet date. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Similarly, unrecognised deferred taxes are reassessed at each reporting date and recognised to the extent that is has become probable that the future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled (liabilities method), based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.11 Equipment and intangible assets

Equipment is measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognised in profit or loss using the straight line method over the useful lives of each part of an item of equipment. The annual depreciation rates used for the current and comparative periods are as follows:

	%
Furniture, fixtures and office equipment	10-50

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of equipment is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

The intangible assets of the Group consist of goodwill and software. Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization, and any accumulated impairment losses.

3.12 Deferred income

Deferred income represents income which relates to future periods.

- **Prepayments**
  The Group receives prepayments from tenants for ancillary services and other charges on a monthly basis. Once a year, the prepayments received from tenants are settled against the operating cost receivables Tenancy deposits

- **Tenancy deposits**
  Tenancy deposits are paid to ensure the apartment is returned in good condition. The tenancy deposits can also be used if a loss of rent occurs.

3.13 Investment property

An investment property is property comprising buildings held by the owner to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuers applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15, and is recognised in property revaluations and capital gains in the consolidated statement of profit or loss.

Transfers are made to (or from) investment property only when there is a change in use.

3.14 Assets and liabilities held for sale

Non-current assets or disposal groups, comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

3.15 Financial instruments

A financial instrument is any contract that gives right to a financial asset of one entity and a financial liability or equity instrument of another entity.

I. Financial assets

i. Initial recognition and measurement

Financial assets are classified at initial recognition as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. See note 3.5.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

ii. Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified in four categories:

1. Financial assets at amortised cost
(debt instruments)

2. Financial assets at fair value through OCI with recycling of cumulative gains and losses
(debt instruments)

3. Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)

4. Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains or losses are recognised in profit or loss when the asset is derecognised, modified or impaired refer to expected credit loss model in determined impairment.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon de-recognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividend are recognised as other financial results in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Dividends on listed equity instruments are also recognised as other financial results in the consolidated statement of profit or loss when the right of payment has established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the term of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified entirely as a financial asset at fair value through profit or loss.

iii. De-recognition

Financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

iv. Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from defaults events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.
For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group or when there is a breach of financial covenants by the debtor. Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

II. Financial liabilities

i. Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

ii. Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the EIR amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

iii. De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

III. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

IV. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

V. Convertible bonds

Convertible bonds, that can be converted to share capital at the option of the holder and the number of shares to be issued is fixed are separated into liability and equity component based on the terms of the contract.

On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds, based on the allocation of the proceeds to the liability and equity components when the instruments are initially recognised.

On conversion, the financial liability is reclassified to equity and no gain or loss is recognised in the consolidated statement of profit or loss.

VI. Perpetual notes

Perpetual notes have no maturity date and may be redeemed by the Company, at its sole discretion, on certain dates. The Perpetual notes are recognised as equity attributable to its holders, which forms part of the total equity of the Group. The Company may, at its sole discretion, elect to defer the payment of interest on the notes (referred to as Arrears of Interest). Arrears of Interest must be paid by the Company upon the occurrence of certain events, including but not limited to, dividends, distributions or other payments made to instruments such as the Company's ordinary shares, which rank junior to the Perpetual notes. Upon occurrence of such an event, any Arrears of Interest would be re-classified as a liability in the Group's consolidated financial statements. The deferred amounts shall not bear interest.

3.16 Hedging activities and derivatives

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swap and cross-currency swap contracts, to hedge its foreign currency risks, interest rate risks and fair value risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised commitment.
- Cash flow hedges when hedging the exposures to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ration is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedge item. Hedges that meet all the qualifying criteria for hedge accounting are accounted for and further described below:

- **Fair value hedges**

The change in the fair value of a hedging instrument is recognised in the consolidated statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated statement of profit or loss.

The Group designates only the spot element as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve as time period related element and amortised to the consolidated statement of profit or loss over the hedged period.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

- **Hedge of net investments in foreign operations**
  Hedges of a net investment in a foreign operation, including a hedge of monetary item that is accounted for as part of the net investment, are accounted for as follows:

  - The Group designate only the spot element as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve as time period related element and amortised to the consolidated statement of profit or loss over the hedged period.
  - Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of profit or loss.
  - On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statement of profit or loss.

3.17 Property operating expenses

This item includes operating costs that can be recharged to the tenants and direct management costs of the properties. Maintenance expenses for the upkeep of the property in its current condition, as well as expenditure for repairs are charged to the consolidated income statement. Refurbishment that takes place subsequent to the property valuation, thus excluded in its additional value, will also be stated in this account, until the next property valuation.

3.18 Operating segments

The Group has one reportable operating segment which refers to rental income from owned investment properties.

An operating segment is a component of the Group that meets the following three criteria:

- Is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intragroup transactions;
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which separate financial information is available.

3.19 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

3.20 Earnings per share

Earnings per share are calculated by dividing the net profit attributable to owners of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

3.21 Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

3.22 Provisions for other liabilities and charges

Provisions are recognised when there is a present obligation, either legal or constructive, vis-à-vis third parties as a result of a past event, if it is probable that a claim will be asserted and the probable amount of the required provision can be reliably estimated. Provisions are reviewed regularly and adjusted to reflect new information or changed circumstances.

Provisions include provisions for operating and administrative liabilities, as well as accruals of interest on straight and convertible bonds which have not become payable as at the reporting date.

3.23 Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Determining whether an arrangement contains a lease at inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- The arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

3.24 Trading property (Inventories)

Inventories are trading properties acquired with the clear intention that they are to be sold in the ordinary course of business. Trading properties considered as inventories are shown at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Trading properties are purchased and sold on a portfolio basis. Each separately identifiable portfolio of trading properties is held by a Group subsidiary entity established and/or acquired for the purpose of holding the respective trading property portfolio. Trading properties are recognised in the statement of financial position only when full control is obtained. Trading properties are de-recognised in the consolidated financial statements only when full control is transferred outside of the Group. Cost of trading properties is determined on the basis of specific identification of the individual costs of the trading property including acquisition costs such as transfer taxes, legal and due diligence fees.

3.25 New International Financial Reporting Standards (IFRS), amendments to IFRS and Interpretations

The following new standards, interpretations and amendments to standards, which are relevant to the Group, are in issue and endorsed by the EU but are not yet effective for these consolidated financial statements:

- **IFRS 16 – Leases**
  IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

  The Group has chosen the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1 2019, with no restatement of comparative information.

  In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substaintially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on the Group as a lessee

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for leases of lands the Group will:

a) Recognise investment property and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise revaluations gains and losses on investment property and other financial results on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion and other finance cost which will be presented within financing activities in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the

right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.
For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

A preliminary assessment indicates that the Group will recognise investment property of approx. euro 44 million and a corresponding lease liability of euro approx. 44 million which represents the present value of the future lease payments.

Subsequently, the investment property is measured at fair value, resulting in net revaluation gains of approx. euro 17 million.

The tax impact of the first-time application of IFRS 16 will include recognition of deferred tax liability and corresponding deferred tax expenses of approx. euro 3 million.

Additionally, the lease payments included in property operating expenses will decrease by approx. euro 3 million, and the other financial results on lease liability will increase by approx. euro 3 million.

The cumulative net effect of the initial application of IFRS 16 which will be presented as an adjustment to the opening balance of retained earnings at January 1 2019 is expected to be approx. euro 14 million.

Impact on the Group as a lessor

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The preliminary assessment indicate that there is no material impact of the initial application of IFRS 16 on the Group as a lessor.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstances that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Group has not early adopted these amendments. The amendments will not have any impact on the consolidated financial statements.

- **IFRIC 23 Uncertainty over Income Tax Treatments**
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

    - Whether an entity considers uncertain tax treatment separately
    - The assumptions an entity makes about the examination of tax treatments by taxation authorities
    - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
    - How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transitions reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements. The interpretation does not have any material impact on the consolidated financial statements.

The Group has not early adopted any standards, interpretations or amendments that have been in issued but are not yet effective and adopted by the EU.

4. Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

4.1 Fair values

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximation of fair values:

	31/12/2018		31/12/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
		€'000		
Financial assets				
Financial assets at fair value through profit or loss	156,822	156,822	89,426	89,426
Derivative financial assets	12,577	12,577	-	-
Total	**169,399**	**169,399**	**89,426**	**89,426**
Financial liabilities				
Convertible bond	272,246	292,523	432,073	451,080
Straight bonds	2,177,267	2,109,045	1,422,920	1,501,439
Derivative financial liabilities	12,825	12,825	5,885	5,885
Total	**2,462,338**	**2,414,393**	**1,860,878**	**1,958,404**

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flows (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of input such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments and is discussed further below.

Valuation methods assumptions

The management assessed that cash and cash equivalents, trade and other receivables, trade and other payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- The fair values of quoted bonds are based on price quotations at the reporting date. The fair value of unquoted bond is measured using the discounted cash flows method with observable inputs.
- There is an active market for the Group's listed equity investments and quoted debt instruments.
- Hybrid instruments are measured using a combination of a discount cash flows method for the host contract and a call pricing model for the embedded derivative (i.e., the conversion option). The models use observable inputs such as market price of the underlying asset and swap rate curve.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Interest rate and foreign exchange swap and forward, collar and cap contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation technique include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves.

4.2 Fair value measurement hierarchy

The following tables provide the fair value measurement hierarchy of the Group's assets and liabilities:

Fair value measurement hierarchy for assets as at 31 December 2018 and 2017:

	31/12/2018				31/12/2017			
	Fair value measurement using				Fair value measurement using			
	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)
	€'000							
Assets measured at fair value:								
Investment property	7,227,290	-	-	7,227,290	6,376,224	-	-	6,376,224
Financial assets at fair value through profit or loss	156,822	96,145	60,677	-	89,426	89,426	-	-
Derivatives financial assets	12,577	-	12,577	-	-	-	-	-

There have been no transfers between Level 1, Level 2 and Level 3 during 2018 and 2017.

Fair value measurement hierarchy for liabilities as at 31 December 2018 and 2017:

	31/12/2018				31/12/2017			
	Fair value measurement using				Fair value measurement using			
	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)
	€'000							
Liabilities measured at fair value:								
Derivative financial liabilities	12,825	-	12,825	-	5,885	-	5,885	-
Liabilities for which fair values are disclosed:								
Convertible bond	292,523	292,523	-	-	451,080	451,080	-	-
Straight bonds	2,109,045	1,950,640	158,405	-	1,501,439	1,501,439	-	-

There have been no transfers between Level 1, Level 2 and Level 3 during 2018 and 2017.

For the reconciliation of fair value measurement under Level 3 hierarchy see note 16.1.

5. Acquisition of subsidiaries and non-controlling interests

5.1 Acquisition of subsidiaries

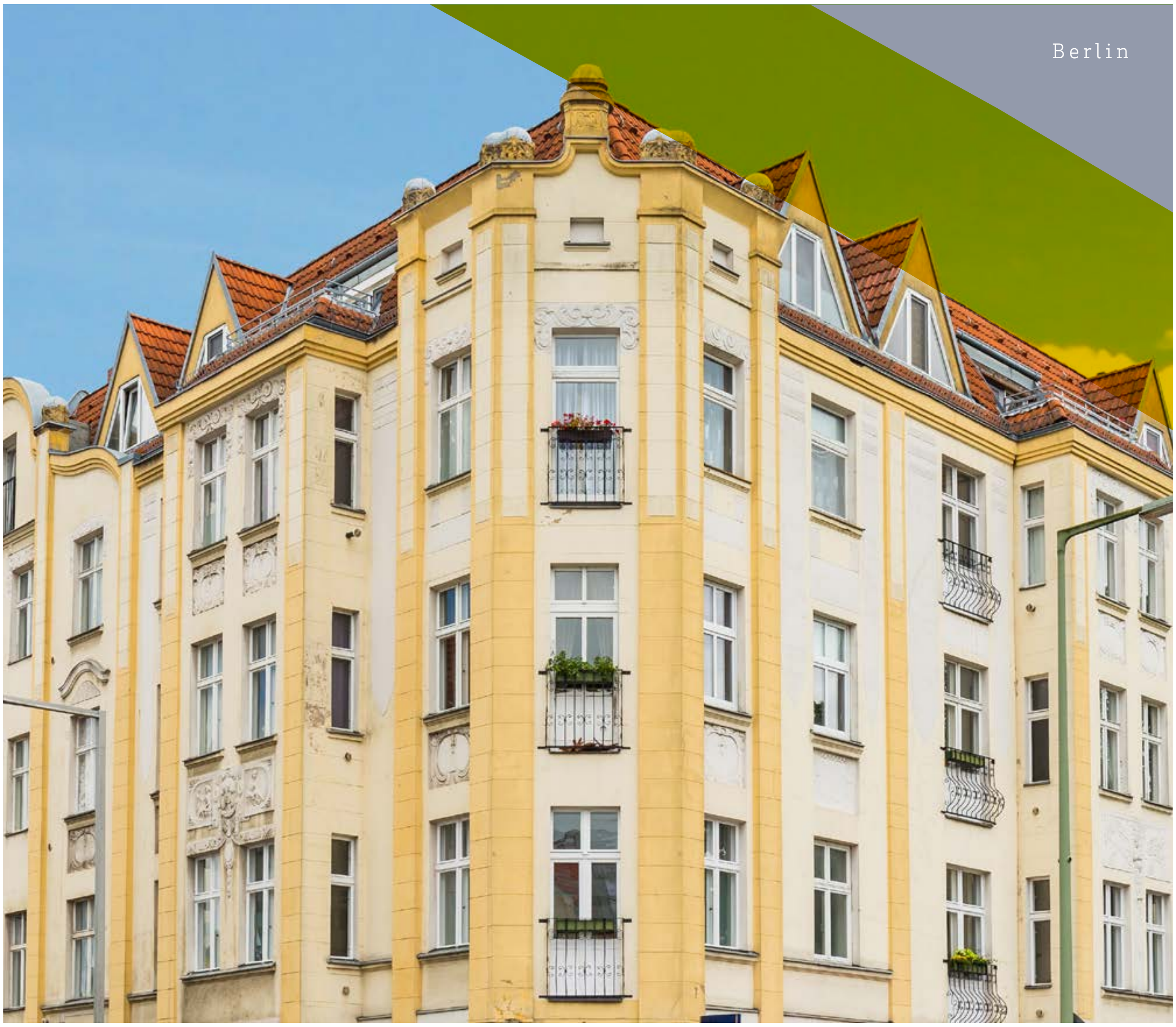
During the year, the Group obtained control over several portfolios through acquisitions of companies. The transactions did not meet the definition of business combination. The purchases of these companies were treated as acquisition of a group of assets and liabilities.

A total purchase costs amounted to euro 365 million were allocated between the assets and liabilities based on their relative fair value at the purchase date, without recognition of goodwill.

As part of the acquisition the Group initially consolidated investment property in the amount of euro 370 million and recognized euro 2.5 million non-controlling interest.

5.2 Transaction with non-controlling interests

During the year, some holding rates in several subsidiaries have been changed without losing control. The carrying amount of the Group's interest and non-controlling interests was adjusted to reflect the changes in their relative interest in the subsidiaries, in the amount of euro 16,886 (In 2017: 31,365) thousands and is presented in the consolidated statement of changes in equity. The results of the transactions are recognised directly in equity attributed to the owners of the Company.



6. Revenue

	Year ended December 31,	
	2018	(*) 2017
	€'000	
Net rental income	364,365	328,056
Revenue from contracts with customers	180,862	168,819
	545,227	**496,875**

(*) reclassified

6.1 Disaggregation of revenue from contracts with customers

	Year ended December 31,	
	2018	2017
	€'000	
Revenue from goods or services transferred to customers over time:		
Operating and other income	180,612	166,833
Revenue from goods or services transferred to customers at a point in time:		
Revenue from sale of apartments	250	1,986
	180,862	**168,819**

6.2 Geographical information

	Year ended December 31,	
	2018	2017
	€'000	
Revenues from external customers		
Germany	534,817	491,807
United Kingdom	10,410	5,068
	545,227	**496,875**

The Group is not exposed to significate revenue derived from an individual customer.

7. Property revaluations and capital gains

	Year ended December 31,	
	2018	2017
	€'000	
Property revaluations	489,151	615,359
Capital gains	17,402	1,100
	506,553	**616,459**

8. Property operating expenses

	Year ended December 31,	
	2018	2017
	€'000	
Purchased services	(187,390)	(168,732)
Maintenance and refurbishment	(34,494)	(32,905)
Personnel expenses	(22,434)	(21,969)
Depreciation and amortization	(1,991)	(1,610)
Other operating costs	(16,375)	(13,678)
	(262,684)	**(238,894)**

As of 31 December 2018, the Group had 922 employees (2017: 798 employees). On an annual average, the Group had 882 (2017: 786) employees.

9. Administrative and other expenses

	Year ended December 31,	
	2018	2017
	€'000	
Personnel expenses	(4,191)	(3,516)
Audit and accounting costs	(1,733)	(2,116)
Legal and professional consultancy fees	(1,822)	(2,286)
Depreciation and amortization	(585)	(443)
Marketing and other expenses	(2,184)	(2,600)
	(10,515)	**(10,961)**

9.1 Audit, audit related fees and taxes and consultancy services

Euro 1.3 Million (2017: euro 1.1 Million) and euro 0.5 Million (2017: euro 0.4 Million) related to audit and audit-related fees provided by KPMG audit firms and other audit firms, respectively, and euro 0.2 Million (2017: euro 0.3 Million) and euro 0.1 Million (2017: euro 0.03 Million) related to tax and consultancy services provided by KPMG audit firms and other audit firms, respectively.

10. Net finance expenses

10.1 Finance expenses	Year ended December 31, 2018	2017
	€'000	
Finance expenses from financial institutions and third parties, net	(11,122)	(17,406)
Finance expenses from straight and convertible bonds, net	(34,807)	(22,802)
	(45,929)	**(40,208)**

10.2 Other financial results		
Changes in fair value of financial assets and liabilities, net	(28,527)	(34,983)
Finance-related costs	(7,259)	(7,744)
	(35,786)	**(42,727)**

11. Taxation

11.1 Tax rates applicable to the group

The Company is subject to taxation under the laws of Luxembourg. The corporation tax rate for Luxembourg companies is 26.01% (2017: 27.08%). The change in the corporation tax rate does not have a significant effect on current and deferred tax assets and liabilities.

The German subsidiaries with property are subject to taxation under the laws of Germany. Income taxes are calculated using a federal corporate tax of 15.0% as of 31 December 2018 (2017: the same), plus an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable (aggregated tax rate: 15.825%).

German property taxation includes taxes on the holding of real estate property.

The Cypriot subsidiaries are subject to taxation under the laws of Cyprus. The corporation tax rate for Cypriot companies is 12.5% (2017: 12.5%).

Under certain conditions interest income of the Cypriot companies may be subject to defense contribution at the rate of 30% (2016: 30%). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defense contribution at the rate of 17%.

The United Kingdom subsidiaries with property are subject to taxation under the laws of the United Kingdom. Income taxes are calculated using a federal corporate tax (that includes capital gains) of 19.0% for December 31, 2018 (2017: the same).

The United Kingdom government approved reduction of the corporate income tax rate to 17% in 2020.

Subsidiaries in other jurisdictions are subject to corporate tax rate of up to 25%

11.2 Current tax in consolidated statement of profit and loss

	For the year ended December 31,	
	2018	**2017**
	€'000	
Corporate income tax	(12,940)	(12,400)
Property tax	(16,905)	(15,640)
Charge for the year	**(29,845)**	**(28,040)**

11.3 Movement in deferred tax assets (liabilities) net, during the current and prior reporting period.

€'000	Fair value gains on investment property, net	Derivative financial instruments, net	Loss carried forward	Other	Total
Balance as at December 31, 2016	**(322,072)**	**2,049**	**12,480**	**(3,910)**	**(311,453)**
Credit (charge) to profit or loss for the year	(131,398)	(585)	5,946	7,679	(118,358)
Deferred tax arising from initial consolidation	(47,735)	5	2,165	1,501	(44,064)
Deferred tax disposed from deconsolidation	2,157	-	-	-	2,157
Transfer to liabilities/assets held for sale	(626)	-	414	-	(212)
Balance as at December 31, 2017	**(499,674)**	**1,469**	**21,005**	**5,270**	**(471,930)**
Credit (charge) to profit or loss for the year	(95,283)	241	9,773	126	(85,143)
Credit (charge) to other comprehensive income for the year	-	13	-	-	13
Transfer	(323)	-	5,564	(5,241)	-
Exchange differences	1,711	-	-	-	1,711
Deferred tax disposed from deconsolidation	70,142	-	(1,405)	(155)	68,582
Transfer to liabilities/assets held for sale	330	-	16	-	346
Balance as at December 31, 2018	**(523,097)**	**1,723**	**34,953**	**-**	**(486,421)**

As at 31 December 2018 the Group has unused tax losses for which no deferred tax assets have been recognised as it is not considered probable that there will be future taxable profits available. These deferred tax assets which have not been recognised amounted to Approximate euro 11 million (of which euro 10 million and euro 1 million are related unused tax losses that can be carried forward indefinitely and for a maximum period of 17 years, respectively).

11.4 Reconciliation of effective tax rate

	For the year ended December 31,	
	2018	**2017**
	€'000	
Profit before tax	698,022	785,547
Statutory tax rate	26.01%	27.08%
Tax computed at the statutory tax rate	181,556	212,726
Decrease in taxes on income resulting from the following factors:		
Group's share of earnings from companies accounted for at equity	(351)	(1,758)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(74,583)	(74,781)
Others	8,366	10,211
Tax and deferred tax expenses	**114,988**	**146,398**

12. Net earnings per share attributable to the owners of the Company

12.1 Basic earnings per share

The calculation of basic earnings per share as of 31 December 2018 is based on the profit attributable to ordinary shareholders of euro 488,632 thousand (2017: euro 534,568 thousand), and a weighted average number of ordinary shares outstanding of 165,624 thousand (2017: 159,605 thousand), calculated as follows:

	Year ended December 31,	
Profit attributed to ordinary shareholders	**2018**	**2017**
	€'000	
Profit for the year, attributable to the owners of the Company	488,632	534,568

	Year ended December 31,	
Weighted average number of ordinary shares (basic)	**2018**	**2017**
	In thousands of shares	
Issued ordinary shares on January 1	164,789	153,789
Capital increase	835	5,816
Weighted average number of ordinary shares as at 31 December	165,624	159,605
Basic earnings per share (euro)	**2.95**	**3.35**

12.2 Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2018 is based on profit attributable to ordinary shareholders of euro 492,256 thousand (2017: euro 539,857 thousand), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 178,229 thousand (2017: 176,579 thousand), calculated as follows:

	Year ended December 31,	
Profit attributed to ordinary shareholders (diluted)	**2018**	**2017**
	€'000	
Profit for the year, attributable to the owners of the Company (basic)	488,632	534,568
Interest expense on convertible bonds	3,624	5,289
Profit for the year, attributable to the owners of the Company (diluted)	**492,256**	**539,857**

Weighted average number of ordinary shares (diluted)	Year ended December 31,	
	2018	**2017**
	In thousands of shares	
Issued ordinary shares on January 1	164,789	153,789
Capital increase	835	5,816
Effect of exercise of convertible bond "Series F"	12,158	16,684
Effect of warrants	213	50
Effect of equity settle share-based payment	234	240
Weighted average number of ordinary shares as at 31 December	**178,229**	**176,579**
Diluted earnings per share (euro)	**2.76**	**3.06**

13. Other non-current assets

	As at 31 December	
	2018	**2017**
	€'000	
Tenancy deposit [(a)]	39,459	31,428
Investment in other long-term assets [(b)]	201,647	[(*)] 177,322
Finance lease asset	2,995	2,995
Others	2,091	[(*)] 2,175
	246,192	**213,920**

(*) reclassified

(a) Tenancy deposits mainly include 1-3 months net rent from the tenants which is paid at the beginning of the lease. The deposits are considered as a security payment by the tenant and the Group can use those funds mainly if the tenant has unpaid debts or causes damages to the property. Past experience shows that the majority of the leases are long term and therefore the deposits are presented as long term assets.

(b) Including mainly non-current prepayments, Group's loans as a seller as well as loans connected with future real-estate transactions. During the year the Group recogsied a loss allowance for expected credit losses in the amount of euro 266 thousands.

14. Investment in equity-accounted investees

The Group has interests in a number of individually immaterial associates.

The following table analyses, in aggregate, the carrying amount of the Group's interests in these associates (including loans invested in these associates) and the share of profit for the year in these associates.

	Year ended December 31,	
	2018	2017
	€'000	
Carrying amount of the interests in investees	**26,207**	37,261
Share of profit from investees for the year	**1,350**	6,491

15. Equipment and intangible assets

	Furniture, fixtures and office equipment	Goodwill, softwares and other intangible assets	Total
		€'000	
Cost			
Balance as at 1 January 2017	9,229	11,250	20,479
Addition, net	4,753	1,054	5,807
Equipment and intangible assets arising from initial consolidation	62	-	62
Balance as at 31 December 2017	**14,044**	**12,304**	**26,348**
Addition, net	1,716	4,694	6,410
Equipment and intangible assets arising from initial consolidation, net	582	-	582
Balance as at 31 December 2018	**16,342**	**16,998**	**33,340**
Depreciation/Amortization			
Balance as at 1 January 2017	3,422	1,224	4,646
Depreciation/Amortization for the year	1,610	443	2,053
Balance as at 31 December 2017	**5,032**	**1,667**	**6,699**
Depreciation/Amortization for the year	1,991	585	2,576
Balance as at 31 December 2018	**7,023**	**2,252**	**9,275**
Carrying amounts			
Balance as at 31 December 2018	**9,319**	**14,746**	**24,065**
Balance as at 31 December 2017	**9,012**	**10,637**	**19,649**

16. Investment property

16.1 Reconciliation of investment property

	As at 31 December	
	2018	**2017**
	€'000	
Balance as of January 1	6,376,224	4,768,487
Acquisitions of investment property and investment in capex during the year, net	863,751	1,013,892
Disposal of investment property due to loss of control	(235,051)	(23,800)
Effect of foreign currency exchange differences	(5,384)	(1,726)
Transfer from (to) Assets held for sale	(261,401)	2,912
Fair value adjustment	489,151	616,459
Balance as at December 31	**7,227,290**	**6,376,224**

As at 31 December 2018 and 2017, the fair values of the properties are based on valuations performed by accredited independent valuers, who are specialist in valuing residential investment properties. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

As at 31 December 2018, approximately 35% (2017: 36%) of the Group's investment properties were encumbered to bank loans and therefore subject to certain restrictions on the realisability of the properties.

16.2 Geographical information

	Year ended December 31	
	2018	**2017**
	€'000	
Investment property		
Germany	6,599,895	6,242,067
United Kingdom	627,395	134,157
	7,227,290	**6,376,224**

16.3 Measurement of fair value

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss.

The fair value of the properties of the Group is determined at least once a year by external, independent and certified valuators. The properties evaluated by market leading valuators in the European real estate market. The fair value of the properties was prepared in accordance with the RICS Valuation- Professional Standards (current edition) published by the Royal Institution of Chartered Surveyors (RICS) as well as the standards contained within the TEGoVA European Valuations Standards, and in accordance with IVSC International Valuation Standard (IVS), the International Accounting Standard (IAS), International Financial Reporting Standards (IFRS) as well as the current guidelines of the European Securities and Market Authority (ESMA) based on the Market Value. Therefore the valuation is based on internationally recognized standards.

As part of the engagement, the Company and the valuators confirm that there is no actual or potential conflict of interest that may have influenced the valuators status as external and independent valuator. The valuation fee is determined on the scope of complexity of the valuation report.

For investment properties, a valuation methodology based on a DCF model was used. The main key assumptions used to determine the fair value of the investment properties and sensitivity analyses are further discussed below.

Valuation technique	**Significant unobservable inputs**	**as of December**	
		2018	**2017**
DCF method	Assumed weighted average rent growth p.a.	1.5%	1.5%
	Range of long-term vacancy rate	0-7%	0-7%
	Average discount rate	5.3%	5.5%
	Average capitalization rate	4.6%	4.7%

Using the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownerships over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flows series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.
The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

For additional fair value measurement disclosures for investment properties see note 4.2.

17. Trade and other receivables

	As at 31 December	
	2018	**2017**
	In thousands of euro	
Operating cost receivables	182,489	182,532
Rent and other receivables	75,714	70,501
Prepaid expenses	2,320	2,453
Other short term assets	58,942	4,288
	319,465	**259,774**

(a) Operating costs receivables represent an unconditional right to consideration in exchange for services that the Group has transferred to tenants. The Group recognises an operating income based on contractual rights to consideration for providing ancillary services to tenants and for other charges billed to tenants, as the performance obligations are satisfied, that is, as services are rendered.
Once a year, the operating cost receivables are settled against advances received from tenants (see note 21).
(b) During the year, the Group recognised a loss allowance for expected credit losses on trade and other receivables in total amount of euro 8,359 thousands.

18. Total Equity

18.1 Attributable to the owners of the Company

18.1.1 Share capital

		As at 31 December			
		2018		2017	
		Number of shares	€'000	Number of shares	€'000
Authorized					
Ordinary shares of euro 0.10 each		400,000,000	40,000	400,000,000	40,000
Issued and fully paid					
Balance as of 1 January		164,788,883	16,479	153,788,883	15,379
Issuance of new ordinary shares from capital increase	18.1.3.1	-	-	11,000,000	1,100
Issuance of new ordinary share as part of scrip dividend	18.1.3.2	1,870,948	187	-	-
Issuance of new ordinary shares as part of share-based payment	18.1.3.3	58,564	6	-	-
Balance on 31 December		**166,718,395**	**16,672**	**164,788,883**	16,479

18.1.2 Authorised capital

On 9 August 2016 at the Extraordinary General Meeting of the Company, it was decided to increase its existing authorised share capital from its present amount of euro 20,000,000 to euro 40,000,000.

18.1.3 Issued capital during 2017-2018

18.1.3.1 On 21 June 2017 the Company received gross proceeds of euro 198 million from a capital increase against a cash contribution. A total of 11 million new ordinary shares were placed at an issue price of euro 18 as part of a private placement to institutional investors.

18.1.3.2 On 23 July 2018, the company issued 1,870,948 new shares in total value of euro 41 million in connection with the scrip dividend. See note 18.1.6.

18.1.3.3 In November 2018, the Company issued 58,564 new shares in total value of euro 1.3 million in connection with incentive share plan.

18.1.3.4 As at December 31, 2018, the subscribed and fully paid-up share capital amounts to euro 16,672 represented by 166,718,395 ordinary shares with par value of euro 0.10 per share. The Company did not acquire its own shares.

18.1.4 Share premium

The share premium derives directly from the capital increases which were affected since the date of incorporation and from conversions of bonds into shares.

18.1.5 Other reserves

The other reserves include shareholders loan that have been converted to equity as well as translation reserve and cost of hedging reserve, which can be distributed at any time, and proceeds from financial instruments and share-based payments reserves which temporarily cannot be distributed.

18.1.6 Resolution of dividend distribution

As part of the shareholders' annual meetings it was resolved upon the distribution of cash dividend for the following years:

For the year	Amount per share (in cents)	Gross amount (€'000)	Ex-date	Payment date
2014	20.00	24,344	June 25, 2015	July 3, 2015
2015	25.00	38,447	June 30, 2016	July 1, 2016
2016	68.25	112,468	June 29, 2017	July 3, 2017
2017	73.00	(*) 120,296	June 29, 2018	July 17, 2018

(*) On June 27, 2018, the annual general meeting of shareholders of the Company has resolved upon the distribution of a dividend of euro 0.73 (gross) per share (in total euro 120,296 thousands) to the holders of record on 29 June 2018. The company has also provided shareholders with the option to receive their dividend through a scrip dividend. From 28 June 2018 to 10 July 2018, shareholders of the Company could elect to receive up to 70% of their dividend in the form of shares of the Company, with the remainder paid in cash.

Shareholders who did not elect to participate in the scrip dividend have received their dividend in cash. The cash dividend, in total amount of euro 79,373 thousands, has been paid on July 17, 2018. In addition, the company issued 1.9M new shares in total value of euro 40,923 thousand on July 23, 2018.

The dividend distributions are paid out of the share premium.

The proposed dividend for the year 2018, based on the Company's dividend policy and subject to the shareholders' annual general meeting which will take place on 26 June 2019, is euro 0.77 per share. The proposed dividend has not been recognised as a liability in the consolidated financial statements

18.2 Equity attributable to perpetual notes investors

On April 24, 2018, the Company successfully placed euro 350 million in aggregate principal amounts of perpetual notes. These notes were issued at a price of 98.125% of the principal amount. These Perpetual notes are of unlimited duration and can only be called back by the Company only on certain contractually fixed dates or occasions. Up until the first call date in October 2023, the perpetual notes shall bear a coupon rate of 2.5% p.a. In case the Company does not exercise its call right at that point, the coupon rate applied until the next call date (October 2028) shall correspond to the five-year swap rate plus a margin of 243.2 basis points p.a. The mark-up will increase by 25 basis points (to 268.3 basis points p.a.) as of October 2028 and by another 75 basis points (to 343.3 basis points p.a.) as of October 2043.

These Perpetual notes are presented in the consolidated statement of financial position as equity reserve attributable to its holders, which is part of the total equity of the Group. The coupon is deferrable until payment resolution of a dividend to the shareholders. The deferred amounts shall not bear interest.

18.3 Non-controlling interest

The majority of the non-controlling interest is held by Edolaxia Group Ltd.

19. Share-based payment agreements

19.1 Description of share-based payment arrangements

The annual general meeting has approved to authorise the Board of Directors to issue up to one million shares for an incentive program for the directors of the Company, key management personnel and senior employees.
On 31 December 2018 and 2017, the Group had the following share-based payment arrangements:

Incentive Share Plan

The annual general meeting has approved to authorize the Board of Directors to issue up to one million shares for an incentive program for the directors, key management personnel and senior employees. The incentive plan has up to four years vesting period with fix and specific milestones to enhance management's long-term commitment to GCP's strategic targets. Main strategic targets are long-term improvement in operational and financial targets such as like-for-like vacancy reduction and like-for-like rent increase, operational efficiency, increase in adjusted EBITDA per share, FFO per share and EPS. Management is incentivized for keeping conservative financial ratios, with the strategic target to further improve the Group's rating to A-.

The key terms and conditions related to the programs are as follows:

Grant date	Number of shares	Weighted vesting period	Contractual life of the shares
October 1, 2014 – July 1, 2018	251,000	3.37 years	Up to 4 years

19.2 Reconciliation of outstanding shares

The number and weighted-average of shares under the share incentive program and replacement awards were as follows:

	As at 31 December	
	2018	**2017**
	Number of shares	Number of shares
	'000	
Outstanding on January 1	325.5	407
Granted (forfeited) during the year	30.5	(81.5)
Exercised during the year	(*)(105.0)	-
Outstanding on 31 December	**251.0**	**325.5**

(*) In accordance with the terms and conditions of the incentive share plan, the Group withheld 46 thousands shares equal to the monetary value of the employee's tax obligation from the total number of shares exercised, in order to transfer it to the tax authorities. As a result, only 59 thousands shares were issued. See note 18.1.

During the year, the total amount recognised as share-based payment was euro 1,176 thousand (2017: euro 893 thousand). It was presented as Property operating expenses and as Administrative and other expenses in the consolidated statement of profit or loss and as share-based payment reserve in the consolidated statement of changes in equity.

20. Loans and borrowings, straight and convertible bonds

20.1 Loans and borrowings

	Weighted average interest rate	Maturity	As at 31 December	
			2018	**2017**
			'000	
Non-current				
Bank loans (a) (b)	2.3%	2020 - 2042	845,646	918,669
Total non-current			**845,646**	**918,669**
Current				
Current portion long-term loans	2.3%	2019	12,934	11,485
Loan redemption	2.3%	2019	8,687	6,211
Total current			**21,621**	(c) **17,696**

(a) approx. euro 2.6 Billion (2017: euro 2.4 Billion) of investment properties are encumbered.

(b) all bank loans are generally non-recourse loans from banks with the related assets serving, among others, as a security. As at 31 December 2018 under the existing loan agreements, the Group is fully compliant with its obligations and loan covenants to the financing banks.

(c) reclassified

20.2 Straight and convertible bonds

20.2.1 Composition

		Nominal amount outstanding as at 31 December 2018		Coupon rate	Maturity	As at December 31,	
						2018	2017
		'000	€'000			€'000	
Straight bonds							
Non-current							
Straight bond series D	(a)	EUR 25,000	25,000	2.00%	Oct-2021	24,467	174,312
Straight bond series E		EUR 550,000	550,000	1.50%	Apr-2025	526,216	522,571
Straight bond series G		EUR 600,000	600,000	1.38%	Aug-2026	579,933	577,511
Straight bond series H	(f)	EUR 255,000	255,000	2.00%	Oct-2032	239,957	103,905
Straight bond series I	(c)	HKD 900,000	100,362	(*) 1.00%	Feb-2028	99,694	-
Straight bond series J	(d)	EUR 500,000	500,000	1.50%	Feb-2027	484,478	-
Straight bond series K	(e)	CHF 125,000	110,924	(*) 0.96%	Sep-2026	110,295	-
Straight bond series L	(g)	JPY 7,500,000	59,595	(*) 1.40%	Jun-2038	57,654	-
Straight bond series M	(i)	EUR 55,000	55,000	1.70%	Jul-2033	54,573	-
Total non-current						**2,177,267**	**1,378,299**
Current							
Straight bond - CHF	(h)			4.75%		-	44,621
Total current						**-**	**44,621**
Total straight bonds						**2,177,267**	**(***) 1,422,920**
Convertible bond							
Non-current							
Convertible bond series F	(b)	EUR 280,800	280,800	0.25%	Mar-2022	272,246	432,073
Total non-current						**272,246**	**432,073**
Accrued interest (**)							
Straight bond					2019	16,799	7,151
Convertible bond					2019	231	374

(*) including hedging impact.
(**) included in provisions and other charges.
(***) reclassified

As at 31 December 2018 the weighted average interest rate on the outstanding loans, borrowings and bonds, after taking into account hedging impact, is 1.6% (2017: 1.5%)

(a) During 2017, the Company bought back euro 320.6 Million principal amount of straight bond series D for a purchase price of 106.888 per cent of the principal amount excluding any accrued interest.

During the year, the Company bought back additional euro 40.6 million and euro 113.8 million principal amount of straight bond series D for a purchase price of 106.129 per cent and 105.454 per cent respectively of the principal amount excluding any accrued interest.

(b)

1. During the year, the Company bought back euro 169.2 Million principal amount of convertible bond series F for a purchase price of 101.000 per cent of the principal amount excluding any accrued interest.
2. As a result of the dividend distribution in 2018 the conversion price has been adjusted from euro 26.1844 to euro 25.5419

(c) On January 25, 2018, the Company successfully completed the placement of Hong Kong Dollars (HKD) 900 million (euro 93 million) due 2028 straight bond series I under the EMTN Programme. The Company hedged the currency risk of the principal amount and the interest. The effective euro coupon is 1% for the first 5 years and 6M Euribor + 1.1725% for the following 5 years.

(d) On February 19, 2018, the Company successfully completed the placement of euro 500 million 1.5% due 2027 straight bond series J under the EMTN Programme, at an issue price of 97.115% of the principal amount.

(e) On February 21, 2018 the Company successfully completed the placement of Swiss Franc (CHF) 125 million (euro 108 million) 0.96% coupon due 2026 straight bond series K under the EMTN Programme. The Company hedged the currency risk of the principal amount.

(f) On February 28, 2018, the Company successfully completed with the tap placement of additional euro 145 million (nominal value) of straight bond series H, for a consideration that reflected 93.369% of their principal amount. The total aggregated principal amount of the straight bond series H increased to euro 255 million (nominal value).

(g) On June 5, 2018 the Company successfully completed the placement of Japanese yen (JPY) 7.5 Billion (euro 57 million) 1.4% coupon due 2038 straight bond series L under the EMTN Programme. The Company hedged the currency risk of the principal amount.

(h) During the year, 2018, the straight bond series CHF including accrued interest has been fully repaid.

(i) On June 26, 2018, the Company issued euro 40 million Straight bond series M due 2033 under the EMTN Programme ("Straight bond series M") at an issue price of 100% of the principal amount. The Company hedged the interest payments. The effective interest rate for the first 5 years is 1.7% and for the next 10 years 1.355% +6m Euribor. In addition, On July 5, 2018 the Company successfully completed the tap placement of additional euro 15 million of Straight bond series M. The Company hedged the interest payments. The effective interest rate for the first 5 years is 1.7% and for the next 10 years 1.593% +6m Euribor. Settlement date was on July 10 2018.

20.2.2 Covenants

Under its outstanding bond series, the Company has covenanted, among other things, the following (capitalised terms have the meanings set forth in the relevant bond series):

1. The Company undertakes that it will not, and will procure that none of its subsidiaries will, up to (and including) the Final Discharge Date, incur any Indebtedness if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the net proceeds of such incurrence:

   a. The sum of: (i) the Consolidated Indebtedness (less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Indebtedness (less Cash and Cash Equivalents) incurred since the Last Reporting Date would exceed 60% of the sum of (without duplication): (i) the Total Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; (ii) the purchase price of any Real Estate Property acquired or contracted for acquisition by the Group since the Last Reporting Date; and (iii) the proceeds of any Indebtedness incurred since the Last Reporting Date (but only to the extent that such proceeds were not used to acquire Real Estate Property or to reduce Indebtedness); and

   b. The sum of: (i) the Consolidated Secured Indebtedness (excluding the Series D Bonds, the Series E Bonds and any further secured bonds of any series and less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Secured Indebtedness (excluding the Series D Bonds and the Series E Bonds and any further secured bonds of any series and less Cash and Cash Equivalents) incurred since the Last Reporting Date shall not exceed 45% of the sum of (without duplication): (i) the Total Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; (ii) the purchase price of any Real Estate Property acquired or contracted for acquisition by the Group since the Last Reporting Date; and (iii) the proceeds of any Indebtedness incurred since the Last Reporting Date (but only to the extent that such proceeds were not used to acquire Real Estate Property or to reduce Indebtedness);

2. The Company undertakes that, on each Reporting Date, the Consolidated Coverage Ratio will be at least 2.0;

3. The Company undertakes that the sum of: (i) the Unencumbered Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Unencumbered Assets (less Cash and Cash Equivalents) newly recorded since the Last Reporting Date will at no time be less than 125% of the sum of: (i) the Unsecured Indebtedness (less Cash and Cash Equivalents) at the Last Reporting Date; and (ii) the Net Unsecured Indebtedness (less Cash and Cash Equivalents) incurred since the Last Reporting Date;

The Company has covenanted, among other things, the following under its EMTN Programme (capitalised terms having the meaning set forth in the EMTN Programme):

i. The Company undertakes that it will not, and will procure that none of its Subsidiaries will, up to (and including) the Final Discharge Date, incur any Indebtedness (other than any Refinancing Indebtedness) if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the net proceeds of such incurrence, the sum of:

   a. (i) the Consolidated Indebtedness (less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Indebtedness (less Cash and Cash Equivalents) incurred since the Last Reporting Date would exceed 60 per cent. of the sum of (without duplication): (i) the Total Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; (ii) the value of all assets acquired or contracted for acquisition by the Group, as determined at the relevant time in accordance with IFRS and the accounting principles applied by the Issuer in the latest Financial Statements as certified by the auditors of the Issuer, since the Last Reporting Date; and (iii) the proceeds of any Indebtedness incurred since the Last Reporting Date (but only to the extent that such proceeds were not used to acquire Real Estate Property or to reduce Indebtedness); and

   b. (i) the Consolidated Secured Indebtedness (excluding the Secured Notes (if any) and less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Secured Indebtedness (excluding the Secured Notes (if any) and less Cash and Cash Equivalents) incurred since the Last Reporting Date would exceed 45 per cent. of the sum of (without duplication): (i) the Total Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; (ii) the value of all assets acquired or contracted for acquisition by the Group, as determined at the relevant time in accordance with IFRS and the accounting principles applied by the Issuer in the latest Financial Statements as certified by the auditors of the Issuer, since the Last Reporting Date; and (iii) the proceeds of any Indebtedness incurred since the Last Reporting Date (but only to the extent that such proceeds were not used to acquire Real Estate Property or to reduce Indebtedness).

4. The Issuer undertakes that the sum of: (i) the Unencumbered Assets (less Cash and Cash Equivalents) as at the Last Reporting Date; and (ii) the Net Unencumbered Assets (less Cash and Cash Equivalents) newly recorded since the Last Reporting Date will at no time be less than 125 per cent. of the sum of: (i) the Unsecured Indebtedness (less Cash and Cash Equivalents) at the Last Reporting Date; and (ii) the Net Unsecured Indebtedness (less Cash and Cash Equivalents) incurred since the Last Reporting Date.

5. Up to and including the Final Discharge Date, the Issuer undertakes that, on each Reporting Date, the Consolidated Coverage Ratio will be at least 1.8.

As at 31 December 2018 under its outstanding bond series the Group is fully compliant with its covenants.

20.3 Reconciliation of movement of liabilities to cash flow arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

			Non-cash changes					
€'000	31 December 2017	Financing cash flows (i)	Acquisition (disposal) of subsidiaries, net	Foreign exchange effect	Change in liabilities held for sale	Other (ii)	Other changes (iii)	31 December 2018
Convertible bond (*)	432,447	(171,594)	-	-	-	2,861	8,763	272,477
Straight bonds (*)	1,430,071	689,784	-	12,789	-	12,611	48,811	2,194,066
Loan and borrowings	936,365	(36,285)	(54,097)	-	1,077	20,207	-	867,267
Derivative financial liabilities, net	5,885	3,266	-	(12,878)	-	3,975	-	248

			Non-cash changes					
€'000	31 December 2016	Financing cash flows (i)	Acquisition (disposal) of subsidiaries, net	Foreign exchange effect	Change in liabilities held for sale	Other (ii)	Other changes (iii)	31 December 2017
Convertible bond (*)	428,283	(1,125)	-	-	-	4,164	1,125	432,447
Straight bonds (iv) (*)	1,054,619	318,682	-	(4,386)	-	7,397	53,759	1,430,071
Loan and borrowings	925,813	(101,965)	83,708	(871)	7,280	-	22,400	936,365
Derivative financial liabilities, net	11,536	(2,037)	(201)	-	-	(3,413)	-	5,885

(*) Including accrued interests
(i) Financing cash flows include interest payments and proceeds from (repayment of) financing, net.
(ii) Other non-cash changes include discount and issuance cost amortisation for the bonds and unrealised revaluations gains net of derivative financial instruments.
(iii) Other changes include interest accruals and loss from buybacks of straight bond series D and convertible bond series F.
(iv) Including bond redemption portion of straight bond CHF.

21. Trade and other payables

	As at 31 December,	
	2018	2017
	€'000	
Trade and other payables	34,280	58,212
Prepayments received from tenants (*)	173,061	172,558
Deferred income	12,826	12,314
Other liabilities	22,153	23,503
	242,320	266,587

(*) The Group receives prepayments from tenants for ancillary services and other charges on a monthly basis. Once a year, the prepayments received from tenants are settled against the operating cost receivables

22. Other non-current liabilities

	As at 31 December, 2018	2017
	€'000	
Tenancy deposits	41,460	36,155
Finance lease liability	2,974	3,001
Others	11,965	14,188
	56,399	53,344

23. Provisions for other liabilities and charges

	€'000
Balance as at 1 January 2017	14,185
Movement during the year	6,047
Balance as at 31 December 2017	20,232
Movement during the year	4,779
Balance as at 31 December 2018	25,011

24. Related party transactions

24.1 Directors and executive management personnel Remuneration

for the year ended 31 December 2018

	Executive Management		Independent Directors		Total
	€'000				
	Christian Windfuhr (CEO) (*)	**Refael Zamir** (CFO - Director) (*)	**Daniel Malkin**	**Simone Runge-Brandner**	**2018**
Fix Remuneration (**)	192	350	78	78	698
Share incentive	354	195	-	-	549
Total Remuneration	546	545	78	78	1,247

(*) based on employer's costs
(**) including supplementary payments

There were no other transactions between the Group and its directors and executive management during the year, except as described in note 19.

24.2 Other related party transactions

The Group's transactions and arrangements with related parties and their effect on the consolidated financial statements are stated below:

	For the year ended December 31,	
	2018	2017
	€'000	
Rental and operating income [a]	1,001	472
Interest income on loans to equity-accounted investees [b]	948	944
Consulting services income	375	-
Consulting services expenses	(300)	-
	2,024	1,416

a) As at 31 December 2018 the Group received an advanced payment of euro 67 thousands.
b) As at 31 December 2018 the Group invested in loans to associates euro 27 million.

Essen

25. Disposals

25.1 Disposal of subsidiaries and investment properties

During the year, the Group disposed investement property.

The following table describes the amounts of assets and liabilities disposed at the date of disposal.

Investment property	(481,498)
Working capital, net	(950)
Cash and Cash equivalents	(1,700)
Total assets	**(484,148)**
Bank loans	54,097
Other liabilities, net	53,301
Total liabilities	**107,398**
Total net assets disposed	**(376,750)**
Non-controlling interests disposed	4,744
Total consideration	389,408
Capital gain	17,402

25.2 Disposal group held for sale

The Group resolved an intention to sell several properties. These properties were identified by the Group as either non-core, primarily due to the location of the properties, or a mature properties with lower than average upside potential in their current condition. The intention of the Group to dispose non-core and mature properties as part of its capital recycling plan and is following a strategic decision to increase the quality of its portfolio.

Some properties are expected to be disposed through sale of subsidiaries. Accordingly, assets and liabilities relating to these subsidiaries ("Disposal Group") and some properties which are expected to be disposed through asset deals are presented as assets held for sale and as liabilities held for sale in the consolidated statement of financial position.

Efforts to sell the the properties have started and a sale is expected within twelve months.

During the year the Company classified additional properties in total value of euro 261 million, net as assets held for sale.

During the year the Company completed the sale transactions of several properties in a total value of euro 246 million.

The major classes of assets and liabilities comprising the Disposal Group classified as held for sale are as follows:

	As at 31 December,	
	2018	**2017**
	€'000	
Assets classified as held for sale		
Investment property	132,137	117,246
Cash and cash equivalents	394	847
Other assets	3,954	4,937
Total assets classified as held for sale	**136,485**	**123,030**
Liabilities classified as held for sale		
Loans and borrowings	3,240	4,317
Other liabilities	5,647	8,279
Total liabilities classified as held for sale	**8,887**	**12,596**

Braunschweig

26. Financial instruments and risk management

26.1 Financial assets

Set out below, is an overview of financial assets, held by the Group as at 31 December 2018 and 31 December 2017:

	As at 31 December, 2018	As at 31 December 2017
	€'000	
Financial assets at amortised cost:		
Cash and cash equivalent [(a)]	603,552	312,905
Trade and other receivables [(a)]	323,222	264,246
Other non-current assets [(b)]	243,231	[(*)]211,205
Financial assets at fair value through profit or loss:		
Financial assets at fair value through profit or loss	156,822	89,426
Derivative financial assets [(c)]	11,776	-
Total	**1,338,603**	**877,782**

(*) reclassified.
(a) including assets held for sale.
(b) including assets held for sale, excluding finance lease assets.
(c) excluding derivative financial assets designated as hedging instruments in hedge relationships in the amount of euro 801 thousands.

26.2 Financial liabilities

Set out below, is an overview of financial liabilities, held by the Group as at 31 December 2018 and 31 December 2017:

	As at 31 December, 2018	As at 31 December 2017
	€'000	
Financial liabilities at amortised cost:		
Trade and other payables [(a)]	245,713	269,500
Tax payable	8,220	8,954
Loans and borrowings [(b)]	870,507	940,682
Straight bonds [(c)]	2,177,267	1,422,920
Accrued interest on straight bonds	16,799	7,151
Convertible bond	272,246	432,073
Accrued interest on convertible bonds	231	374
Other long-term liabilities [(a)]	56,460	55,997
Financial liabilities at fair value through profit or loss:		
Derivative financial liabilities [(d)]	8,887	5,885
Total	**3,656,330**	**3,143,536**

(a) including liabilities held for sale.
(b) including liabilities held for sale and loan redemption.
(c) Including bond redemption.
(d) excluding derivative financial liabilities designated as hedging instruments in hedge relationships in the amount of euro 3,938 thousands.

26.3 Risks management objectives and polices

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, convertible and straight bonds, trade and other payable, tax payable and non-current liabilities. The Group's principal financial assets include trade and other receivables, cash and cash equivalent and other non-current asset. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors is supported by a risk committee that advices on financial risks and the appropriate financial risk governance framework for the Group. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities.

26.3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk.

26.3.1.1 Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by hedging long-term debt with floating rate using swap, collar and cap contracts.

As at 31 December 2018, after taking into account the effect of the hedging, the interest profile of the Group's interest-bearing debt was as follows:

	Nominal amount outstanding As at 31 December	
	2018	2017
	€'000	
Fixed rate	3,116,442	2,031,841
Capped rate	260,916	368,183
Floating rate	30,574	68,272
	3,407,932	2,468,296

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of long-term debt affected, after the impact of hedging. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate long-term debt, as follows:

	Increase/ decrease in basis points	Effect on profit before tax and pre-tax equity
	€'000	
2018	+100	(1,809)
	-100	-
2017	+100	(2,829)
	-100	-

26.3.1.2 Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investment in foreign subsidiaries and to several straight bonds issued in a foreign currency.

During the year, the Company issued several straight bonds in different currencies and in fixed and floating interest. The Company used cross currency swap contracts to hedge the fair value risk derived from the changes in exchange rates and interest rates as explained in note 26.4.2.

Due to the hedging above there is no material residual foreign currency risk.

In addition, the Company used forwards contracts to hedge the fair value of its net investment in foreign operation which operates in British pound (GBP) as explained in note 26.4.3.

26.3.1.3 Equity price risk

The Group's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis.

At the reporting date, the exposure to listed equity investments and non listed equity in-vested was euro 96,145 thousands (2017: euro 89,426 thousands) and euro 60,677 thousands (2017: euro 0) respectively. See also note 4.2.

26.3.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and from its financing activities, including cash and cash equivalents held in banks, derivatives and other financial instruments.

Trade and other receivables

Customer credit risk is managed by the property managers subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date using a provision to measure expected credit loss. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic condition may also not be representative of customer's actual default in the future.

The Group has no significant concentration of credit risk.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 26.1

The aging of rent receivables at the end of the reporting period that were not impaired was as follows:

	As at 31 December	
	2018	**2017**
	€'000	
Neither past due and past due 1–30 days	16,033	12,608
Past due 31–90 days	7,228	8,646
Past due above 90 days	3,999	6,652
	27,260	**27,906**

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on the historical payment behavior and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available.

Financial instruments and cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group's investment in debt instruments at fair value through profit or loss consist of quoted debt securities that are graded in the investment category and in hybrid instrument with a collateral on a quoted debt securities with low credit risk.

The Group holds its cash and cash equivalents and its derivative instruments with high-rated banks and financial institutions with high credit ratings. Concentration risk is mitigated by limiting the exposure to a single counter party.

26.3.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The Group has procedures with the objective of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following are the remaining contractual maturities at the end of the reporting period and at the end of 2017 of financial liabilities, including estimated interest payments, the impact of derivatives and excluding the impact of netting agreements:

	As at 31 December 2018						
		Contractual cash flows including interest [a]					
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-3 years	More than 3 years
	€'000						
Financial liabilities							
Bank loans [b]	870,507	970,293	15,689	29,278	207,777	172,321	545,228
Straight bonds	2,177,267	2,576,516	8,426	25,668	34,094	58,286	2,450,043
Convertible bond F	272,246	283,257	-	702	702	702	281,151
Trade and other payables	34,280	34,280	5,713	28,567	-	-	-
Total	**3,354,300**	**3,864,346**	**29,828**	**84,215**	**242,573**	**231,309**	**3,276,422**

a) Net of hedging impact.
b) Including bank loans held for sale.

	As at 31 December 2017						
		Contractual cash flows including interest [a]					
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-3 years	More than 3 years
	€'000						
Non-derivative financial liabilities							
Bank loans [a]	940,682	844,030	1,883	34,254	54,065	236,899	516,929
Straight bonds [b]	1,422,920	1,669,765	-	69,176	22,288	22,288	1,556,013
Convertible bond F	432,073	455,063	-	1,125	1,125	1,125	451,688
Trade and other payables	58,212	58,212	9,702	48,510	-	-	-
Total	**2,853,887**	**3,027,070**	**11,585**	**153,065**	**77,478**	**260,312**	**2,524,630**

a) Net of hedging impact.
b) Including straight bond redemption.

26.3.4 Operating risk

Operational risk is the risk that derives from the deficiencies relating to the Group's information technology and control systems as well as the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously.

26.3.5 Other risks

The general economic environment prevailing internationally may affect the Group's operations to a great extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Group.

The Group's portfolio is located in major cities and strong markets throughout Germany and London. The current regional distribution structure enables the Group on one hand to benefit of economic scale, and on the other provides a diverse, well allocated and risk-averse portfolio.

Brexit

On 23 June 2016, voters in the United Kingdom voted in a referendum in favor of the United Kingdom leaving the European Union, a decision known as "Brexit". On 29 March 2017 the United Kingdom submitted a formal departure notice to the European Council pursuant to Article 50(2) of the Treaty on European Union (the EU Treaty) and to the date of writing this report if no change will occur till the 29th of March 2019, the UK is due to leave the European Union.

As many questions relating to Brexit remain open, the outcome of the negotiations regarding the withdrawal of the United Kingdom from the European Union is impossible to predict. Among other consequences, departure from the European Union may result in the United Kingdom no longer having access to the European Single Market. Since the United Kingdom is currently the second largest economy in the European Union, a withdrawal from the European Single Market is expected to have significant negative impacts on the economy of the United Kingdom. If the United Kingdom no longer had access to the European Single Market, the Member States of the European Union would face greater barriers to trade and commerce with the United Kingdom, which may in turn diminish overall economic activity between the European Union and the United Kingdom, resulting in a general economic downturn throughout the United Kingdom, the European Union or both. The Brexit vote may also give rise to or strengthen tensions in other Member States regarding their membership in the European Union, potentially resulting in additional referendums or other actions in Member States regarding withdrawal from the European Union. The withdrawal of other Member States from the European Union would have unpredictable consequences and may have adverse effects on levels of economic activity in Germany. Therefore, Brexit may have an adverse effect on the GCP Group's business.

In addition, as of December 2018, 9% of the GCP Group's Portfolio consisted of properties held in London. This percentage may increase in the future, and this portion of the GCP Group's Portfolio may be particularly exposed to the economic and political impact of Brexit. The final outcome of Brexit may have a significant impact on the currency exchange rate between the Pound Sterling and the Euro, which should have a low effect on GCP, as GCP has hedged itself against the Pound Sterling, but may have an adverse effect on the net assets.

The uncertainty around the timing of Brexit and its economic and other terms cause volatility in the financial markets. Since the GCP Group relies on access to the financial markets in order to refinance its debt liabilities and gain access to new financing, on-going political uncertainty and any worsening of the economic environment may reduce its ability to refinance its existing and future liabilities or gain access to new financing, in each case on favorable terms or at all. Furthermore, the GCP Group's counterparties, in particular its hedging counterparties, may not be able to fulfil their obligations under their respective agreements due to a lack of liquidity, operational failure, bankruptcy or other reasons.

26.4 Hedging activities and derivatives

26.4.1 Derivatives not designated as hedging instruments

The Group uses interest rate swaps, collars, caps and floors to manage its exposure to interest rate movements on its bank borrowings. All of the Group's derivatives financial instruments are linked to the bank loans maturity). The calculation of the fair value of these derivatives is based on discounted cash flows of future anticipated interest payments in place compared with the discounted cash flows of anticipated interest payments at market interest rates based on the agreement at the reporting date.

26.4.2 Fair value hedge

As at 31 December 2018, the Group had foreign exchange rate and interest rate swap agreements in place, as follows:

Hedging instrument	Group receives	Group pays	Effective interest rate
Foreign exchange rate and interest rate swap	HKD 900,000 thousands	Euro 92,631 thousands	1% until 2 February 2023 and 1.1725% + 6 months Euribor until 2 February 2028
Foreign exchange rate swap	CHF 125,013 thousands	Euro 116,233 thousands	-
Foreign exchange rate swap	JPY 7,500,000 thousands	Euro 75,500 thousands	-
Interest rate swaps	-	-	1.7% until 10 July 2023, and 1.42% + 6 months Euribor until 10 July 2033

The swaps are being used to hedge the exposure to changes in fair value of the Group's Straight bonds which arise from foreign exchange rate and interest rate risks.

There is an economic relationship between the hedged items and the hedging instruments as the terms of foreign exchange rate and interest rate swaps match the terms of the hedged items as described above. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange rate and the interest rate swaps is identical to hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different foreign exchange and interest rates curve applied to the hedge items and hedging instruments
- Differences in timing of cash flows of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items

The impact of the hedging instrument on the consolidated statement of financial position as at 31 December 2018 is, as follows:

	Carrying amount, net	Line item in the consolidated financial statements	Net change in fair value used for measuring ineffectiveness for the period
	€000		€000
Foreign exchange rate and interest rate swaps	**5,949**	derivative financial assets and liabilities	12,614

The impact of the hedged items on the consolidated statement of financial position as at 31 December 2018 is, as follows:

	Carrying amount, net	Line item in the consolidated financial statements	Net change in fair value used for measuring ineffectiveness for the period
	€000		€000
Straight bonds	**322,216**	Straight bonds	12,556

The ineffectiveness recognised in the consolidated statement of profit or loss was euro 58 thousands.

26.4.3 Hedge of net investments in foreign operations

The Group uses foreign exchange forward contracts as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.
The foreign exchange forward contracts are being used to hedge the Group's exposure to the GBP foreign exchange risk on these investments. Gains or losses on the retranslation of the forward contracts are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged item and the hedging instruments as the net investment creates a translation risk that will match the foreign exchange risk on the forward contracts. The hedge ineffectiveness will arise when the amount of the investment in the foreign subsidiaries becomes lower than the amount of the fixed rate borrowing.

The impact of the hedging instruments on the consolidated statement of financial position is, as follows:

	Notional amount	Carrying amount, net	Line item in the consolidated financial statements	Net change in fair value used for measuring ineffectiveness for the year
	GB£000	€000		€000
Foreign currency forward contracts	400,000	1,888	Derivative financial assets and liabilities	8

The impact of the hedged item on the statement of financial position is, as follows:

	Change in fair value used for measuring ineffectiveness	Foreign currency translation reserve
	€000	€000
Net investment in foreign subsidiaries	8	3,626

The hedging gains and losses recognised in OCI before tax are equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

26.5 Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while increasing the return to owners through striving to keep a low debt to equity ratio. The management closely monitors Loan to Value ratio (LTV), which is calculated, on an entity level or portfolio level, where applicable, in order to ensure that it remains within its quantitative banking covenants and maintain a strong credit rating. The Group seeks to preserve its conservative capital structure with a LTV to remain at a target below 45%. As at 31 December 2018 and 2017 the LTV ratio was 34% and 36%, respectively, and the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements. LTV covenant ratio may vary between the subsidiaries of the Group. The Company regularly reviews compliance with Luxembourg and local regulations regarding restrictions on minimum capital. During the years covered by these consolidated financial statements, the Company complied with all externally imposed capital requirements.


Solingen

27. Operating lease

The Group entered into long-term rent agreements as a lessor of its investment property. The future contractual rent income is as follows:

	As at 31 December	
	2018	2017
	€'000	
Less than a year	39,715	38,491
Between one to five years	112,752	107,406
More than five years	100,594	96,054
	253,061	**241,951**

28. Commitments

As at 31 December 2018, the Group does not have material commitment. Nevertheless the Group signed several real estate transactions which were not yet completed and are subject to standard condition precedents.

29. Contingent assets and liabilities

The Group does not have significant contingent assets and liabilities as at 31 December 2018.

30. Events after the reporting period

a) On February 12, 2019, the Company successfully completed the placement of euro 103 million straight bond under the EMTN Programme, and hedged the interest payments. 88 million euro due 2039 straight bond, at an issue price of 95.822% of the principal amount with effective coupon rate 1.7% + 3m Euribor. 15 million euro due 2034 Straight bond, at an issue price of 97.327% of the principal amount with effective coupon rate 1.7% + 3m Euribor.

b) On March 12, 2019, the Company successfully completed the placement of Hong Kong Dollars (HKD) 290 million (euro 32 million) due 2029 straight bond under the EMTN Programme. The Company hedged the currency risk of the principal amount and the interest. The effective euro coupon is 1.382% + 3M Euribor.

31. Group significant holdings

The details of the significant holdings of the Group are as follows:

	Place of incorporation	Principal activities	As at 31 December 2018 Holding %	As at 31 December 2017 Holding %
Subsidiaries held directly by the Company				
Grandcity Property Ltd.	Cyprus	Holding of investments	94.856%	94.8%

	Place of incorporation	Principal activities	As at 31 December 2018 Holding %	As at 31 December 2017 Holding %
Significant subsidiaries held directly and indirectly under Grandcity Property Ltd.				
Pesoria Limited	Cyprus	Holding of investments	100%	100%
Bunavento Limited	Cyprus	Holding of investments	100%	100%
Bafitek Limited	Cyprus	Holding of investments	100%	100%
Sparol Limited	Cyprus	Holding of investments	94%	94%
Chenisterial Limited	Cyprus	Holding of investments	100%	100%
Seperole Limited	Cyprus	Holding of investments	100%	100%
Carmiliana Limited	Cyprus	Holding of investments	100%	94%
Gretesia Limited	Cyprus	Holding of investments	100%	100%
Gutburg Immobilien S.A	Luxemburg	Holding of investments	100%	100%
GCP Holdings GmbH	Germany	Holding of investments	100%	100%

The holding percentage in each entity equals to the voting rights the holder has in it.

There are no restrictions on the ability of the Group to access or use the assets of its subsidiaries to settle the liabilities of the Group.


Mannheim

GRAND CITY
Properties S.A.

Berlin