

An aerial view of a city skyline at sunset, with a large yellow overlay box on the right side containing text. The city features numerous skyscrapers and a body of water in the background.

Good Real Estate Group (International) Limited

Illustrative consolidated financial statements for the year ended 31 December 2017



Building a better working world

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Abbreviations and key

The following styles of abbreviation are used in this set of International GAAP® Illustrative Financial Statements:

| | |
|---------------------------|--|
| IAS 33.41 | International Accounting Standard No. 33, paragraph 41 |
| IAS 1.BC13 | International Accounting Standard No. 1, Basis for Conclusions, paragraph 13 |
| IFRS 2.44 | International Financial Reporting Standard No. 2, paragraph 44 |
| SIC 29.6 | Standing Interpretations Committee Interpretation No. 29, paragraph 6 |
| IFRIC 4.6 | IFRS Interpretations Committee Interpretation No. 4, paragraph 6 |
| IAS 39.IG.G.2 | International Accounting Standard No. 39 – Guidance on Implementing IAS 39 Section G: Other, paragraph G.2 |
| IAS 39.AG71 | International Accounting Standard No.39 – Appendix A – Application Guidance, paragraph AG71 |
| Commentary | The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure. |
| GAAP | Generally Accepted Accounting Principles/Practice |
| IASB | International Accounting Standards Board |
| Interpretations Committee | IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee (IFRIC)) |
| SIC | Standing Interpretations Committee |

Introduction

This publication contains an illustrative set of consolidated financial statements for Good Real Estate Group (International) Limited (the parent) and its subsidiaries (the Group) that is prepared in accordance with International Financial Reporting Standards (IFRS). The Group is a fictitious group of real estate companies. The Group's activities include the development and leasing of investment property together with the development and sale of residential property. The parent is incorporated in a fictitious country - Estateland. The presentation currency of the Group is the euro (€).

Objective

This set of illustrative financial statements is one of many prepared by EY to assist you in preparing your own financial statements. The illustration intends to reflect transactions, events and circumstances that we consider to be most common for companies in the real estate sector. Certain disclosures are included in these financial statements merely for illustrative purposes, even though they may be regarded as items or transactions that are not material for Good Real Estate Group.

How to use these illustrative financial statements to prepare entity-specific disclosures

Users of this publication are encouraged to prepare entity-specific disclosures. Transactions and arrangements other than those applicable to the Group may require additional disclosures. It should be noted that the illustrative financial statements of the Group are not designed to satisfy any stock market or country-specific regulatory requirements, nor is this publication intended to reflect disclosure requirements that apply mainly to regulated or specialised industries.

Notations shown on the right-hand margin of each page are references to IFRS paragraphs that describe the specific disclosure requirements. Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. For a more comprehensive list of disclosure requirements, please refer to EY's *Online International GAAP® Disclosure Checklist*. If questions arise as to the IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice.

Improving disclosure effectiveness

Terms such as 'disclosure overload', 'cutting the clutter' and, more precisely, 'disclosure effectiveness' describe a problem in financial reporting that has become a priority issue for the International Accounting Standards Board (IASB or Board), local standard setters, and regulatory bodies. The growth and complexity of financial disclosure is also drawing significant attention from financial statement preparers, and most importantly, the users of financial statements.

Considering the purpose of the *Good Real Estate Group (International) Limited - Illustrative consolidated financial statements for the year ended 31 December 2017*, the ordering of the notes, to a great extent, follows the structure suggested in paragraph 114 of IAS 1 *Presentation of Financial Statements*. An alternative structure that some may find more effective in permitting the users to identify the relevant information more easily, involves reorganising the notes according to their nature and perceived importance. The structure of *Good Group (International) Limited - Alternative Format - Illustrative consolidated financial statements for the year ended 31 December 2017*, which is based on seven different notes sections, is summarised in the table below:

| Sections | For example, comprising: |
|--|--|
| Corporate and Group information | <ul style="list-style-type: none">▶ Corporate and Group information |
| Basis of preparation and other significant accounting policies | <ul style="list-style-type: none">▶ Basis of preparation▶ Other significant accounting policies not covered in other sections (below)▶ Changes in accounting policies and disclosures▶ Fair value measurement and related fair value disclosures▶ Impact of standards issued but not yet effective |
| Group business, operations, and management | <ul style="list-style-type: none">▶ Financial instruments risk management objectives and policies▶ Hedging activities and derivatives▶ Capital management▶ Distributions made and proposed▶ Segment information▶ Basis of consolidation and information on material partly-owned subsidiaries▶ Interest in joint ventures and investment in associates |

| Sections | For example, comprising: |
|--|--|
| Significant transactions and events | <ul style="list-style-type: none"> ▶ Business combinations and acquisitions of non-controlling interests ▶ Discontinued operations ▶ Impairment of goodwill and intangible assets with indefinite lives ▶ Correction of an error ▶ Related party transactions ▶ Events after reporting period |
| Detailed information on statement of profit or loss and other comprehensive income items | <ul style="list-style-type: none"> ▶ Other operating income and expenses ▶ Finance income and costs ▶ Depreciation, amortisation, foreign exchange differences and costs of inventories ▶ Detailed breakdown of administrative, employee benefits and research & development expenses ▶ Share-based payments ▶ Components of other comprehensive income ▶ Earnings per share |
| Detailed information on statement of financial position items | <ul style="list-style-type: none"> ▶ Income tax ▶ Property, plant & equipment, investment properties and intangible assets ▶ Financial assets and liabilities ▶ Inventories ▶ Trade and other receivables and payables ▶ Cash and short-term deposits ▶ Issued capital and reserves ▶ Provisions ▶ Government grants ▶ Deferred revenue ▶ Pensions and other post-employment benefits |
| Commitments and contingencies | <ul style="list-style-type: none"> ▶ Leases ▶ Other commitments ▶ Legal claim contingency ▶ Guarantees ▶ Other contingent liabilities |

By structuring the notes according to their nature and perceived importance, users may find it easier to extract the relevant information. In addition, the significant accounting policies, judgements, key estimates and assumptions could alternatively be placed within the same note as the related qualitative and quantitative disclosures to provide a more holistic discussion to users of the financial statements.

Entities may find that other structures are better for enhancing disclosure effectiveness, and the approach summarised above and illustrated in EY's *Good Group (International) Limited – Alternative Format* is only intended to illustrate that IFRS allows for alternative notes structures. Entities should carefully assess their specific circumstances and the preferences of the primary users before deciding on notes structures. Engagement of key stakeholders will be a critical part of any process to make significant changes to the financial statements.

Applying the concept of materiality requires judgement, in particular, in relation to matters of presentation and disclosure, and may be another cause of the perceived disclosure problem. IFRS sets out the minimum disclosure requirements which, in practice, are too often complied with without consideration of the information's relevance for the specific entity. That is, if the transaction or item is immaterial to the entity, then it is not relevant to users of financial statements, in which case, IFRS does not require that the item be disclosed. If immaterial information is included in the financial statements, the amount of information may potentially reduce the transparency and usefulness of the financial statements as the material and, thus relevant, information loses prominence. In September 2017, the IASB issued Practice Statement 2 *Making Materiality Judgements*. Practice Statement 2 provides practical guidance and examples that entities may find helpful in deciding whether information is material. Practice Statement 2 is not mandatory and neither changes the existing requirements nor introduces new ones. However, entities are encouraged to consider it when making materiality judgements.

As explained above, the primary purpose of these financial statements is to illustrate how the most commonly applicable disclosure requirements can be met. Therefore, they include disclosures that may, in practice, be deemed not material to Good Real Estate Group. It is essential that entities consider their own specific circumstances when determining which disclosures to include. These financial statements are not intended to act as guidance for making the materiality assessment; they must always be tailored to ensure that an entity's financial statements reflect and portray its specific circumstances and its own materiality considerations. Only then will the financial statements provide decision-useful financial information.

For more guidance on how to improve disclosure effectiveness, please refer to our publications, *Applying IFRS: Improving Disclosure Effectiveness* (February 2017) and *IFRS Developments Issue 129: Disclosure Initiative - updates on the Materiality Project* (September 2017).

Illustrative financial statements

Good Real Estate Group (International) Limited - Illustrative consolidated financial statements for the year ended 31 December 2017 illustrates the IFRS requirements for financial statements and includes in Appendix 1 illustrations of the application of the Best Practice Recommendations (BPR) of the European Public Real Estate Association (EPRA). Please note that some regulators disallow the use in financial statements of alternative performance measures such as those recommended by the EPRA BPR, or accept them only under certain conditions, such as the inclusion of reconciliation to the nearest IFRS number. If the entity presents subtotals that are not required by IFRS, they are subject to guidance included in IAS 1.85A.

We provide a number of industry-specific illustrative financial statements and illustrative financial statements that address specific circumstances that you may consider. The entire series of illustrative financial statements comprises:

- ▶ Good Group (International) Limited
- ▶ Good Group (International) Limited - Alternative format
- ▶ Good Group (International) Limited - Illustrative interim condensed consolidated financial statements
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Investment Fund Limited (Equity)
- ▶ Good Investment Fund Limited (Liability)
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Petroleum (International) Limited
- ▶ Good Bank (international) Limited
- ▶ Good Insurance (International) Limited

In Appendix 2, we have included a summary table of the IFRSs that are applied in our various illustrative financial statements.

International Financial Reporting Standards

The abbreviation IFRS is defined in paragraph 5 of the *Preface to International Financial Reporting Standards* to include "standards and interpretations approved by the IASB, and International Accounting Standards (IASs) and Standing Interpretations Committee interpretations issued under previous Constitutions". This is also noted in paragraph 7 of IAS 1 and paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire body of pronouncements sanctioned by the IASB. This includes the IAS, IFRS, and Interpretations originated by the IFRS Interpretations Committee.

International Accounting Standards Board (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB's members (currently 14 full-time members) are responsible for the development and publication of IFRSs, including *International Financial Reporting Standards for Small and Medium-sized Entities* (IFRS for SMEs), and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows a due process, of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component.

The IFRS Interpretations Committee (Interpretations Committee)

The Interpretations Committee is appointed by the IFRS Foundation Trustees to assist the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. These include any newly identified financial reporting issues not addressed in IFRS. The Interpretations Committee also advises the IASB on issues to be considered in the annual improvements to IFRS project.

IFRS as at 31 August 2017

As a general approach, these illustrative financial statements do not early adopt standards or amendments before their effective dates.

The standards applied in these illustrative financial statements are those that were in issue as at 31 August 2017 and effective for annual periods beginning on or after 1 January 2017. Standards issued, but not yet effective, as at 1 January 2017, have not been early adopted. It is important to note that these illustrative financial statements will require continual updating as standards are issued and/or revised.

Users of this publication are cautioned to check that there has been no change in requirements of IFRS between 31 August 2017 and the date on which their financial statements are authorised for issue. In accordance with paragraph 30 of IAS 8, specific disclosure requirements apply for standards and interpretations issued but not yet effective (see Note 6 of these illustrative financial statements). Furthermore, if the financial year of an entity is other than the calendar year, the new and revised standards applied in these illustrative financial statements may not be applicable.

Accounting policy choices

Accounting policies are broadly defined in IAS 8 and include not just the explicit elections provided for in some standards, but also other conventions and practices that are adopted in applying principles-based standards.

In some cases, IFRS permits more than one accounting treatment for a transaction or event. Preparers of financial statements should select the treatment that is most relevant to their business and circumstances as their accounting policy.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

In this publication, when a choice is permitted by IFRS, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. In such cases, the commentary provides details of which the policy has been selected, the reasons for this policy selection, and summarises the difference in the disclosure requirements.

Financial review by management

Many entities present a financial review by management that is outside the financial statements. IFRS does not require the presentation of such information, although paragraph 13 of IAS 1 gives a brief outline of what might be included in an annual report. The IASB issued an IFRS Practice Statement, *Management Commentary*, in December 2010, which provides a broad non-binding framework for the presentation of a management commentary that relates to financial statements prepared in accordance with IFRS. If an entity decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is only permitted if it is followed in its entirety. Further, the content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction.

No financial review by management has been included for the Group.

Good Real Estate Group (International) Limited

Consolidated financial statements

31 December 2017

Commentary

Good Real Estate Group (International) Limited is a limited company incorporated and domiciled in Estateland and whose shares are publicly traded. Financial statements of that category of entities are usually subject to mandatory audit either under International Standards on Auditing (ISA) or local audit standards and auditor's report should be disclosed together with the annual financial statements. However, this publication is not intended to provide guidance on the application of ISA 700 (Revised) *Forming an Opinion and Reporting of Financial Statements* or the specific requirements of individual jurisdictions. Hence, an illustrative auditor's report on the consolidated financial statements of Good Group (International) Limited has not been included.

General information

Directors

Ad Buisman (Chairman)

Matt Williams (Chief Executive)

Christoph Piesbergen (Chief Financial Officer)

Julia Hamilton (Non-Executive)

Leo van der Tas (Non-Executive)

Emil Riguis (Development Director)

Ronald Ty (Property Director)

Company Secretary

Aikaterini Vatzaki

Registered Office

Headroom House

Covenant Square

Estateland

Solicitors

Solicitors & Co.

7 Judge Street

Estateland

Bankers

Good Bank Limited

10 Capital Street

Estateland

Auditors

Professional Accountants & Co.

7 Bean Street

Estateland

Consolidated statement of profit or loss

for the year ended 31 December 2017

IAS 1.51(c)
IAS 1.10(b)
IAS 1.10A
IAS 1.81A

| | 2017 | 2016 | | |
|---|--------|---------------|---------------|-------------------------------------|
| Notes | €000 | €000 | | |
| Rental income | 8 | 22,470 | 24,333 | IAS 40.75 (f)(i) |
| Service charge income | 8 | 2,584 | 2,197 | IAS 18.35 (b)(ii), (c) |
| Service charge expense | 10 | (2,654) | (2,254) | |
| Other property operating expense | 10 | (2,118) | (3,149) | IAS 40.75(f)(ii), (iii) |
| Net rental income | | 20,282 | 21,127 | IAS 1.85 |
| Sales of inventory property | 8 | 11,000 | 16,750 | IAS 18.35(b)(i) |
| Cost of sales - inventory property | 22 | (7,000) | (17,000) | IAS 1.99, IAS 1.103, IAS 2.36(d) |
| Profit/(loss) on sale of inventory property | | 4,000 | (250) | IAS 1.85 |
| Administrative expenses | 10 | (4,876) | (4,276) | IAS 1.99, IAS 1.103 |
| Profit on disposal of investment property | 17 | 2,000 | – | IAS 18.35(b)(i) |
| Valuation gains from completed investment property | 17, 19 | 14,980 | 9,480 | IAS 40.76(d) |
| Valuation gains from investment property under construction | 18, 19 | 3,920 | 2,005 | IAS 40.76(d) |
| Net gains on investment property | | 20,900 | 11,485 | |
| Operating profit | | 40,306 | 28,086 | IAS 1.85, IAS 1.85-56 |
| Finance income | 11 | 9,195 | 7,559 | IAS 1.85 |
| Finance cost | 12 | (22,105) | (18,921) | IAS 1.82(b), IFRS 7.20 |
| Share of profit of joint ventures | 21 | 3,250 | 1,300 | IAS 1.82(c) |
| Profit before tax | | 30,646 | 18,024 | IAS 1.103, IAS 1.85 |
| Income tax expense | 14 | (7,298) | (3,597) | IAS 1.82(d), IAS 12.77 |
| Profit for the year | | 23,348 | 14,427 | IAS 1.81A(a) |
| Attributable to: | | | | |
| Equity holders of the parent | | 20,759 | 13,469 | IAS 1.81B (a)(ii) |
| Non-controlling interests | | 2,589 | 958 | IAS 1.81B (a)(i) |
| | | 23,348 | 14,427 | |
| Earnings per share: | | | | |
| Basic and diluted earnings, on profit for the year | 15 | 0.10 | 0.07 | IAS 33.66 |

Commentary

IAS 1.10 suggests titles for the primary financial statements, such as 'statement of profit or loss and other comprehensive income' or 'statement of financial position'. Entities are, however, permitted to use other titles, such as 'income statement' or 'balance sheet'. The Group applies the title suggested in IAS 1.

IAS 1.82(a) requires disclosure of total revenue as a line item on the face of the statement of profit or loss. The Group also presents the various types of revenue on the face of the statement of profit or loss in accordance with IAS 1.85. The Group presents separately rental income, service charge income, sales of inventory property and finance income, separated by relevant expense categories, which is an accepted practice within the industry. However, certain regulators might interpret this requirement differently and, as such, entities should be aware of their regulator's view. An aggregation of all revenue is provided in Note [8](#).

IAS 1.99 requires expenses to be analysed either by nature or by their function within the statement of profit or loss, whichever provides information that is reliable and more relevant. If expenses are analysed by function, information about the nature of expenses (including depreciation, amortisation and employee benefits expense) must be disclosed in the notes. The Group has presented the analysis of expenses by function. As a result, the Group has made the additional disclosures for employee benefits expense (the Group has no depreciation or amortisation) in the notes to the financial statements - see note [10](#).

The Group presents operating profit in the statement of profit or loss; this is not required by IAS 1. The terms 'operating profit' or 'operating income' are not defined in IFRS. IAS 1.BC56 states that the IASB recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. The entity should ensure the amount disclosed is representative of activities that would normally be considered to be 'operating'. For instance, "it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses" (IAS 1.BC56). In practice, other titles, such as EBIT, are sometimes used to refer to an operating result. Such subtotals are subject to the new guidance in IAS 1.85A.

IAS 40 *Investment Property* does not require valuation gains/losses on completed investment property to be disclosed separately from those on investment property under construction. However, as they are generally subject to different sets of assumptions and accounting estimates, we consider this to be leading industry practice. This approach is also consistent with the separate presentation of investment property under construction in the statement of financial position, which we also consider to be leading industry practice.

The Group has presented its share of profit of joint venture using the equity method under IAS 28 *Investments in Associates and Joint Ventures* after the line item 'operating profit'. IAS 1.82(c) requires 'Share of the profit or loss of associates and joint ventures accounted for using the equity method' to be presented in a separate line item on the face of the statement of profit or loss. Regulators or standard setters in certain jurisdictions recommend or accept share of the profit/loss of equity method investees being presented with reference to whether the operations of the investees are closely related to that of the reporting entity. This may result in the share of profit or loss of certain equity method investees being included in the operating profit, while the share of profit or loss of other equity method investees being excluded from operating profit. In other jurisdictions, regulators or standard setters believe that IAS 1.82(c) requires that share of profit or loss of equity method investees be presented as one line item (or, alternatively, as two or more adjacent line items, with a separate line for the sub-total). This may cause diversity in practice.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

| | 2017 | 2016 | |
|--|---------------|----------------|---------------------|
| Notes | €000 | €000 | |
| Profit for the year | 23,348 | 14,427 | IAS 1.49 IAS1.51(c) |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i> | | | IAS 1.81A |
| Net gains/(losses) on cash flow hedges arising during the year | 13,589 | (2,632) | IAS 1.10(b) |
| Amounts reclassified to profit or loss in respect of cash flow hedges | (1,210) | 732 | IAS 1.51(d)(e) |
| Income tax relating to net gains/(losses) on cash flow hedges | (3,714) | 570 | IAS 1.90 |
| Foreign currency translation reserve | (1,700) | (1,654) | IAS 12.61A |
| Other comprehensive income/(loss), net of tax, to be reclassified to profit or loss in subsequent periods | 6,965 | (2,984) | IAS 1.81A(a) |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i> | | | IAS 1.82A |
| Other comprehensive income, net of tax, not to be reclassified to profit or loss in subsequent periods | – | – | IAS 1.82A(a) |
| Total comprehensive income for the year, net of tax | 30,313 | 11,443 | IAS 1.81A(c) |
| Attributable to: | | | |
| Equity holders of the parent | 27,724 | 10,485 | IAS 1.81B(b)(ii) |
| Non-controlling interests | 2,589 | 958 | IAS 1.81B(b)(i), |
| | 30,313 | 11,443 | |

Commentary

The Group has elected to present two statements, a statement of profit or loss and a statement of other comprehensive income (OCI), rather than a single statement of total comprehensive income combining the two elements. If a two-statement approach is adopted, the statement of profit or loss must be followed directly by the statement of OCI.

The different components of OCI can be presented on a net basis or the individual components could be presented within the statement of OCI. The Group has elected to present the income tax effects gross on an individual basis and, therefore, no additional note disclosure is required.

IAS 1.82A requires that items that must be reclassified subsequently to profit or loss when specific conditions are met, must be grouped on the face of the statement of comprehensive income. Similarly, items that will not be reclassified must also be grouped together. In order to make these disclosures, an entity must analyse whether its OCI items are eligible to be reclassified subsequently to profit or loss under IFRS.

Under the requirements of IAS 1.82A and the Implementation Guidance to IAS 1, entities must present the share of the OCI items of equity method investees (i.e., associates and joint ventures), in aggregate as single line items within the 'to be reclassified' and the 'not to be reclassified' groups. The Group's joint ventures do not have OCI items and as such, these disclosures do not apply.

Consolidated statement of financial position

as at 31 December 2017

| | | 2017 | 2016 | |
|---|----------------------------|----------------|----------------|---------------------------------|
| | Notes | €000 | €000 | |
| <i>IAS 1.49</i> | | | | |
| <i>IAS 1.51(c)</i> | | | | |
| <i>IAS 1.10(a)</i> | | | | |
| <i>IAS 1.10(f)</i> | | | | |
| <i>IAS 1.51(d)(e)</i> | | | | |
| Assets | | | | |
| Non-current assets | | | | |
| Goodwill | 7, 20 | 3,000 | – | <i>IAS 1.60</i> |
| Completed investment property | 17, 19 | 452,991 | 388,620 | <i>IAS 1.54(c)</i> |
| Investment property under construction | 18, 19 | 30,146 | 30,896 | <i>IAS 1.54(b)</i> |
| Investment in joint ventures | 21 | 103,250 | 2,300 | <i>IAS 1.54(b)</i> |
| Deferred tax assets | 14 | – | 2,992 | <i>IAS 1.54(e)</i> |
| | | 589,387 | 424,808 | <i>IAS 1.54(o), IAS 1.56</i> |
| Current assets | | | | |
| Inventory property | 22 | 6,533 | 9,580 | <i>IAS 1.60, IAS 1.66</i> |
| Rent and other receivables | 23 | 14,560 | 22,860 | <i>IAS 1.54(g)</i> |
| Prepayments | | 9,929 | 12,288 | <i>IAS 1.54(h), IFRS 7.8(c)</i> |
| Cash and short-term deposits | 24 | 78,038 | 34,618 | <i>IAS 1.55</i> |
| | | 109,060 | 79,346 | <i>IAS 1.54(i)</i> |
| Investment property held for sale | 17, 19, 35 | 10,560 | – | <i>IAS 1.54(j), IFRS 5.38</i> |
| Total assets | | 709,007 | 504,154 | |
| Equity and liabilities | | | | |
| Issued share capital | 25 | 227,700 | 193,700 | <i>IAS 1.54(r), IAS 1.78(e)</i> |
| Share premium | 25 | 6,000 | – | |
| Cash flow hedges | | (302) | (8,967) | |
| Foreign currency translation reserve | | (4,398) | (2,698) | |
| Retained earnings | | 56,413 | 35,347 | |
| Equity attributable to equity holders of the parent | | 285,413 | 217,382 | |
| Non-controlling interests (NCI) | | 18,202 | 1,803 | <i>IAS 1.54(q)</i> |
| Total equity | | 303,615 | 219,185 | |
| Non-current liabilities | | | | |
| Interest bearing loans and borrowings | 26 | 379,624 | 255,831 | <i>IAS 1.60</i> |
| Deferred revenue - Deposits from tenants | | 3,634 | 2,285 | <i>IAS 1.54(m)</i> |
| Finance lease liabilities | 28 | 1,559 | 1,550 | <i>IAS 1.55</i> |
| Deferred tax liability | 14 | 11,314 | – | <i>IAS 1.54(m), IAS 1.55</i> |
| Derivative financial instruments | 32 | 425 | 12,804 | <i>IAS 1.54(o), IAS 1.56</i> |
| | | 396,556 | 272,470 | <i>IAS 1.54(m), IFRS 7.8</i> |
| Current liabilities | | | | |
| Trade and other payables | 27 | 6,536 | 10,019 | <i>IAS 1.60, IAS 1.69</i> |
| Income tax payable | 14 | 2,146 | 2,275 | <i>IAS 1.54(k)</i> |
| Finance lease liabilities | 28 | 154 | 205 | <i>IAS 1.54(n)</i> |
| | | 8,836 | 12,499 | <i>IAS 1.54(m), IAS 1.55</i> |
| Total liabilities | | 405,392 | 284,969 | |
| Total equity and liabilities | | 709,007 | 504,154 | |

Commentary

IAS 1 requires an entity to present a statement of financial position at the beginning of the preceding comparative period, when: it applies an accounting policy retrospectively; it makes a retrospective restatement of items in its financial statements; or when it reclassifies items in its financial statements (IAS 1.10(f)), and the change has a material effect on the statement of financial position. In these situations, IAS 1.40A states that an entity must present, at a minimum, three statements of financial position, two of each of the other statements and the related notes. The three statements of financial position include the statement of financial position as at the current annual period year end, the statement of financial position as at the previous annual period year end, and the statement of financial position as at the beginning of the previous annual period ('the opening balance sheet', often referred to as the 'third balance sheet'). However, the notes related to this third balance sheet are not required, nor are additional statements of profit or loss and OCI, changes in equity or cash flows (IAS 1.40C).

The Group has applied certain amendments to standards for the first time in these financial statements. However, the adoption of the amendments has not materially affected the statement of financial position and, as a result, a third balance sheet is not presented.

In accordance with IAS 1.60, the Group has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. IAS 1 does not require a specific order of the two classifications.

The Group has elected to present non-current assets and liabilities before current assets and liabilities. IAS 1 requires entities to present assets and liabilities in order of liquidity when this presentation is reliable and more relevant.

IAS 40 does not require completed investment property to be disclosed separately from investment property under construction, but as they are generally subject to different sets of assumptions and accounting estimates, we consider this to be the leading industry practice.

Consolidated statement of changes in equity

for the year ended 31 December 2017

| | Attributable to the equity holders of the parent | | | | | | | Total equity | IAS 1.10 (c) IAS 1.49 IAS 1.51(c) IAS 1.106(d) IAS 1.51(d)(Xe) |
|----------------------------------|--|----------------------------|--------------------------------------|---|-------------------|----------------|---------------------------|----------------|--|
| | Issued capital (Note 25) | Share premium (Note 25) | Cash flow hedge reserve (Note 32) | Foreign currency translation reserve (Note 31) | Retained earnings | Total | Non-controlling interests | | |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | |
| At 1 January 2016 | 193,700 | | (7,637) | (1,044) | 21,580 | 206,599 | 845 | 207,444 | |
| Profit for the year | - | - | - | - | 13,469 | 13,469 | 958 | 14,427 | IAS 1.106 (d)(i) |
| Other comprehensive income | - | - | (1,330) | (1,654) | - | (2,984) | - | (2,984) | IAS 1.106 (d)(ii) |
| Total comprehensive income | - | - | (1,330) | (1,654) | 13,469 | 10,485 | 958 | 11,443 | IAS 1.106 (a) |
| Share based payments (Note 29) | - | - | - | - | 298 | 298 | - | 298 | |
| At 31 December 2016 | 193,700 | - | (8,967) | (2,698) | 35,347 | 217,382 | 1,803 | 219,185 | |
| Profit for the year | - | - | - | - | 20,759 | 20,759 | 2,589 | 23,348 | IAS 1.106 (d)(i) |
| Other comprehensive income | - | - | 8,665 | (1,700) | - | 6,965 | - | 6,965 | IAS 1.106 (d)(ii) |
| Total comprehensive income | - | - | 8,665 | (1,700) | 20,759 | 27,724 | 2,589 | 30,313 | IAS 1.106 (a) |
| Issue of share capital (Note 25) | 34,000 | 6,180 | - | - | - | 40,180 | - | 40,180 | IAS 1.106 (d)(iii) |
| Share based payments (Note 29) | - | - | - | - | 307 | 307 | - | 307 | IFRS 2.50 |
| Transaction costs (Note 25) | - | (180) | - | - | - | (180) | - | (180) | IAS 32.39, IAS 1.109 |
| Acquisition of subsidiary | - | - | - | - | - | - | 13,810 | 13,810 | |
| At 31 December 2017 | 227,700 | 6,000 | (302) | (4,398) | 56,413 | 285,413 | 18,202 | 303,615 | |

Commentary

For equity-settled share-based payment transactions, paragraph 7 of IFRS 2 *Share-based Payment* requires entities to recognise an increase in equity when goods or services are received. However, IFRS 2 does not specify where in equity this should be recognised. The Group has chosen to recognise the credit in retained earnings. This avoids the need to transfer the amount from another reserve when the share options are exercised or expire.

Consolidated statement of cash flows

for the year ended 31 December 2017

| | Notes | 2017 €000 | 2016 €000 | |
|--|--------------------------|-----------------------------|-----------------------------|--|
| Operating activities | | | | IAS 1.49 IAS 1.51(c) IAS 1.10(d) IAS 1.51(d)(Xe) IAS 7.10, IAS 7.18(b) |
| Profit before tax | | 30,646 | 18,024 | |
| Adjustments to reconcile profit before tax to net cash flows | | | | IAS 7.20(b) |
| Valuation gains on investment property | 17,18,19 | (18,900) | (11,485) | |
| Gain on disposal of investment property | 17 | (2,000) | – | |
| Share of profit in joint ventures | 21 | (3,250) | (1,300) | |
| Share based payments | 29 | 307 | 298 | |
| Finance income | 11 | (9,195) | (7,559) | IAS 7.20 (c) |
| Finance expense | 12 | 22,105 | 18,921 | IAS 7.20 (c) |
| | | <u>19,713</u> | <u>16,899</u> | |
| Working capital adjustments | | | | IAS 7.20(a) |
| Decrease/ (increase) in rent and other receivables | | 3,900 | (4,007) | |
| Decrease/(increase) prepayments and accrued income | | 4,659 | (800) | |
| Decrease in inventory property | | 2,000 | 9,420 | |
| (Decrease)/increase in trade, other payables and accruals | | (2,200) | 1,880 | |
| Movements in tenant deposits | | 1,400 | 135 | |
| Income tax paid | | (2,985) | (1,950) | IAS 7.35 |
| Net cash flow from operating activities | | <u>26,487</u> | <u>21,577</u> | |
| Investing activities | | | | IAS 7.10, IAS 7.21 |
| Acquisition of businesses, net of cash acquired | 7 | (57,023) | – | IAS 7.39 |
| Investments in joint ventures | | (97,700) | – | IAS 7.16(c) |
| Purchase of investment property | 17 | – | (71,425) | IAS 7.16(a) |
| Capital expenditure on completed investment property | 17 | (504) | (5,475) | IAS 7.16(a) |
| Expenditure on investment property under construction | 18 | (5,150) | (18,141) | IAS 7.16(a) |
| Proceeds from disposal of investment property | 17 | 28,670 | – | IAS 7.16(b) |
| Interest received | | 8,209 | 7,210 | IAS 7.31, IAS 7.33 |
| Net cash flow from investing activities | | <u>(123,498)</u> | <u>(87,831)</u> | |
| Financing activities | | | | IAS 7.10, IAS 7.21 |
| Proceeds from borrowings | | 124,023 | 106,054 | IAS 7.17(c) |
| Repayment of borrowings | | (430) | (18,871) | IAS 7.17(d) |
| Proceeds from issue of share capital | 25 | 40,180 | – | IAS 7.17(a) |
| Transaction costs on issue of shares | 25 | (180) | – | IAS 7.17(a) |
| Repayment of finance lease liabilities | | (38) | (130) | IAS 7.17(e) |
| Interest paid | | (23,124) | (19,346) | IAS 7.31, IAS 7.33 |
| Net cash flow from financing activities | | <u>140,431</u> | <u>67,707</u> | |
| Net increase in cash and cash equivalents | | 43,420 | 1,453 | |
| Cash and cash equivalents at 1 January | 24 | 34,618 | 33,165 | |
| Cash and cash equivalents at 31 December | 24 | <u><u>78,038</u></u> | <u><u>34,618</u></u> | IAS 7.45 |

Commentary

Paragraph 18 of IAS 7 *Statement of Cash Flows* allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method. A statement of cash flows prepared using the direct method for operating activities is presented for illustrative purposes in Appendix 3 of our *Good Group (International) Limited 2017* publication, available at www.ey.com/ifrs.

The Group has reconciled profit before tax to net cash flows from operating activities. However, reconciliation from profit after tax is also acceptable under IAS 7.

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received as cash flows from investing activities and interest paid as cash flows from financing activities as they relate to the net cost of obtaining financial resources.

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Notes to the consolidated financial statements

1. Corporate information

IAS 1.138(a)

The consolidated financial statements of Good Real Estate Group (International) Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 28 January 2018. Good Real Estate Group (International) Limited (the Company or the parent) is a limited company incorporated and domiciled in Estaland whose shares are publicly traded. The registered office is located at Headroom House, Covenant Square in Estaland.

IAS 10.17

IAS 1.51(a)

IAS 1.51(b)

IAS 1.51(c)

The principal activities of the Group are described in Note [13](#).

IAS 1.138(b)

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.16

The Group's financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and contingent consideration that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except where otherwise indicated.

IAS 1.117(a)

IAS 1.118

IAS 1.112(a)

IAS 1.51(d)(e)

Commentary

Companies in certain jurisdictions may be required to comply with IFRS approved by local regulations, for example, listed companies in the European Union (EU) are required to comply with IFRS as endorsed by the EU. These financial statements only illustrate compliance with IFRS as issued by the IASB.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The Group applied, for the first time, the amendment below which is effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IAS 8.28

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group has provided the information for the current and comparative period in Note [36](#).

Commentary

Refer to *Good Group (International) Limited 2017*, Note 2.4, for a comprehensive list of the disclosures of amended standards that are effective from 1 January 2017. The list includes:

- ▶ Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- ▶ Annual Improvements Cycle - 2014-2016

The Group has not disclosed details of these amended standards as they have no impact on the Group's financial statements.

In some jurisdictions, the adoption of IFRS for reporting purposes may be subject to a specific legal process (e.g., in the European Union or Australia). In those jurisdictions, the effective dates may therefore be different from the IASB's effective dates. Nevertheless, all new standards and interpretations must be considered for disclosure as standards issued but not yet effective in accordance with IAS 8.30 when an entity provides a complete set of financial statements, irrespective of whether the legal process referred to above has been completed.

Notes to the consolidated financial statements

4. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- ▶ Capital management Note [33](#)
- ▶ Financial risk management objectives and policies Note [31](#)
- ▶ Sensitivity analyses disclosures Notes [19](#) and [31](#)

Judgements

IAS 1.122

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue recognition

When a contract for the sale of a property upon completion of construction is determined to be a construction contract (see *Revenue recognition policy for sales of property under development* in Note [5](#)), revenue is recognised using the percentage-of-completion method as construction progresses. The Group considers the terms and conditions of the contract, including how the contract was negotiated and the structural elements that the customer specifies when identifying individual projects as construction contracts. The percentage of completion is estimated by reference to the stage of the projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities and assets, including property, is acquired. More specifically, consideration is given to the extent to which significant processes are acquired and, in particular, the extent of services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). For example, the Group assessed the acquisition of Property Business Ltd in the current year (Note [7](#)) as a purchase of a business because of the strategic management function and associate processes purchased along with the investment properties.

When the acquisition of subsidiaries does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Notes to the consolidated financial statements

4. Significant accounting judgements, estimates and assumptions *continued*

Commentary

IFRS 3 *Business Combinations* defines a business as 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits'. However, the standard goes on to say that a business need not include all of the inputs or processes that the seller used in operating that business if market participants are 'capable of' acquiring the business and continuing to produce outputs, for example, by integrating the business with their own.

The phrase 'capable of' is sufficiently broad that judgement will be required in assessing if an acquired set of activities and assets, such as investment property, constitutes a business. In isolation, this requirement could be interpreted to mean that the acquisition of most investment property should be dealt with as a business combination under IFRS 3 (and therefore be recognised in accordance with IFRS 3 rather than IAS 40). If dealt with under IFRS 3, then the initial accounting for investment property is considerably more complex. For example, amongst other requirements:

- ▶ Initial direct costs are expensed (according to IAS 40 must be capitalised)
- ▶ The initial recognition exception for deferred taxation does not apply (IAS 12 *Income Taxes* does not allow deferred taxation to be provided on existing temporary differences for acquisitions that are not business combinations)
And
- ▶ Goodwill is recognised (often itself 'created' by the deferred taxation)

Judging whether an acquisition is a business combination or not is therefore of considerable importance.

In the *2011-2013 Annual Improvements Cycle*, the IASB amended IAS 40 to clarify that the determination of whether the acquisition of investment property is the acquisition of an asset or a business combination is not based on the paragraphs in IAS 40 (that relate to distinguishing investment property from owner-occupied property), but rather on the guidance in IFRS 3.

The IASB recognised the difficulties in determining whether an acquisition meets the definition of a business - and that this is not just limited to investment property. Therefore, following the post-implementation review of IFRS 3, in June 2016, the IASB published an ED with amendments to the definition of a business. At its October 2017 meeting, the IASB concluded that the due-process steps required to issue a narrow-scope amendment have been completed. The IASB expects to issue the final amendments in the second quarter of 2018. The objective is not to amend the definition itself, but to clarify how an entity determines whether it has acquired a business or a group of assets. The amendments are expected to:

- ▶ Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together are required to contribute significantly to the ability to create outputs.
- ▶ Introduce a fair value screening test. The guidance is expected to state that if substantially all the fair value of the gross assets to be acquired is concentrated in a single identifiable asset or group of similar assets, then it is unlikely that business has been acquired - and therefore no further assessment is needed. The IASB tentatively decided to make the test optional, on a transaction-by-transaction basis, thereby not prohibiting an entity from carrying out further assessment.
- ▶ Remove the following text from paragraph B8 of IFRS 3: 'However, a business need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes.'
- ▶ Amend the definition of 'output' by removing the reference to the ability to reduce costs, and clarifying that 'other revenues' means other income arising from contracts that are within the entity's ordinary activities but are outside the scope of IFRS 15 *Revenue from Contracts with Customers*.
- ▶ Clarify that if an acquired set of assets generated revenues before the acquisition, but is integrated by the acquirer and no longer generates revenues after the acquisition, that set of assets is regarded as creating outputs.
- ▶ Provide additional guidance to assess whether a substantive process has been acquired, including the guidance on acquired outsourcing agreements, and specify in that guidance that difficulties in replacing an acquired workforce may indicate that the workforce performs a substantive process

It will be a matter of judgement for preparers when applying the guidance in IFRS 3, whether an investment property acquisition is within the scope of IAS 40 rather than IFRS 3. This judgement will rest upon the facts and circumstances of each acquisition.

The definition of a business is applied regardless of whether the entity purchases a property directly or, in the case of consolidated financial statements, via the shares in another entity.

Notes to the consolidated financial statements

4. Significant accounting judgements, estimates and assumptions *continued*

IAS 40.75(c)

Classification of property

The Group determines whether a property is classified as investment property or inventory property:

- ▶ *Investment property* comprises land and buildings (principally offices, commercial warehouse and retail property) that are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- ▶ *Inventory property* comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before, or on completion of, construction.

Operating lease contracts - the Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property), that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Consolidation and joint arrangements

The Group has determined that it controls and consolidates the subsidiaries in which it owns a majority of the shares. The Group is a part owner of two investments in which it has a 50% ownership interest. The Group has determined that it has joint control over the investee and the ownership is shared with the other 50% owner. These investments are joint arrangements.

IFRS 11.7
IFRS 12.7-9

The joint arrangements are separately incorporated. The Group has, after considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and the Group's rights and obligations arising from the arrangement, classified its interests as joint ventures under IFRS 11 *Joint Arrangements*. As a consequence, it accounts for its investments using the equity method.

Commentary

IAS 1 requires an entity to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. IFRS 12 *Disclosure of Interests in Other Entities* adds to those general requirements by specifically requiring an entity to disclose all significant judgements and estimates made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest. IFRS 12.7 requires that an entity discloses information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- ▶ that it has control of another entity
- ▶ that it has joint control of an arrangement or significant influence over another entity
- ▶ the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle

An entity must disclose, for example, significant judgements and assumptions made in determining that:

- ▶ it does not control another entity even though it holds more than half of the voting rights of the other entity
- ▶ it controls another entity even though it holds less than half of the voting rights of the other entity
- ▶ it is an agent or principal as defined by IFRS 10 *Consolidated Financial Statements*
- ▶ it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity
- ▶ it has significant influence even though it holds less than 20 per cent of the voting rights of another entity

The Group does not have any interest in unconsolidated structured entities. Interests in such entities require the disclosures under IFRS 12.24-31. These disclosures have been illustrated in our publication, *Applying IFRS: IFRS 12 Example disclosures for interests in unconsolidated structured entities (March 2013)* available at ey.com/ifrs.

Notes to the consolidated financial statements

4. Significant accounting judgements, estimates and assumptions *continued*

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

IAS 1.125

Estimation of net realisable value for inventory property

Inventory property is stated at the lower of cost and net realisable value (NRV).

NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment.

NRV in respect of inventory property under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and the estimated costs necessary to make the sale, taking into account the time value of money, if material.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

IAS 12.88
IAS 1.125

Valuation of investment property

The fair value of investment property is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

IAS 1.125

Investment property under construction is measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. In one case, the fair value of the investment property under construction could not be reliably determined because it is in an area in which there is now considerable political uncertainty and economic instability. Therefore the circumstances do not allow for a reliable fair value estimate to be made; this property is recorded at cost. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Notes [17](#), [18](#) and [19](#).

IAS 40.75(e)
IFRS 13.62

Commentary

IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty.

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes.

Only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section. It is important that entities carefully assess which judgements and estimates are most significant in this context, and make the disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and uncertainties. Disclosure of uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the major uncertainties.

The Group does not mention here the estimates and assumptions related to the impairment of goodwill or share-based payments, as these are not sufficiently significant items for the Group and relevant disclosure is provided elsewhere in the notes. For comprehensive examples of disclosure, refer to *the Good Group (International) Ltd illustrative financial statements*.

Notes to the consolidated financial statements

5. Summary of significant accounting policies

IAS 1.112
IAS 1.117(a)(b)
IFRS 10.7

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent and its subsidiaries as at 31 December 2017. Specifically, the Group controls an investee if, and only if, it has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

IFRS 10.B38

- ▶ The contractual arrangement with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

IFRS 10.B80
IFRS 10.B86
IFRS 10.B99

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

IFRS 10.B94
IFRS 10.B87
IFRS 10.B86

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

IFRS 10.B96
IFRS 10.B98
IFRS 10.B99

Property acquisitions and business combinations

IFRS 3.2(b)

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 4.

Where such acquisitions are not determined to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity or assets and liabilities is allocated between the identifiable assets and liabilities (of the entity) based on their relative values at the acquisition date. Accordingly, no goodwill or deferred taxation arises.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

IFRS 3.4
IFRS 3.18
IFRS 3.19
IFRS 3.53
IFRS 3.B64(m)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

IFRS 3.15
IFRS 3.16

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

IFRS 3.39
IFRS 3.58

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

IFRS 3.32

IFRS 3.36

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

IFRS 3.B63(a)

IAS 36.80

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

IAS 36.86

Where goodwill is generated by the recognition, on the acquisition of a business, of deferred tax liabilities in excess of the fair value of such liabilities (deferred tax liabilities are measured under IAS 12 requirements), the post-tax discount rate is adjusted in order to determine the appropriate pre-tax discount rate used to measure the value in use for impairment testing purposes. In order to determine the appropriate pre-tax discount rate, all tax effects are removed from the CGU and therefore, the carrying amount of goodwill that relates to taxation are removed as well. (See Note 20).

IAS 36.86

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

IFRS 11.16

IFRS 11.7

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in joint ventures are accounted for using the equity method.

IAS 28.10

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

IAS 28.26-29

The statement of profit or loss reflects the Group's share of the results of operations of the joint ventures. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint ventures are eliminated to the extent of the interest in the joint ventures.

IAS 1.82(c)

The aggregate of the Group's share of profit or loss of the joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in each joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in each joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of joint ventures' in the statement of profit or loss.

IAS 28.40-43

Upon loss of joint control over the joint ventures (except when Group retains significant influence over the former joint venture), the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint ventures upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

IAS 28.22(b)

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Commentary

The Group does not have an interest in any joint operations. If the Group had an interest in a joint operation, as per IFRS 11.20, it would recognise in relation to such interest its:

- ▶ Assets, including its share of any assets held jointly
- ▶ Liabilities, including its share of any liabilities incurred jointly
- ▶ Revenue from the sale of its share of the output arising from the joint operation
- ▶ Share of the revenue from the sale of the output by the joint operation
- ▶ Expenses, including its share of any expenses incurred jointly

Foreign currencies

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. They are then translated into the presentation currency of the Group.

IAS 1.51(d)
IAS 21.9

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

IAS 21.21
IAS 21.23(a)

Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

IAS 21.28
IAS 21.32

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

IAS 21.23(b)
IAS 21.23(c)

IAS 21.30

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss. The Group uses the direct method of consolidation and on disposal of a foreign operation the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

IAS 21.39(a)
IAS 21.39(b)
IAS 21.39(c)
IAS 21.48

IAS 21.47

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

IAS 23.8
IAS 23.5

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed. The capitalisation of finance costs is suspended if there are prolonged periods when development

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Commentary

IAS 23.4 does not require entities to capitalise interest in respect of assets that are measured at fair value (this includes assets measured at fair value through other comprehensive income, albeit no such assets are presented in these illustrative financial statements). Consequently, entities holding investment property under construction that is carried at fair value have a policy choice in respect of this issue, which primarily impacts the presentation of borrowing costs in the statement of profit or loss since the subsequent measurement of the investment property under construction excludes borrowing costs.

Investment property

Investment property comprises completed property and property under construction or re-development that is held, or to be held, to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when it is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions. IAS 40.7

Investment property is measured initially at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. IAS 40.20

Subsequent to initial recognition, investment property is 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. For the purposes of these financial statements, in order to avoid double counting, the fair value reported in the financial statements is: IAS 40.20
IAS 40.33
IAS 40.75(a)
IAS 40.35
IAS 40.50

- ▶ Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments
- ▶ In the case of investment property held under a lease, increased by the carrying amount of any liability to the head lessor that has been recognised in the statement of financial position as a finance lease obligation

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. IAS 40.57
IAS 40.60
IAS 40.61

Investment property is derecognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its 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. IAS 40.66
IAS 40.69

Commentary

The Group has elected to measure investment property at fair value in accordance with IAS 40. Paragraph 30 of IAS 40 also permits investment property to be measured using a cost model (i.e., to be carried at historical cost less accumulated depreciation and impairment). These financial statements do not illustrate the latter approach. IAS 40 would require note disclosure of the fair value of any investment property recorded at cost. Therefore, entities would still need to determine the fair value and provide appropriate IFRS 13 disclosures.

Non-current assets held for sale

Investment property is transferred to non-current assets held for sale when it is expected that its carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable. IFRS 5.7

For the sale to be highly probable: IFRS 5.8

- ▶ The Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated
- ▶ The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- ▶ The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification IFRS 5.15

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Investment properties, other than those measured at fair value, which are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. On re-classification as held for sale, investment properties that are measured at fair value continue to be so measured. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. IFRS 5.4(d)

Rent and other receivables

Rent and other receivables are recognised at their original invoiced value except where the time value of money is material, in which case receivables are recognised at fair value and subsequently measured at amortised cost. A provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory property and is measured at the lower of cost and net realisable value (NRV). IAS 2.6, 9, 21

Cost includes:

- ▶ Freehold and leasehold rights for land
- ▶ Amounts paid to contractors for construction
- ▶ Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid. IAS 2.16

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date less estimated costs of completion and the estimated costs necessary to make the sale, taking into account the time value of money if material.

The cost of inventory property recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value. IAS 7.6
IAS 7.7

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management. IAS 7.46

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. IAS 39.43,
IAS 39.47

Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term. IAS 39.43,
IAS 39.47

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

IFRIC 4.6
IFRIC 4.7

Group as a lessee

A lease is classified at the inception date as either a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

IAS 17.8,
IAS 17.20,
IAS 17.25

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of profit or loss.

Operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

IAS 17.8
IAS 17.52

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor, it has pricing latitude and is also exposed to inventory and credit risks.

IAS 18.35(a)
IAS 18.14
IAS 18.20
IAS 18.9

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

IAS 17.50, 52

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Group is reasonably certain that the tenant will exercise that option.

SIC 15.4

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the statement of profit or loss when the right to receive them arises.

Service charges, management charges and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service and management charges and other such receipts are included in net rental income gross of the related costs, as the Group considers that it acts as principal in this respect.

IAS 18.20

Commentary

Arrangements where the lessor charges tenants for expenses such as utilities are commonplace. It is necessary to assess whether the entity is acting as a principal by reference to the indicators in paragraph 21 of the Appendix to IAS 18 *Revenue*. This requires judgement and consideration of all relevant facts and circumstances. It is important to consider whether the landlord is responsible for ensuring that appropriate utilities are provided to the tenant. Credit risk is also a factor (although not, on its own, decisive) in determining whether service charges should be recognised gross or net.

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Sale of completed property

IAS 18.14

A property is regarded as sold when the significant risks and rewards of ownership of the real estate have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group considers whether the contract comprises:

IAS 11.39(b)

- ▶ A contract to construct a property
- Or
- ▶ A contract for the sale of a completed property

Where a contract is determined to be for the construction of a property, revenue is recognised using the percentage-of-completion method as construction progresses.

Where the contract is determined to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage-of-completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

IAS 11.39(b)

IFRIC 15.17

- ▶ The buyer controls the work in progress, typically when the land on which the development takes place is owned by the final customer, and
- ▶ All significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically, when the buyer cannot put the incomplete property back to the Group

IFRIC 15.20

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Interest income

IAS 18.30(a)

Interest income is recognised as it accrues using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Commentary

IFRIC 15 *Agreements for the Construction of Real Estate* is relevant to real estate developers. It is common practice to market developments well before the start of construction and this activity then continues throughout the construction period. A typical off-plan arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction.

IFRIC 15 provides guidance on how to determine whether the agreement is within the scope of IAS 11 *Construction Contracts* or IAS 18. A key point of the interpretation is how real estate agreements that involve construction activities should be treated for revenue recognition.

The interpretation clarifies that the terms and conditions and the surrounding facts and circumstances of each agreement should be analysed very carefully and the agreements may have to be split into separate components, e.g., a sale of land and a construction component. The land component will typically be treated as a sale under IAS 18. The construction component is less straight forward; the key question is whether the arrangement meets the definition of a construction contract in accordance with IAS 11. If IAS 11 does not apply, the arrangement relates to rendering of services under IAS 18 or is considered a sale of goods, and, in the latter case, it should be determined if a continuous transfer of work in progress takes place under IAS 18.

Taxes

The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required to determine the total liability for current and deferred taxes.

The Group recognises liabilities for current taxes 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 and deferred tax liabilities in the period in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they relate to the same fiscal authority and tax paying entity and fall due in approximately the same period.

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in the statement of profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

IAS 12.46
IAS 1.117
IAS 12.61A(b)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

IAS 12.15

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

IAS 12.39

Deferred income tax assets are recognised for all deductible temporary differences and carried forward unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward unused tax credits or unused tax losses can be utilised, except:

IAS 12.34

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

IAS 12.24

IAS 12.44

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an investment property measured at fair value a rebuttable presumption exists that its carrying amount will be recovered through sale.

IAS 12.51C

IAS 12.47

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

IAS 12.61A

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

IAS 12.74

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are only recognised subsequently when new information about facts and circumstances require this. If that new information is revealed during the measurement period, the adjustment is treated as a reduction in goodwill (as long as it does not exceed goodwill). Otherwise, it is recognised in profit or loss.

IAS 12.68

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses interest rate swaps to hedge its risks associated with interest rates. 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. These hedges are classified as cash flow hedges.

IAS 39.43
IFRS 7.21

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. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure 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.

IFRS 7.22(a)
IFRS 7.22(b)
IAS 39.88

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

IAS 39.95
IAS 39.97

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the firm commitment is met.

IAS 39.101

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistently with the classification of the underlying hedged item. See Note 32 for details.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which can only be settled in cash (cash-settled transactions).

IFRS 2.44

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 29.

That cost is recognised, together with a corresponding increase in retained earnings in equity, over the period in which the service conditions and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in administrative expenses.

IFRS 2.7
IFRS 2.19
IFRS 2.20
IFRS 2.21

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

IFRS 2.27
IFRS 2.21

Notes to the consolidated financial statements

5. Summary of significant accounting policies *continued*

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

IFRS 2.28
IFRS 2.B42-B44

IAS 33.45

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note [15](#)).

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes the fair value recognised in administrative expenses (see Note [10](#)). The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model, further details of which are given in Note [29](#).

IFRS 2.30
IFRS 2.32
IFRS 2.33

Fair value measurements

The Group measures contingent consideration, derivatives and investment properties at fair value at each reporting date. Fair value related disclosures for items measured at fair value or where fair values are disclosed, are summarised in the following notes:

- ▶ Accounting policy disclosures Note [5](#)
- ▶ Disclosures for valuation methods, significant estimates and assumptions Notes [4](#), [5](#), [7](#), [19](#) and [31](#)
- ▶ Contingent consideration Note [7](#)
- ▶ Investment properties Note [19](#)
- ▶ Derivatives and other financial instruments (including those carried at amortised cost) Note [31](#)

IFRS 13.9

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability IFRS 13.16
- Or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

IFRS 13.22

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

IFRS 13.27

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

IFRS 13.61

All assets and liabilities, for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy (described as follows), based on the lowest level input that is significant to the fair value measurement as a whole:

IFRS 13.73

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable IFRS 13.95

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the consolidated financial statements

6. Standards issued but not yet effective

The standards relevant to this Group that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. This list of standards and interpretations issued are those that the Group reasonably expects to have an impact on the Group's financial statements when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 8.30
IAS 8.31(d)

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. These are derivatives used as hedging instruments in the cash flow hedges. At the reporting and comparative dates the Group classified all group derivatives as financial liabilities.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by €1m with a corresponding related decrease in the deferred tax liability of €250,000.

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is 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.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group performed an assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis.

The Group has identified the following revenue streams that are in the scope of IFRS 15:

- ▶ Sale of property
- ▶ Service charges

In addition, while not in the scope of IFRS 15, the disposal of properties previously held for rental will also be affected by the recognition and measurement requirements of IFRS 15.

Notes to the consolidated financial statements

6. Standards issued but not yet effective *continued*

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 and the Group has determined that it will be satisfied at the point in time when control transfers. For unconditional exchange of contracts, this is generally expected to be when legal title transfers to the customer. For conditional exchanges, this is expected to be when all significant conditions are satisfied. The determination of transfer of control for both unconditional and conditional exchanges are not expected to change upon the adoption of IFRS 15.

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, including design work, procurement of materials, site preparation and foundation pouring, framing and plastering, mechanical and electrical work, installation of fixtures (e.g., windows, doors, cabinetry, etc.) and finishing work. In such contracts, the Group has determined that the goods and services are not distinct and will generally account for them 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:

- ▶ For sales of properties under development currently recognised on a percentage-of-completion basis, the Group expects to continue recognising revenue over time because it expects that control will transfer over time. In certain jurisdictions, its performance creates an asset that the customer controls as the asset is created. In other jurisdictions, its performance does not create an asset with alternative use to the Group and the Group has concluded that it has an enforceable right to payment for performance completed to date.
- ▶ For sales of properties under development currently recognised upon completion, the Group generally expects that control will transfer at a point in time. However, the Group has determined that, for its typical contracts in Esteland, its performance does not create an asset with alternative use to the Group and it has concluded that it has an enforceable right to payment for performance completed to date. Therefore, control transfers over time for these contracts.

For contracts that meet the over time recognition criteria, the Group's performance is expected to be measured using an input method, by reference to the costs incurred to the satisfaction of a performance obligation (e.g., resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the completion of the properties. The Group will exclude the effect of any costs incurred that do not contribute to the Group's performance in transferring control of goods or services to the customer (such as unexpected amounts of wasted materials, labour or other resources) and will adjust the input method for any costs incurred that are not proportionate to the Group's progress in satisfying the performance obligation (such as uninstalled materials). This will be consistent with current practice. As a result, no adjustment is expected on transition to IFRS 15 for those contracts currently recognised over time. For contracts where revenue is currently recognised at a point in time, but will be recognised over time under IFRS 15, on transition, the Group will recognise an adjustment to retained earnings of €3,400 for revenue that should have been recognised, increase its contract assets (unbilled receivables) by €1,265, increase its receivables by €1,270 and derecognise €865 deferred revenue. In addition, the group will derecognise inventory property of €1,684 and recognise cost of goods sold of €1,684.

Some contracts for the sale of property include variable consideration in the form of delay penalties and, in limited cases, early completion bonuses. Currently, the Group waits until the uncertainty is resolved before recognising this revenue. Under IFRS 15, estimates of variable consideration must be included in the transaction price (after considering the requirements of the constraint). Considering the wide range of possible outcomes, the Group generally expects to apply the expected value method to estimate such variable consideration and will apply the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. When the Group adopts IFRS 15, adjustments to the current period are expected to increase the revenue recognised in 2017 by €126,600 as a result.

Notes to the consolidated financial statements

6. Standards issued but not yet effective *continued*

The Group intends to use the practical expedient provided in IFRS 15 for the significant financing component. As such, the Group will not adjust the promised amount of the consideration for the effects of significant financing component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the good or service and when the Group transfers that promised good or service to the customer will be one year or less:

- ▶ For contracts involving the sale of properties under development recognised over time, customers generally make progress payments as work goes on. In these situations, the Group expects the length of time between when the customers pays for the asset and when the Group transfers the asset to the customer will be one year or less.
- ▶ For some contracts involving the sale of properties under development recognised over time and the sale of properties under development recognised at a point in time, the Group is entitled to receive an advance payment. This is not considered a significant financing component because it is for reasons other than the provision of financing to the Group. This is because payments are used to protect the Group from the other party failing to adequately complete some or all of its obligations under the contract where customers do not have an established credit history or have a history of late payment.

Contracts for the sale of properties contain certain warranties covering a period of up to ten years after completion of the property, such as the property meeting specific operational performance requirements (e.g., insulation, energy efficiency, etc.). The Group assessed that these conditions represent 'assurance-type' warranties that are legally required to be provided as quality guarantees and will continue to be accounted for under IAS 37, consistent with its current practice.

Service charges, management charges and other expenses recoverable from tenants (Service charges)

For investment properties held primarily to earn rental income, the Group enters as a lessor into lease agreements that fall within the scope of IAS 17. These agreements include certain services offered to tenants comprising the overall property management, including common area maintenance (CAM) services (such as cleaning, security, landscaping, snow removal), as well as other administrative and support services (e.g., reception services, catering and other event related services). These services are specified in the lease agreements and separately invoiced.

Consistent with current accounting, the Group has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15. The Group will allocate the consideration in the contract to the separate lease and revenue (non-lease) components on a relative basis, consistent with current accounting.

For the revenue component, the Group has concluded that these services represent a series of daily services that are individually satisfied over time and will apply a time-elapsing measure of progress. The consideration charged to tenants for these services includes fees charged based on a percentage of the rental income and reimbursement of certain expenses incurred. The Group has determined that this variable consideration only relates to this non-lease component and that allocating it to each distinct period of service (i.e., each day) meets the variable consideration allocation exception criteria. The Group does not expect IFRS 15 to have an impact on the accounting for service charges, as this accounting is aligned with the current accounting.

The Group arranges for third parties to provide certain services to the tenants. Under IAS 18, the Group concluded it was the principal because it is primarily responsible for fulfilling the promise to perform the specific services and the Group bears credit risk on these transactions as it is obliged to pay the service provider even if the customer defaults on a payment. IFRS 15 requires assessment of whether the Group controls a specified good or service before it is transferred to the customer. The Group has determined that it controls the service before it is provided to the tenant and, hence, is principal rather than agent in these contracts. Therefore, the Group did not have any impact from this assessment.

Disposal of investment property not in the ordinary course of business

The recognition and measurement requirements in IFRS 15 are applicable for determining the timing of derecognition and the measurement of consideration (including applying the requirements for variable consideration) when determining any gains or losses on disposal of non-financial assets when that disposal is not in the ordinary course of business. The Group has determined that no changes are needed on transition to IFRS 15 for past disposals of investment properties previously held for rental income.

Notes to the consolidated financial statements

6. Standards issued but not yet effective *continued*

Contract costs

The Group incurs commissions that are incremental costs of obtaining a contract with a customer. The Group intends to use the practical expedient provided in IFRS 15 for costs to obtain a contract to expense those costs that would have been amortised over one year or less. Where the amortisation period will be longer than one year, the Group will capitalise the incremental costs of obtaining a contract that meet criteria in IFRS 15. On transition, the Group will recognise contract cost asset of €498 and an adjustment to retained earnings of €498. Costs incurred by the Group to fulfil a contract prior to the commencement of its performance (e.g., tendering costs) are mostly general and administrative expenses that are expensed as incurred.

Presentation and disclosures

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of them will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the requirement to disclose significant judgements made: when determining the transaction price of those contracts that include variable consideration; how the transaction price has been allocated between lease and non-lease components; and the assumptions made to estimate the measure of progress for performance obligation satisfied over time. Extended disclosures are also expected as a result of the significant judgement made when assessing the contracts. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017, the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Other adjustments

In addition to the major adjustments described above, on adoption of IFRS 15, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in joint ventures, as well as share of profit of a joint venture, will be affected and adjusted as necessary. Furthermore, exchange differences on translation of foreign operations would also be adjusted.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is, however, substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. One exception is that IFRS 16 requires the intermediate lessor to classify the sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. However, this change did not have an impact on the Group's classification of the subleases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

As the Group is primarily a lessor, aside from additional disclosures, it does not expect IFRS 16 to result in any material change to its consolidated financial statements.

Transfers of Investment Property – Amendments to IAS 40

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

Notes to the consolidated financial statements

6. Standards issued but not yet effective *continued*

of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

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 treatments 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 must 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 transition 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 and require additional disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Commentary

IAS 8.30 requires entities to disclose in the financial statements those standards that have been issued but are not yet effective and to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such IFRSs on an entity's financial statements. The Group has listed only standards and interpretations that are expected to have an impact on Group's financial position, performance, and/or disclosures. An alternative that entities may consider would be to list all standards and interpretations that are not yet effective. This alternative is used in our publication *Good Group (International) Limited 2017*.

The International Organisation of Securities Commissions (IOSCO) and enforcement authorities in some jurisdictions (such as the European Securities and Markets Authority (ESMA)) issued recommendations on disclosure of the expected impact of major standards such as IFRS 9, IFRS 15 and IFRS 16 in the interim and annual financial statements of the companies within their jurisdictions.

Good Real Estate Group (International) Limited decided to provide detailed information on the expected impact on its consolidated financial statements of initial application of IFRS 15 and IFRS 9, which will be effective in the next reporting year. Since Good Group has not yet quantified the effect of the future adoption of IFRS 16, it has not provided quantitative information on the potential impact of the standard. EY's *Good Group (International) Limited 2017* contains detailed quantitative disclosures of the effect of IFRS 9 and IFRS 15 adoption.

Notes to the consolidated financial statements

7. Business combinations

Acquisitions in 2017

On 1 April 2017, the Group acquired 80 % of the shares of Property Business Ltd, an unlisted company based in Estateland. Property Business Ltd holds a portfolio of retail and office buildings let under operating leases and the acquisition was made to give the Group access to those assets. The existing strategic management function and associated processes were acquired with the property and, as such, the Directors considered this transaction the acquisition of a business, rather than an asset acquisition.

IFRS 3.59,60
IFRS 3.B64(a)
IFRS.3.B64(b)
IFRS 3.B64(c)
IFRS 3.B64(d)
IFRS 12.12

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Property Business Ltd as at the date of acquisition were:

| | Fair value recognised on acquisition | |
|--|---|--------------------------------|
| | €000 | |
| Assets | | |
| Investment property | 75,000 | |
| Trade receivables | 600 | |
| Cash and cash equivalents | 375 | IAS 7.40 (c) |
| | 75,975 | |
| Liabilities | | |
| Trade payables | (575) | |
| Deferred tax liabilities | (6,350) | |
| | (6,925) | |
| Total identifiable net assets at fair value | 69,050 | |
| Non-controlling interest | (13,810) | IFRS 3.B64(o)(i) IFRS 12.12 |
| Goodwill arising on acquisition | 3,000 | IFRS 3.32 |
| Purchase consideration transferred | 58,240 | IAS 7.40(a) |

Notes to the consolidated financial statements

7. Business combinations continued

The purchase consideration of €58,240 for the 80% interest acquired consists of €57,398 cash and €842 contingent consideration. IFRS 3.B64(f)(i)
IFRS 3.B64(f)(iii)

The incidental costs of €1,750 incurred in connection with the acquisition have been expensed and are included in administrative expenses (Note 10). IFRS 3.B64(m)

The fair value at the date of acquisition of the trade receivables amounts to €600. The gross amount of trade receivables is €610. However, none of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. IFRS 3.B64(h)

The Group has elected to measure the non-controlling interest in Property Business Ltd at the proportionate share of the acquiree's net identifiable assets. IFRS 3.19
IFRS 3.B64(o)

From the date of acquisition, Property Business Ltd has contributed €1,289 to the profit after tax and €1,842 to revenues (revenue from Property Business Ltd is only attributable to rental income) of the Group. If the combination had taken place at the beginning of the year, the contribution to the profit after tax for the Group would have been €25,023 and revenue would have been €47,828. IFRS 3.B64(q)(i)
IFRS 3.B64(q)(ii)
IFRS 12.12

The goodwill of €3,000 comprises €2,600 created by the existence of a deferred taxation liability that the Group considered to be in excess of its fair value and a portfolio premium arising from the acquisition of €400. Goodwill is allocated entirely to the Property Business Ltd group of CGUs. None of the goodwill is expected to be deductible for tax purposes. IFRS 3.B64(e)
IFRS 3.B64(k)

Contingent consideration

As part of the purchase agreement with the previous owner of Property Business Ltd, a contingent consideration payable by 1 April 2020 has been agreed. There will be additional cash payments to the previous owners of Property Business Ltd, as follows (the amounts are disclosed in euros): IFRS 3.B64(g)(ii)
IFRS
3.B64(g)(iii)

- ▶ €500, if the entity generates more than €5,000 but less than €10,000 net rental income from the acquisition date to 31 December 2019
- ▶ €1,000, if the entity generates €10,000 or more net rental income from the acquisition date to 31 December 2019.

As at the acquisition date, the fair value of the contingent consideration was estimated at €842. There were no measurement period adjustments and the fair value continues to be €842. This is a Level 3 measurement in the fair value measurement hierarchy as at 31 December 2017. IFRS 3.B64(g)(i)
IFRS 13.93(a)
IFRS 13.93(b)

The fair value as at 31 December 2017 was determined using a discounted cash-flow analysis using the significant unobservable valuation inputs, as provided below:

| | | |
|---|--------|---------------|
| Assumed probability-adjusted net rental income of Property Business Ltd | €8,700 | IFRS 13.93(d) |
| Discount rate | 14% | |
| Discount for own non-performance risk | 0.05% | |

An increase (decrease) by 10% in the assumed probability-adjusted net rental income of Property Business Ltd from the acquisition date would result in an increase (decrease) of the fair value of the contingent consideration liability by €53, while an increase (decrease) in the discount rate and own non-performance risk by 1.35% and 0.01%, respectively, would result in an increase (decrease) of the fair value of the liability by €23 and €3, respectively. IFRS 13.93(h)(i)

A reconciliation of fair value measurement of the contingent consideration liability is provided below:

| | 2017 | |
|--|-------------|---------------|
| | €000 | |
| Opening balance as at 1 January | — | IFRS 13.93(e) |
| Liability arising on business combination (Note 27) | 842 | |
| Unrealised fair value changes recognised in profit or loss | — | IFRS 13.93(f) |
| Closing balance as at 31 December | 842 | |

Notes to the consolidated financial statements

7. Business combinations *continued*

Commentary

As part of the business combination, contingent payments to employees or selling shareholders are common methods of retention of key people for the combined entity. The nature of such contingent payments, however, needs to be evaluated in each individual circumstance as not all such payments qualify as contingent consideration, but are accounted for as a separate transaction. For example, contingent payments that are unrelated to the future service of the employee are deemed contingent consideration, whereas contingent payments that are forfeited when the employment is terminated are deemed remuneration. Paragraphs B54 - B55 of IFRS 3 (in connection with IFRS 3.51, 52(b)) provide further guidance.

IFRS 13 disclosures do not apply to the initial measurement (IFRS 13.91(a)), but they do apply to the items that are subsequently measured at fair value.

Under IFRS 13.93(h)(ii), for the recurring fair value measurement of financial assets and financial liabilities at Level 3 of the hierarchy, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change the fair value significantly, an entity is required to state that fact and disclose the effect of changes. The entity is also required to state how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For this purpose, significance is determined with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in OCI, total equity. In case of the contingent consideration liability recognised by the Group, the impact of reasonably possible changes in unobservable inputs other than those disclosed in the note above, were assessed to be insignificant.

8. Revenue

| | 2017 | 2016 | |
|---|---------------|---------------|---|
| | €000 | €000 | |
| Rental income (excluding straight-lining of lease incentives) | 22,750 | 24,688 | <i>IAS 18.35(b)(ii)</i> |
| Straight-lining of lease incentives | (280) | (355) | <i>SIC 15.4</i> |
| Rental income | 22,470 | 24,333 | <i>IAS 40.75(i)</i> |
| Service charge and management fee income | 2,584 | 2,197 | <i>IAS 18.35(b)</i> |
| Proceeds from sale of inventory property (recognised on completion) | 5,000 | 13,750 | <i>IAS 11.39(a)</i> |
| Proceeds from sale of inventory property (recognised on a percentage of completion basis) | 6,000 | 3,000 | <i>IAS 11.39(a)</i> <i>IFRIC 15.20</i> |
| Total sales of inventory property | 11,000 | 16,750 | |
| Finance income (Note 11) | 9,195 | 7,559 | <i>IFRS 7.20 (b)</i> |
| Total revenue | 45,249 | 50,839 | |

Rental income includes contingent rental of €1,654 (2016: €1,375).

IAS 17.56(b)

Commentary

The presentation in the Group's statement of profit or loss is consistent with industry practice in presenting revenue information aligned with the nature of the business activities of real estate entities. However, it does not present total revenue as a line item. The above disclosure is therefore provided by the Group to satisfy the IAS 1.82(a) requirement.

The Group has granted incentives such as rent-free periods to new tenants. The average rent-free period granted is nine months. The total unamortised portion of rent-free periods is, as follows:

| | 2017 | 2016 |
|--|--------------|--------------|
| | €000 | €000 |
| Gross amount of lease incentives not fully amortised | 4,788 | 2,998 |
| Cumulative amount recognised in profit or loss | (1,868) | (1,588) |
| Net amount of lease incentives not fully amortised | 2,920 | 1,410 |

Commentary

Regulators in certain jurisdictions require entities holding investment property to disclose more detail about lease incentives, in particular rent-free periods, than is specifically required under IFRS. We have included illustrative disclosures of lease incentives and their impact on profit or loss in the period.

Notes to the consolidated financial statements

9. Operating leases - Group as lessor

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms of between 5 and 15 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term. IAS 17.56(c)

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

| | <u>2017</u> | <u>2016</u> | |
|---|-----------------------|-----------------------|--------------|
| | €000 | €000 | IAS 17.56(a) |
| Within 1 year | 24,321 | 23,430 | |
| After 1 year, but not more than 5 years | 74,080 | 72,320 | |
| More than 5 years | <u>115,200</u> | <u>112,500</u> | |
| | <u>213,601</u> | <u>208,250</u> | |

10. Service charge, other property operating and administrative expenses

| | <u>2017</u> | <u>2016</u> | |
|--|---------------------|---------------------|-------------------|
| | €000 | €000 | IAS 1.104 |
| Service charge expenses | | | |
| Repairs, maintenance and utilities | 1,453 | 1,256 | |
| Property insurance costs | 546 | 538 | |
| Other | <u>655</u> | <u>460</u> | |
| | <u>2,654</u> | <u>2,254</u> | |
| Other property operating expenses | | | |
| Repairs, maintenance and utilities | 900 | 1,310 | |
| Bad debt allowance (Note 23) | 319 | 364 | |
| Property management expenses | 443 | 911 | |
| Other | <u>456</u> | <u>564</u> | |
| | <u>2,118</u> | <u>3,149</u> | |
| Total property operating expenses | <u>4,772</u> | <u>5,403</u> | |
| | <u>2017</u> | <u>2016</u> | |
| | €000 | €000 | |
| Property expenses arising from investment property that generate rental income | 4,105 | 4,510 | IAS 40.75(f)(ii) |
| Property expenses arising from investment property that did not generate rental income | <u>667</u> | <u>893</u> | IAS 40.75(f)(iii) |
| Total property operating expenses | <u>4,772</u> | <u>5,403</u> | |
| | <u>2017</u> | <u>2016</u> | |
| | €000 | €000 | |
| Administrative expenses | | | |
| Short-term employee benefits | 1,910 | 1,975 | IAS 1.104 |
| Other long-term benefits | 198 | 165 | |
| Termination benefits (Note 30) | 32 | – | |
| Share-based payment transactions (note 29) | <u>412</u> | <u>492</u> | IFRS 7.20(b) |
| Total employee benefits expense | <u>2,552</u> | <u>2,632</u> | |
| Acquisition costs (note 7) | 1,750 | – | |
| Other administrative expenses | <u>574</u> | <u>1,644</u> | |
| Total administrative expenses | <u>4,876</u> | <u>4,276</u> | |

Notes to the consolidated financial statements

11. Finance income

| | <u>2017</u> | <u>2016</u> | |
|-----------------------------|---------------------|---------------------|---------------------|
| | €000 | €000 | |
| Bank interest | 8,765 | 7,457 | |
| Other interest | 430 | 102 | |
| Total finance income | <u>9,195</u> | <u>7,559</u> | <i>IFRS 7.20(b)</i> |

12. Finance cost

| | <u>2017</u> | <u>2016</u> | |
|-------------------------------|----------------------|----------------------|---------------------|
| | €000 | €000 | |
| Interest on bank loans | 21,984 | 19,866 | |
| Less: amounts capitalised | (360) | (1,730) | |
| Total interest expense | <u>21,624</u> | <u>18,136</u> | |
| Finance lease interest | 55 | 107 | |
| Net foreign exchange loss | 426 | 678 | |
| Total finance cost | <u>22,105</u> | <u>18,921</u> | <i>IFRS 7.20(b)</i> |

The capitalisation rate used to determine the borrowings eligible for capitalisation is 4.5% (2016: 4.5%).

IAS 23.26(b)

Commentary

Finance income and finance cost are not defined terms in IFRS. Some regulators limit the inclusion of certain income and expense within those items (e.g., restricted to interest income and expense), while other regulators allow additional items to be included.

13. Segment information

Information on the residential development property segment provided to the members of executive management is aggregated and is represented by revenue and profit from the sale of inventory property.

IFRS 8.22

The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property and the occupier market it serves. Management considers that this is best achieved by aggregating into retail, office, industrial and residential development segments.

Consequently, the Group is considered to have four reportable segments, as follows:

IFRS 8.23

- ▶ Retail – acquires, develops and leases shopping malls
- ▶ Office – acquires, develops and leases offices
- ▶ Industrial – acquires, develops and leases warehouses and factories
- ▶ Residential development – builds and sells residential property

For investment property, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker (CODM). The information provided is on a net rental basis (including gross rent and property expenses), valuations gains/losses, profit/loss on disposal of investment property and share of profit from the joint ventures.

Group administrative costs, finance revenue, finance costs and income taxes are not reported to the members of the executive management team on a segment basis. There are no sales between segments.

Segment assets for the investment property segments represent investment property (including those under construction) and the investment in the joint ventures. Segment assets for the residential development segment represent unsold inventory property.

IFRS 8.28(c)
IFRS 8.27

Segment liabilities represent loans and borrowing, as these are the only liabilities reported to the Board on a segmental basis.

IFRS 8.28(d)

Notes to the consolidated financial statements

13. Segment information *continued*

Commentary

IFRS 8.22(a) requires entities to disclose the factors used to identify the entity's reportable segments, including the basis of the organisation, such as factors considered in determining aggregation of operating segments. Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) The nature of the products and services
- (b) The nature of the production processes
- (c) The type or class of customer for their products and services
- (d) The methods used to distribute their products or provide their services, and
- (e) If applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities

This analysis requires significant judgement as to the circumstances of the entity.

| Year ended 31 December 2017 | Retail | Office | Industrial | Residential development | Adjustments* | Total | IFRS 8.28 IFRS 8.23 |
|---|---------------|--------------|---------------|----------------------------|----------------|---------------|---------------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | |
| Segment profit | | | | | | | |
| Rent and service charge income | 5,264 | 2,151 | 19,441 | – | (1,802) | 25,054 | IFRS 8.23(a) |
| Property sales – inventory property | – | – | – | 11,000 | – | 11,000 | |
| Property operating expenses | (1,011) | (520) | (3,241) | – | – | (4,772) | |
| Costs of sales – inventory property | – | – | – | (7,000) | – | (7,000) | |
| Net change in carrying value of investment property | 3,817 | 4,883 | 10,200 | – | – | 18,900 | IFRS 8.23(i) |
| Share of profit of joint ventures | 3,250 | – | – | – | – | 3,250 | IFRS 8.23(g) |
| Profit on disposal of investment property | – | – | 2,000 | – | – | 2,000 | |
| Segment profit | 11,320 | 6,514 | 28,400 | 4,000 | (1,802) | 48,432 | IFRS 8.23 |
| Administrative expenses | | | | | | (4,876) | IFRS 8.25 |
| Finance costs | | | | | | (22,105) | IFRS 8.25 |
| Finance revenue | | | | | | 9,195 | IFRS 8.25 |
| Profit before tax | | | | | | 30,646 | IFRS 8.21(c) IFRS 8.28 |

* The rental income information presented to the CODM is in the form of the rent paid in the period rather than being spread on a straight-line basis over the lease term in the way prescribed by IAS 17. Consequently, the rent information presented to the Board is adjusted here to agree with rental income in the statement of profit or loss. IFRS 8.28(a)

Notes to the consolidated financial statements

13. Segment information *continued*

| Year ended 31 December 2017 | Retail | Office | Industrial | Residential development | Total | IFRS 8.28 |
|---|----------------|---------------|----------------|----------------------------|----------------|------------------------|
| | €000 | €000 | €000 | €000 | €000 | |
| Assets | | | | | | |
| Investment property | 79,587 | 41,998 | 331,406 | – | 452,991 | |
| Investment property under construction | – | 30,146 | – | – | 30,146 | |
| Investment property held for sale | 10,560 | – | – | – | 10,560 | |
| Inventory property | – | – | – | 6,533 | 6,533 | |
| Investment in joint ventures | 103,250 | – | – | – | 103,250 | IFRS 8.24(a) |
| Segment assets | 193,397 | 72,144 | 331,406 | 6,533 | 603,480 | IFRS 8.23 IFRS 8.28 |
| Goodwill | | | | | 3,000 | |
| Current assets (excluding inventory property) | | | | | 102,527 | |
| Total assets | | | | | 709,007 | |
| Segment liabilities | | | | | | |
| Loans and borrowings | 129,414 | 65,200 | 185,010 | – | 379,624 | IFRS 8.23 |
| Other non-current liabilities | | | | | 16,932 | |
| Other current liabilities | | | | | 8,836 | |
| Total liabilities | | | | | 405,392 | IFRS 8.23 IFRS 8.28 |
| Additions to non-current assets | 31,808 | 28,521 | 31,442 | – | 91,771 | |

Additions to non-current assets consist of additions of investment property including assets from the acquisition of subsidiaries (2017: €86,621, 2016: €76,900) and investment property under construction (2017: €5,150, 2016: €18,141). IFRS 8.27(c)

| Year ended 31 December 2016 | Retail | Office | Industrial | Residential development | Adjustments* | Total | IFRS 8.28 |
|---|--------------|--------------|---------------|----------------------------|-----------------|---------------|------------------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | |
| Segment profit | | | | | | | |
| Rent and service charge income | 5,305 | 2,807 | 20,028 | – | (1,610) | 26,530 | IFRS 8.23(a) |
| Property sales – inventory property | – | – | – | 16,750 | – | 16,750 | |
| Property operating expenses | (1,150) | (475) | (3,778) | – | – | (5,403) | |
| Costs of sales – inventory property | – | – | – | (17,000) | – | (17,000) | |
| Share of profit of joint ventures | 1,300 | – | – | – | – | 1,300 | IFRS 8.23(g) |
| Net change in carrying value of investment property | 2,510 | 3,225 | 5,750 | – | – | 11,485 | |
| Segment profit | 7,965 | 5,557 | 22,000 | (250) | (1,610) | 33,662 | IFRS 8.23 IFRS 8.25 |
| Administrative expenses | | | | | (4,276) | (4,276) | |
| Finance costs | | | | | (18,921) | (18,921) | IFRS 8.25 |
| Finance revenue | | | | | 7,559 | 7,559 | IFRS 8.25 |
| Profit before tax | 7,965 | 5,557 | 22,000 | (250) | (17,248) | 18,024 | IFRS 8.28(b) IFRS 8.28(a) |

* The rental income information presented to the CODM is in the form of the rent passing in the period rather than being spread on a straight-line basis over the lease term in the way prescribed by IAS 17. Consequently, the rent passing information presented to the CODM is adjusted here to agree with rental income in the statement of profit or loss.

Notes to the consolidated financial statements

13. Segment information *continued*

| Year ended 31 December 2016 | Residential development | | | | IFRS 8.28 |
|---|-------------------------|---------------|----------------|--------------|----------------|
| | Retail | Office | Industrial | development | Total |
| | €000 | €000 | €000 | €000 | €000 |
| Assets | | | | | |
| Investment property | 57,456 | 18,714 | 312,450 | – | 388,620 |
| Investment property under construction | – | 30,896 | – | – | 30,896 |
| Inventory property | – | – | – | 9,580 | 9,580 |
| Investment in joint ventures | 2,300 | – | – | – | 2,300 |
| Segment assets | 59,756 | 49,610 | 312,450 | 9,580 | 431,396 |
| | | | | | IFRS 8.24(a) |
| Deferred tax | | | | | 2,992 |
| Current assets (excl. Inventory property) | | | | | 69,766 |
| Total assets | | | | | 504,154 |
| Segment liabilities | | | | | |
| Loans and borrowings | 22,132 | 44,721 | 188,978 | – | 255,831 |
| Other non-current liabilities | – | – | – | – | 16,639 |
| Other current liabilities | – | – | – | – | 12,499 |
| Total liabilities | 22,132 | 44,721 | 188,978 | – | 284,969 |
| | | | | | IFRS 8.23 |
| Additions to non-current assets | 10,102 | 26,832 | 58,107 | – | 95,041 |

Additions to non-current assets consist of additions of investment property including assets from the acquisition of subsidiaries (2017: €86,621, 2016: €76,900) and investment property under construction (2017: €5,150, 2016: €18,141).

| Geographical information | 2017 | 2016 | |
|---|---------------|---------------|--------------|
| Revenues from external customers | €000 | €000 | IFRS 8.33(a) |
| Estateland (including revenue from sales of inventory property) | 15,331 | 12,739 | |
| Germany | 4,651 | – | |
| Luxembourg | 3,306 | 15,623 | |
| Denmark | 1,754 | 1,065 | |
| France | 11,012 | 13,853 | |
| Total | 36,054 | 43,280 | |

Notes to the consolidated financial statements

13. Segment information *continued*

The revenue information above is based on the locations of the customers. There are no revenues from transactions with a single external customer that account for 10% or more of the Group's total revenues. IFRS 8.34

| | <u>2017</u> | <u>2016</u> | |
|---|-----------------------|-----------------------|--------------|
| | <u>€000</u> | <u>€000</u> | |
| Carrying amount of investment property (including under construction and held for sale), goodwill and investment in joint ventures | | | IFRS 8.33(b) |
| Estateland | 89,211 | 74,909 | |
| The Netherlands | 103,250 | 2,300 | |
| Germany | 91,450 | 72,211 | |
| Luxembourg | 65,020 | 70,286 | |
| France | 251,016 | 202,110 | |
| Total | <u>599,947</u> | <u>421,816</u> | |

14. Income tax

The major components of income tax expense are:

| | <u>2017</u> | <u>2016</u> | |
|---|---------------------|---------------------|--------------|
| | <u>€000</u> | <u>€000</u> | |
| Statement of profit or loss | | | IAS 12.79 |
| <i>Current income tax:</i> | | | |
| Current income tax charge | 3,056 | 2,267 | IAS 12.80(a) |
| <i>Deferred income tax:</i> | | | |
| Relating to origination and reversal of temporary differences | 4,242 | 1,330 | IAS 12.80(c) |
| Income tax expense reported in the statement of profit or loss | <u>7,298</u> | <u>3,597</u> | |

Statement of OCI

Deferred income tax related to items recognised in OCI during the year:

| | | | |
|---|---------------------|---------------------|--------------|
| Net (gains)/losses on revaluation of cash flow hedges | 3,714 | (570) | IAS 12.81(a) |
| Deferred income tax reported to OCI | <u>3,714</u> | <u>(570)</u> | |

Reconciliation of tax expense and the accounting profit multiplied by Estateland's tax rate is, as follows:

| | <u>2017</u> | <u>2016</u> | |
|---|----------------------|----------------------|-----------------|
| | <u>€000</u> | <u>€000</u> | |
| Accounting profit before income tax | <u>30,646</u> | <u>18,024</u> | IAS 12.81(c)(i) |
| At Estateland's statutory tax rate of 30% (2016: 30%) | 9,193 | 5,407 | |
| Non-deductible expenses | 1,194 | 519 | |
| Non-taxable income | (156) | (781) | |
| Effect of lower tax rates in other countries | (2,933) | (1,548) | |
| Income tax expense reported in the statement of profit or loss | <u>7,298</u> | <u>3,597</u> | |

Commentary

IAS 12 requires an explanation of the relationship between income tax expense and accounting profit in either or both of the following forms:

- ▶ A numerical reconciliation between the income tax expense and the product of accounting profit multiplied by the applicable tax rate(s), also disclosing the basis on which the applicable tax rate(s) is (are) computed
- ▶ A numerical reconciliation between the average effective tax rate and the applicable tax rate, also disclosing the basis on which the applicable tax rate is computed

The Group has presented the former.

Notes to the consolidated financial statements

14. Income tax continued

| | Statement of financial position | | Statement of profit or loss | | IAS 12.81(gXi) IAS 12.81(gXii) |
|--|---------------------------------|----------------|-----------------------------|--------------|-----------------------------------|
| | 2017 | 2016 | 2017 | 2016 | |
| | €000 | €000 | €000 | €000 | |
| Deferred income tax liability | | | | | |
| Revaluations of investment property to fair value | 14,794 | 4,286 | 4,158 | 2,086 | |
| Adjustments relating to straight lining of lease incentives | 672 | 756 | (84) | (106) | |
| | <u>15,466</u> | <u>5,042</u> | <u>4,074</u> | <u>1,980</u> | |
| Deferred income tax assets | | | | | |
| Revaluation of an interest rate swap (cash flow hedge) to fair value | 123 | 3,837 | – | – | |
| Losses available for offsetting against future taxable income | 4,029 | 4,197 | 168 | (650) | |
| | <u>4,152</u> | <u>8,034</u> | | | |
| Deferred income tax expense | | | 4,242 | 1,330 | |
| Deferred tax liabilities/(assets) net | 11,314 | (2,992) | | | |
| Reflected in the statement of financial position as follows: | | | | | |
| Deferred tax assets | – | (2,992) | | | |
| Deferred tax liabilities | 11,314 | – | | | |
| Deferred tax liabilities/(assets) net | 11,314 | (2,992) | | | |

The temporary difference resulting from revaluation of investment property to fair value includes an amount of €6,350 related to the purchase price allocation of Property Business Ltd (Note 7).

The Group has tax losses that arose in Estateland of €12,204 (2016: €12,204) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other convincing evidence of recoverability in the near future.

IAS 12.37
IAS 12.81(e)

An initial recognition, a temporary difference of €35,100 (2016: €35,800) exists between the carrying amount of investment property and its tax base, for which no deferred taxation has been provided. This temporary difference resulted from acquisition of single asset entities that own investment properties which were not considered to constitute a business.

Commentary

IAS 12 does not require disclosure of temporary differences for which no deferred taxation has been provided because of the initial recognition exemption in IAS 12. However, we included the disclosure because we consider it provides useful information to users.

IAS 1.61 requires an entity to separately disclose the line items that are included in the amounts expected to be recovered or settled within 12 months and more than 12 months after the reporting date. Deferred tax assets and liabilities may be considered one example for items combining such amounts. However, IAS 1.56, in contrast, does not permit presentation of those items as current, which suggests that providing the disclosures required by IAS 1.61 does not apply to deferred tax assets and liabilities.

15. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

Notes to the consolidated financial statements

15. Earnings per share (EPS) *continued*

The following table reflects the income and share data used in the basic and diluted EPS computations:

| | <u>2017</u> | <u>2016</u> | |
|--|------------------|------------------|---------------------|
| | €000 | €000 | |
| Profit attributable to ordinary equity holders of the parent for basic earnings | <u>20,759</u> | <u>13,469</u> | <i>IAS 33.70(a)</i> |
| | <u>2017</u> | <u>2016</u> | |
| | Thousands | Thousands | |
| Weighted average number of ordinary shares for basic EPS | <u>213,700</u> | <u>193,700</u> | <i>IAS 33.70(b)</i> |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements. *IAS 33.70(d)*

The exercise price of the outstanding share options exceeds the average market price of ordinary shares during the period. Therefore, the outstanding share options did not have an impact on the determination of the diluted EPS.

16. Net asset value per share (NAV)

Basic NAV per share amounts are calculated by dividing net assets in the statement of financial position attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

The following reflects the net asset and share data used in the basic and diluted NAV per share computations:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| | €000 | €000 |
| NAV attributable to ordinary equity holders of the parent | 285,413 | 217,382 |
| | <u>2017</u> | <u>2016</u> |
| | Thousands | Thousands |
| Number of ordinary shares at the reporting date | <u>227,700</u> | <u>193,700</u> |

Notes to the consolidated financial statements

17. Investment property

31 December 2017

| Country Class | Estateland | | Germany | | Luxembourg | | France | | Total 2017 | IFRS 13.93(e) |
|---|--------------------|--------------------|------------------------|--------------------|--------------------|--------------------|------------------------|--------------------|----------------|---------------------------|
| | Retail Level 3* | Office Level 3* | Industrial Level 3* | Office Level 3* | Retail Level 3* | Office Level 3* | Industrial Level 3* | Office Level 3* | | |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | |
| At 1 January | 56,195 | 18,714 | 70,950 | – | 1,261 | 70,286 | 171,214 | – | 388,620 | |
| Acquisitions arising from business combinations (Note 7) | 10,000 | – | – | 20,000 | 10,000 | – | 35,000 | – | 75,000 | IAS 40.76(b) |
| Capital expenditure on owned property | 204 | 50 | 50 | – | 50 | 50 | 100 | – | 504 | IAS 40.76(a) |
| Transfer from inventory property (Note 22) | 1,047 | – | – | – | – | – | – | – | 1,047 | IAS 40.76(f) |
| Transfer from property under construction (Note 18) | – | – | – | – | – | – | – | 10,070 | 10,070 | IAS 40.76(f) |
| Disposals | – | – | – | – | – | – | (26,670) | – | (26,670) | IAS 40.76(g) |
| Reclassifications | 1,000 | (1,000) | – | – | – | – | – | – | – | IAS 40.76(g) |
| Other | 320 | (320) | – | – | – | – | – | – | – | IAS 40.76(g) |
| Remeasurement adjustment | 11,001 | (11,000) | (15,414) | 5,484 | (931) | (5,316) | 31,156 | – | 14,980 | IAS 40.76(d) |
| Total completed investment property | 79,767 | 6,444 | 55,586 | 25,484 | 10,380 | 65,020 | 210,800 | 10,070 | 463,551 | |
| Less: classified as held for sale (Note 35) | (10,560) | – | – | – | – | – | – | – | (10,560) | IAS 40.76(c) IFRS 5.41 |
| At 31 December | 69,207 | 6,444 | 55,586 | 25,484 | 10,380 | 65,020 | 210,800 | 10,070 | 452,991 | |

31 December 2016

| Country Class | Estateland | | Germany | | Luxembourg | | France | | Total 2016 | IFRS 13.93(e) |
|---|--------------------|--------------------|------------------------|--------------------|--------------------|------------------------|----------------|------|---------------|---------------|
| | Retail Level 3* | Office Level 3* | Industrial Level 3* | Retail Level 3* | Office Level 3* | Industrial Level 3* | | | | |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | |
| At 1 January | 47,307 | 19,401 | 76,619 | 2,262 | 72,501 | 84,150 | 302,240 | | | |
| Acquisitions of property | 6,100 | – | – | – | – | 65,325 | 71,425 | | | IAS 40.76(a) |
| Capital expenditure on owned property | – | – | 2,000 | – | 1,000 | 2,475 | 5,475 | | | IAS 40.76(a) |
| Remeasurement adjustment (Note 19) | 2,788 | (687) | (7,669) | (1,001) | (3,215) | 19,264 | 9,480 | | | |
| Total completed investment property at 31 December | 56,195 | 18,714 | 70,950 | 1,261 | 70,286 | 171,214 | 388,620 | | | |

* Classified in accordance with the fair value hierarchy, see notes 5 and 19.

Notes to the consolidated financial statements

17. Investment property *continued*

Commentary

Paragraph 99 of IFRS 13 requires an entity to present the necessary quantitative disclosures in a tabular format unless another format is more appropriate. In some cases, it may be useful to present the information required by IFRS 13 together with the information required by IAS 40, to avoid replicating information and to provide user-friendly analysis.

An example would be the combination of disclosures required under IFRS 13.93 (e) with the disclosures required under IAS 40.76.

- ▶ IFRS 13.93(e) requires an entity with recurring fair value measurements categorised within Level 3 of the fair value hierarchy to reconcile the opening balances to the closing balances.
- ▶ IAS 40.76 requires an entity that applies the fair value model to its investment property to provide a reconciliation between the carrying amounts of investment property at the beginning and the end of the period.

If most or all of the entity's investment property is categorised within Level 3, the information above could be presented in the same table instead of separate tables. This is the approach taken by the Group.

| | <u>2017</u> | <u>2016</u> | |
|---|-----------------------|-----------------------|-----------|
| | €000 | €000 | |
| Market value as estimated by the external valuer | 464,078 | 389,385 | IAS 40.77 |
| Add: finance lease obligation recognised separately (Note 28) | 1,713 | 1,755 | |
| Less: lease incentive balance included in prepayments | (2,240) | (2,520) | |
| Fair value for financial reporting purposes | <u>463,551</u> | <u>388,620</u> | |

The fair value of completed investment property, except for two properties described below, is determined using a discounted cash flow (DCF) method.

IAS 40.75(e)
IAS 40.33
IAS 40.75(a),
IFRS 13.93(d)

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership 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 flow series, an appropriate, 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 flow 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 behaviour 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.

Two properties are valued using alternative methods:

- ▶ The office building in France is valued using the income capitalisation method, where a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. The difference between gross and net rental income includes the same expense categories as those for the DCF method with the exception that certain expenses are not measured over time, but included on the basis of a time-weighted average, such as the average lease-up costs. Under the income capitalisation method, over and under-rent situations are considered separately.
- ▶ The office building in Estateland is valued using the market comparable approach, due to a high volume of transactions involving comparable properties in the area during the year. Under the market comparable approach, a property's fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sqm).

IFRS13.93(h)(i)

The valuations were performed by Chartered Surveyors & Company, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

IAS 40.75(e)

More information about the fair value measurement is set out in Note 19.

Notes to the consolidated financial statements

17. Investment property continued

As at 31 December, property with an aggregate value of €75,000 (2016: €70,000) is held under lease agreements. Future lease payments are presented in Note 28.

IAS 40.75(b)

As at 31 December, the portfolio had the following vacancy rates, calculated based on estimated rental values (ERV), along with the following estimates of when actual vacancy will equal the long-term rate:

IAS 17.31,
IAS 40.75

| | Luxembourg | Estateland | Germany | France |
|---|------------|------------|---------|--------|
| 2017 | | | | |
| Vacancy rate | 3% | 4% | 3% | 6% |
| Duration (months during which the vacancy rate equals the long-term rate) | 6 | 7 | – | 9 |
| 2016 | | | | |
| Vacancy rate | 4% | 5% | 4% | 7% |
| Duration (months during which the vacancy rate equals the long-term rate) | 9 | 8 | – | 9 |

Commentary

Whilst not a specific IFRS requirement, in some jurisdictions, disclosure of the vacancy rates of the entities' property portfolio is commonly provided. For example, EPRA (see Appendix 1) recommends that entities disclose vacancy rates calculated as the ERV of vacant space divided by ERV of the whole portfolio. Vacancy rate generally includes all completed property (whether classified as investment or trading) including entity's share of its joint ventures' vacancies, but excluding those properties that are under development.

18. Investment property under construction

France - Office (under construction)

Level 3

At 1 January

Capital expenditure

Interest capitalised

Transfer to completed investment property (Note 17)

Remeasurement adjustment during the year (including effect of re-measuring investment property under construction from cost to fair value) (Note 19)

At 31 December

| | 2017 | 2016 | |
|--|---------------|---------------|--------------|
| | €000 | €000 | |
| | 30,896 | 9,540 | IAS 40.76 |
| Capital expenditure | 5,150 | 18,141 | IAS 40.76(a) |
| Interest capitalised | 250 | 1,210 | |
| Transfer to completed investment property (Note 17) | (10,070) | – | |
| Remeasurement adjustment during the year (including effect of re-measuring investment property under construction from cost to fair value) (Note 19) | 3,920 | 2,005 | |
| | 30,146 | 30,896 | IAS 40.76 |

Unless stated at cost, the fair value of investment property under construction located in France (with the exception of the asset in Disputeland below also located in France), has been determined using a DCF method, as described in Note 19. In the case of investment property under construction, estimates of capital outlays and construction costs, development costs, and anticipated sales income are estimated to arrive at a series of net cash flows that are then discounted over the projected development and marketing periods. Specific development risks such as planning, zoning, licences, and building permits are separately valued.

IAS 40.75),(e)
IAS 40.33,
75(a),
IFRS 13.93(d)

The valuations were performed by Chartered Surveyors & Company, an accredited independent valuer with a recognised and relevant professional qualification and recent experience of the location and category of the investment property being valued. The valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. These valuation models are consistent with the principles in IFRS 13.

IAS 40.53,78

As at 31 December 2017, one property under development in Disputeland of France is carried at cost of €10,070 (2016: €8,500) because its fair value could not be reliably measured due to uncertainty around ownership and zoning permission in that market. Management, however, has assessed this property for impairment and concluded that the carrying amount is not impaired, rather they assess its fair value as between €8,000 and €12,000.

All investment property under construction is classified as Level 3 in the fair value hierarchy (see Note 19).

Commentary

IAS 40.53 requires investment property under construction to be measured at cost until such time as fair value becomes reliably measureable on a continuing basis.

Notes to the consolidated financial statements

19. Fair value measurement - investment property and investment property under construction

The management group that determines the Group's valuation policies and procedures for property valuations comprises the chief operating officer (COO) and chief financial officer (CFO). Each year, the COO and the CFO appoint, following the audit committee's approval, an external valuer who is responsible for the external valuations of the Group's property for the annual financial statements. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years.

In addition, the COO and CFO are responsible for the Group's internal valuation department. The Group's internal valuation department comprises two employees, both of whom hold relevant internationally recognised professional qualifications and are experienced in valuing the types of property in the applicable locations.

Valuations for interim reporting purposes are performed internally by the Group's internal valuation department. Internal methods are aligned with those used by external valuers and such methods are externally validated by an independent party. However, on a sample basis (for approximately 25% of all property - properties are rotated every quarter), external valuations are obtained to validate the internal valuations for interim reporting purposes or external valuers are requested to confirm the main input variables used in the internal valuations. As at each year-end, all properties are valued by external valuers.

At each reporting date, the internal valuation department analyses the movements in each property's value. For this analysis, the internal valuation department verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts (e.g., rent amounts in rental contracts), market reports (e.g., market rent, cap rates in property market reports) and other relevant documents. In addition, the accuracy of the computation is tested on a sample basis.

Each property is considered a separate asset class based on its unique nature, characteristics and risks. For each property, the latest valuation is also compared with the valuations in the four preceding quarters as well as with the valuations of the two preceding annual periods. If fair value changes (positive or negative) are more than a certain specified threshold, the changes are further considered by discussion with external valuers.

IFRS 13.94

The internal valuation department also compares each property's change in fair value with relevant external sources (such as the investment property database or other relevant benchmarks) to determine whether the change is reasonable.

On a quarterly basis, after the COO and the CFO have considered the valuations with the internal valuation department, together with the external valuers present the Group's valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations, with an emphasis on: (i) property with fair value changes outside of the relevant thresholds set out above; and (ii) investment property under construction.

Changes in valuation techniques

The fair value of a shopping mall in Estateland (included in the retail portfolio) was previously determined based on the income capitalisation method. The Group believes that the DCF method provides better transparency than the income capitalisation method and has, therefore, decided to change the valuation method. This change in valuation method is applied prospectively as it is a change in estimate.

IFRS 13.93(d)

Other than as described above, there were no other changes in valuation techniques during the year.

Commentary

IFRS 13.66 states that a revision resulting from a change in the valuation technique or its application is accounted for as a change in accounting estimate in accordance with IAS 8, thus requiring prospective application. IFRS 13.66 provides an exemption regarding the disclosure for a change in accounting estimate under IAS 8, specifying that the disclosure is not required for revisions resulting from a change in a valuation technique or its application.

Highest and best use

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

IFRS 13.93(i)

Notes to the consolidated financial statements

19. Fair value measurement - investment property and investment property under construction continued

Commentary

If the highest and best use of a non-financial asset differs from its current use, an entity must disclose the fact and the reason why the asset is being used in a manner that differs from its highest and best use (IFRS 13.93(i)). The Group has assessed that the highest and best use of its properties does not differ from their current use.

An example of a situation where the current use of a property differs from its highest and best use is a property that is being used as a parking area. The entity that holds the property has determined that use of the property as an office building, after development, will generate the most economic benefits, i.e., use as an office building is the highest and best use of the property.

Fair value hierarchy

IFRS 13.99
IFRS 13.93(b)

The following tables show an analysis of the fair values of investment property recognised in the statement of financial position by level of the fair value measurement hierarchy (as disclosed in note 5):

| 31 December 2017 | Fair value measurement using | | | | Total gain or (loss) in the period in the statement of profit or loss €000 |
|------------------------------------|---|---|---|----------------|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | |
| | €000 | €000 | €000 | €000 | |
| Estateland - Retail | – | – | 69,207 | 69,207 | 11,001 |
| Estateland - Office | – | – | 6,444 | 6,444 | (11,000) |
| Germany - Industrial | – | – | 55,586 | 55,586 | (15,414) |
| Germany - Office | – | – | 25,484 | 25,484 | 5,484 |
| Germany - Retail | – | – | 10,380 | 10,380 | (931) |
| Luxembourg - Office | – | – | 65,020 | 65,020 | (5,316) |
| France - Industrial* | – | – | 210,800 | 210,800 | 31,156 |
| France - Office under construction | – | – | 30,146 | 30,146 | 3,920 |
| Total (Notes 17, 18) | – | – | 473,067 | 473,067 | 18,900 |

IAS 40.75(f)(iv)

* Office in Disputeland completed during 2017 (under construction in 2016), is measured at cost of €10,070 and is not included in the above (Note 18).

Transfers between hierarchy levels

There were no transfers between Levels 1, 2 or 3 during 2017.

IFRS 13.93(c)

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to €18,900 and are presented in the consolidated statement of profit or loss in line items 'valuation gains from completed investment property' (€14,980) and 'valuation gains from investment property under construction' (€3,920).

IFRS 13.93(f)

All gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property (completed and under construction) held at the end of the reporting period.

IFRS 13.93(e)(ii)
IFRS 13.93(f)

Notes to the consolidated financial statements

19. Fair value measurement - investment property and investment property under construction *continued*

| 31 December 2016 | Fair value measurement using | | | | Total gain or (loss) in the period in the statement of profit or loss €000 |
|-------------------------------------|---|---|---|----------------|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | |
| | €000 | €000 | €000 | €000 | |
| Estateland - Retail | - | - | 56,195 | 56,195 | 2,788 |
| Estateland - Office | - | - | 18,714 | 18,714 | (687) |
| Germany - Industrial | - | - | 70,950 | 70,950 | (7,669) |
| Germany - Retail | - | - | 1,261 | 1,261 | (1,001) |
| Luxembourg - Office | - | - | 70,286 | 70,286 | (3,215) |
| France - Industrial | - | - | 171,214 | 171,214 | 19,264 |
| France - Office under construction* | - | - | 22,396 | 22,396 | 2,005 |
| Total (Notes 17, 18) | - | - | 411,016 | 411,016 | 11,485 |

IAS 40.75(f)(iv)

* Office under development in Disputeland is measured at cost of €8,500 and is not included in the above (Note 18)

There were no transfers between Levels 1, 2 or 3 during 2016.

IFRS 13.93(c)

Valuation techniques used to derive Level 2 and Level 3 fair values

IFRS 13.94

IFRS 13.93(d)

The table below presents the following for each class of the investment property:

- ▶ The fair value measurements at the end of the reporting period
- ▶ The level of the fair value hierarchy (e.g. Level 2 or Level 3) within which the fair value measurements are categorised in their entirety
- ▶ A description of the valuation techniques applied
- ▶ The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building
- ▶ For Level 3 fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement

Commentary

Many of the IFRS 13 disclosures are required for each class of assets (and liabilities). IFRS 13 requires these classes of assets (and liabilities) to be determined based on:

- (a) the nature, characteristics and risks of the asset or liability; and
- (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The determination of the appropriate class of assets will require significant judgement. At one end of the spectrum, the properties in an operating segment (as defined by IFRS 8 *Operating Segments*) may be a class of assets for the purpose of the disclosures required by IFRS 13. This may be the case, even if there are many properties in the segment, if the properties have the same risk profile (e.g., the segment comprises residential properties in countries with property markets of similar characteristics). At the other end of the spectrum, IFRS 13 disclosures may be required for individual properties or small groups of properties if the individual properties or groups of properties have different risk profiles (e.g., a real estate entity with two properties - an office building in a developed country and a shopping centre in a developing country).

Because most properties are unique, IFRS 13 may be interpreted as requiring a preparer to provide disclosure information on a property-by-property basis, but it is clear that a balance must be found between meaningful and useful disclosure and avoiding a level of detail that, for many companies, would be onerous. The Group has made the judgement that appropriate disclosures are by type of property and geographical location. This may not be the case for entities with groups of properties sharing major characteristics.

Examples of different asset classes are:

- ▶ Core, value-added and opportunistic
- ▶ Geographic allocation: country level (Germany, France, Luxembourg) or area level (Europe EU, Europe non-EU, North America, South America, China, Rest of Asia Pacific, Emerging Markets)
- ▶ Retail, offices, industrial, residential and mixed use

Care should be taken in the assessment of asset classes, as different companies have different portfolios with different risk profiles and concentrations. More or less disclosure may be necessary if the asset classes change.

The Group has determined that each property is a separate asset class.

Notes to the consolidated financial statements

19. Fair value measurement - investment property and investment property under construction continued

| Class of Property | Fair Value | Fair Value | Valuation technique | Key unobservable inputs | Range | Range | IFRS 13.93(d) |
|--|------------|------------|---------------------|--------------------------|----------------------|-----------------------|---------------|
| | 2017 | 2016 | | | (Weighted avg) | (Weighted avg) | |
| | €000 | €000 | | | 2017 | 2016 | |
| Estateland - Retail Level 3 | 69,207 | 56,195 | DCF | ▶ ERV | ▶ €140- €180 (€160) | ▶ €145- €175 (€150) | |
| | | | | ▶ Rental growth p.a. | ▶ 1.7%-2.5% (1.9%) | ▶ 1.7%-2.5% (1.8%) | |
| | | | | ▶ Long term vacancy rate | ▶ 4%-6% (5%) | ▶ 4%-6.5% (5.25%) | |
| | | | | ▶ Discount rate | ▶ 6.0%-8.2% (6.5%) | ▶ 6.0%-8.4% (7%) | |
| Estateland - Office Level 3 | 6,444 | 18,714 | DCF | ▶ ERV | ▶ €100- €250 (€200) | ▶ €100- €260 (€210) | |
| | | | | ▶ Rental growth p.a. | ▶ 1,5%-2.5% (1.75%) | ▶ 1.5%-2.6% (1.9%) | |
| | | | | ▶ Long term vacancy rate | ▶ 3%-10% (5%) | ▶ 4%-10% (5%) | |
| | | | | ▶ Discount rate | ▶ 6.0%-8.2% (6.5%) | ▶ 5.5%-8.2% (6.25%) | |
| Germany - Industrial Level 3 | 55,586 | 70,950 | DCF | ▶ ERV | ▶ €50- €100 (€65) | ▶ €55- €110 (€75) | |
| | | | | ▶ Rental growth p.a. | ▶ 1.0%-1.5% (1.25%) | ▶ 1.0%-1.6% (1.35%) | |
| | | | | ▶ Long term vacancy rate | ▶ 1%-3% (2%) | ▶ 1.5%-3.5% (1.75%) | |
| | | | | ▶ Discount rate | ▶ 3.0%-4.2% (3.6%) | ▶ 2.5%-4.0% (3%) | |
| Germany - Office Level 3 | 25,484 | - | DCF | ▶ ERV | ▶ €200 -€300 (€250) | ▶ N/A | |
| | | | | ▶ Rental growth p.a. | ▶ 1.5%-2.5% (2.0%) | | |
| | | | | ▶ Long term vacancy rate | ▶ 3%.5% (4%) | | |
| | | | | ▶ Discount rate | ▶ 4.0%-4.2% (4.1%) | | |
| Germany - Retail Level 3 | 10,380 | 1,261 | DCF | ▶ ERV | ▶ €100- €250 (€200) | ▶ €100- €200 (€150) | |
| | | | | ▶ Rental growth p.a. | ▶ 1.0% - 2.0% (1.5%) | ▶ 1.0% - 2.0% (1.25%) | |
| | | | | ▶ Long term vacancy rate | ▶ 1%-3% (2%) | ▶ 1%-2% (1.5%) | |
| | | | | ▶ Discount rate | ▶ 6.0%-8.0% (7.0%) | ▶ 6.0%-8.5% (7.5%) | |
| Lux - Office Level 3 | 65,020 | 70,286 | DCF | ▶ ERV | ▶ €90- €120 (€100) | ▶ €90- €125 (€110) | |
| | | | | ▶ Rent growth p.a. | ▶ 1.0%-1.5% (1.2%) | ▶ 1.0%-1.5% (1.3%) | |
| | | | | ▶ Long term vacancy rate | ▶ 5%-9% (8%) | ▶ 5%-8% (7%) | |
| | | | | ▶ Discount rate | ▶ 4.0%-4.9% (4.3%) | ▶ 3.75%-4.9% (4%) | |
| France - Industrial Level 3 | 210,800 | 171,214 | DCF | ▶ ERV | ▶ €50- €90 (€58) | ▶ €40- €80 (€50) | |
| | | | | ▶ Rental growth p.a. | ▶ 1.0%-1.5% (1.5%) | ▶ 1.0%-1.5% (1.2%) | |
| | | | | ▶ Long term vacancy rate | ▶ 1%-5% (4%) | ▶ 1%-5% (3.8%) | |
| | | | | ▶ Discount rate | ▶ 5.0%-5.6% (5.2%) | ▶ 5.0%-5.8% (5.4%) | |
| France - Office Investment property under construction Level 3 | 30,146 | 22,396 | DCF | ▶ ERV | ▶ €275- €310 (€290) | ▶ €275- €300 (€285) | |
| | | | | ▶ Rental growth p.a. | ▶ 1.0%-1.5% (1.25%) | ▶ 1.0%-1.4% (1.3%) | |
| | | | | ▶ Long term vacancy rate | ▶ 2%-4% (3%) | ▶ 2%-4% (3%) | |
| | | | | ▶ Discount rate | ▶ 5.0%-5.6% (5.3%) | ▶ 5.0%-5.5% (5.25%) | |
| | | | | ▶ Construction cost | ▶ €1,000 per sqm | ▶ €950 per sqm | |
| | | | | ▶ Construction period | ▶ 36 months | ▶ 36 months | |
| | | | | ▶ Development profit | ▶ 20% | ▶ 20% | |
| | 483,627 | 411,016 | | | | | |

Notes to the consolidated financial statements

19. Fair value measurement - investment property and investment property under construction *continued*

Commentary

IFRS 13 also requires specific disclosures about fair value measurements and fair value. IFRS 13.99 requires an entity to present the quantitative disclosures of IFRS 13 to be included in a tabular format, unless another format is more appropriate. The Group has included the disclosures in tabular format.

In addition to the disclosure requirements in IFRS 13, IAS 1 requires disclosure of the significant judgements management has made about the future and sources of estimation uncertainty. IAS 1.129(b) includes, as an example of such a disclosure, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity. As such, information beyond that required by IFRS 13.93(h) may be needed in some circumstances.

Significant increases (decreases) in ERV and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties.

IFRS 13.93(h)

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 ERV 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.

Commentary

IFRS 13 requires only narrative information with respect to sensitivities. However, quantitative information on sensitivities may be useful for the users of financial statements. The Group has provided quantitative information on sensitivities as it believes that it would benefit the information needs of the users of their financial statements.

This analysis may not necessarily be for the same classes of assets as the IFRS 13 disclosures. However, a detailed sensitivity analysis may be useful in certain circumstances, such as when there is a significant estimation uncertainty pertaining only to the fair value of certain properties of an entity.

A quantitative sensitivity analysis is, as shown below:

| Sensitivity used | Effect on fair value | | |
|------------------------------------|-------------------------------|--|---------|
| | Completed Investment Property | Investment Property under Construction | |
| | €000 | €000 | |
| 2017 | | | |
| Increase in ERV | 10% | 57,900 | 3,750 |
| Rental growth per annum | 1% | 55,600 | 3,200 |
| Increase in long term vacancy rate | 1% | (4,600) | (300) |
| Increase in discount rate/yield | 0.25bps | (15,000) | (900) |
| Increase in construction cost | €100 per sqm | – | (2,000) |
| Increase in construction period | 1 month | – | (200) |
| Market required development profit | 10% | – | (3,000) |
| 2016 | | | |
| Increase in ERV | 10% | 57,800 | 3,775 |
| Rental growth per annum | 1% | 55,550 | 3,225 |
| Increase in long term vacancy rate | 1% | (4,575) | (315) |
| Increase in discount rate/yield | 0.25bps | (15,100) | (925) |
| Increase in construction cost | €100 per sqm | – | (2,050) |
| Increase in construction period | 1 month | – | (210) |
| Market required development profit | 10% | – | (3,050) |

Notes to the consolidated financial statements

20. Goodwill

| | 2017 | 2016 | |
|---|--------------|----------|--|
| | €000 | €000 | |
| Opening balance at 1 January | – | – | |
| Acquisition of Property Business Ltd (Note 7) | 3,000 | – | |
| Closing balance at 31 December | 3,000 | – | |

IAS 36.134(a)

Goodwill was recognised on the acquisition of Property Business Ltd (see note 7) and is allocated to the Property Business Ltd group of CGUs comprised of retail and office buildings (each of which is considered a CGU) acquired with Property Business Ltd and represents the portfolio premium paid.

IAS 36.134(c)

IAS 36.130(e)

IAS 36.134

(dXiii)

IAS 36.134

(dXiv)

IAS 36.134

(dXv)

IAS 36.126(a)

The Group performed its annual impairment test in December 2017 (2016: not applicable). The recoverable amount of the Property Business Ltd group of CGUs of €73,213, as at 31 December 2017, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by executive management covering a five-year period. The projected cash flows have been updated to reflect the increased forecast profitability of the business from the synergies created by the acquisition of Property Business Ltd - in particular, those arising as a result of the Group entering the new location and the expert strategic management functions associated with the acquired properties. The pre-tax discount rate applied to the cash flow projections is 14% (2016: not applicable) for the retail buildings CGU and 13.7% (2016: not applicable) for the office buildings CGU and cash flows beyond the five-year period are extrapolated using a 2.9% growth rate (2016: not applicable) that is the same as the long-term average growth rate for rentals in the Estateland retail and office market industry. As a result of the analysis, there is headroom of €6,538 and management did not identify impairment for the CGUs.

Key assumptions used in value in use calculations

The calculation of VIU for the Property Business Ltd group of CGUs is most sensitive to the following assumptions:

IAS 36.134(dXi)

IAS 36.134

(dXiii)

- ▶ Rental income growth
- ▶ Discount rates
- ▶ Growth rates used to extrapolate cash flows beyond the forecast period

IAS 36.134(f)

IAS 36.134(fXi)

IAS

36.134(fXii)

IAS

36.134(fXiii)

Rental income growth - Rental income is based on average income received from these properties in the three years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements. An increase of 2% per annum was applied.

Discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax cash flows in order to reflect a pre-tax discount rate.

Growth rates used to extrapolate cash flows beyond the forecast period - Rates are based on published industry research.

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Rental income growth - A decline in occupancy rates or an inability to successfully negotiate rent rate may lead to a decline in rental income. A decrease in rental income of 5.0% would result in impairment.

Discount rates - A rise in pre-tax discount rate by 2% to 16.0% in the retail buildings CGU and by 1.3% to 15% in the office buildings CGU would result in impairment.

Growth rates used to extrapolate cash flows beyond the forecast period - Management recognises that development by competitors of new retail and office buildings in close proximity to properties held by the Group can have a significant impact on growth rate assumptions. A reduction by 2.6% to 0.3% in the long-term growth rate would result in impairment.

Notes to the consolidated financial statements

Commentary

The Group has determined the recoverable amount of the group of CGUs based on the value in use (VIU) in IAS 36 *Impairment of Assets*. If the recoverable amounts are determined using fair value less costs of disposal, IAS 36.134(e) requires disclosure of the valuation technique(s) and other information. Furthermore, if fair value less cost of disposal is determined using discounted cash flow projections, additional information such as the period of cash flow projections, growth rate used to extrapolate cash flow projections and the discount rate(s) applied to the cash flow projections are required to be disclosed. An entity is not required to provide disclosures required under IFRS 13, these disclosures under IAS 36.134(e) are similar to those under IFRS 13.

IAS 36.134(d)(i) requires disclosure of key assumptions made for each CGU for which the carrying amount of goodwill allocated is significant in comparison with the entity's total carrying amount of goodwill. Companies need to evaluate the significance of each assumption used for the purpose of this disclosure.

IAS 36.134(f) requires disclosures of sensitivity analysis for each CGU for which the carrying amount of goodwill allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill. These disclosures are made if a reasonably possible change in a key assumption used to determine the CGU's recoverable amount would cause the CGU's carrying amount to exceed its recoverable amount. Entities need to also take into account the consequential effect of a change in one assumption on other assumptions, as part of the sensitivity analyses when determining the point at which the recoverable amount equals the carrying amount (IAS 36.134(f)(iii)).

It is sometimes argued that investment property entities that measure their property at fair value cannot have goodwill on their statement of financial positions since goodwill needs to be justified by future cash flows and a property investor's future cash flows are already built into the fair value of the investment property.

On a business combination, deferred tax is provided in accordance with IAS 12 and this is usually far in excess of the fair value of the expected tax liability. As it is the fair value of the expected actual tax payment that is generally considered in setting the price for the business acquired, the requirements of IAS 12 tend to increase the amount of goodwill arising.

Whilst IAS 36 explicitly requires tax to be excluded from the estimate of future cash flows used to calculate any impairment, it is our view that it cannot have been the intention of IAS 36 to require an immediate impairment of such goodwill generated by the recognition of deferred tax liabilities in excess of their fair value. Rather, the post-tax discount rate needs to be adjusted in order to determine the appropriate pre-tax discount rate. In effect, this means that, on acquisition, the deferred tax liability in excess of its fair value may be offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

This is consistent with the view that goodwill can result from a measurement mismatch between two standards. The IASB acknowledged this can happen when, as noted above, it observed that goodwill could include "errors in measuring and recognising the fair value of either the cost of the business combination or the acquiree's identifiable assets, liabilities or contingent liabilities, or a requirement in an accounting standard to measure those identifiable items at an amount that is not fair value".

However, this approach can be used only when it is clear that the deferred tax provision arising from an acquisition of a business is in excess of the fair value of that liability.

It should be possible to continue to apply the above approach when testing the goodwill for impairment in subsequent years, but the entity will need to be able to track the deferred tax liability. Consequently, to the extent that the deferred tax provision in excess of the fair value of that liability is reduced or eliminated, perhaps through a change in the tax circumstances of the entity, the goodwill arising from the initial recognition of the provision may become impaired.

For further discussion refer to the EY publication issued in February 2016, ["Applying IFRS: Goodwill hunting - Looking for property investors' missing cash flows"](#)

Notes to the consolidated financial statements

21. Interest in joint ventures

The Group has a 50% interest in Westmeadow NV, a joint venture which owns shopping malls in the Netherlands. During 2017, the Group additionally acquired a 50% interest in Eastmeadow NV, a joint venture which also owns shopping malls in the Netherlands. The Group's interest in joint ventures is accounted for using the equity method in the consolidated financial statements. Neither of these joint ventures have a quoted market price. Summarised financial information of the joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

IFRS 12.20
IFRS 12.21
IFRS 12.12
IFRS 12.B14
IFRS
12.21(b)(iii)

31 December 2017

| | Eastmeadow NV | Westmeadow NV | Total | |
|--|-----------------------|---------------------|-----------------------|----------------|
| | €000 | €000 | €000 | |
| Current assets, including cash & cash equivalents of €700 and €100 for Eastmeadow and Westmeadow, respectively | 4,200 | 1,000 | 5,200 | |
| Non-current assets -investment property | 203,447 | 6,553 | 210,000 | |
| | <u>207,647</u> | <u>7,553</u> | <u>215,200</u> | |
| Current liabilities including tax payable of €80 and €120 for Eastmeadow and Westmeadow, respectively | (2,200) | (500) | (2,700) | |
| Non-current liabilities including long term borrowings of €4,100 and €900 for Eastmeadow and Westmeadow, respectively | (4,500) | (1,500) | (6,000) | |
| | <u>(6,700)</u> | <u>(2,000)</u> | <u>(8,700)</u> | |
| Equity | 200,947 | 5,553 | 206,500 | |
| Proportion of the Group's interest | 50% | 50% | 50% | |
| Group's carrying amount of the investment | <u>100,473</u> | <u>2,727</u> | <u>103,250</u> | IFRS 12.B14(b) |
| Rental income | 7,446 | 6,910 | 14,356 | IFRS 12.B13 |
| Property expenses | (1,028) | (1,600) | (2,628) | IFRS 12.B13 |
| Other expenses, including depreciation of €80 and €300, respectively, and finance expense of €40 and €90 for Eastmeadow and Westmeadow, respectively | (390) | (810) | (1,200) | IFRS 12.B13 |
| Loss on valuation of investment property | – | (1,500) | (1,500) | |
| Profit before income tax | <u>6,028</u> | <u>3,000</u> | <u>9,028</u> | |
| Income tax expense | (1,634) | (894) | (2,528) | IFRS 12.B13 |
| Profit for the year | 4,394 | 2,106 | 6,500 | |
| Group's share of profit for the period | <u>2,197</u> | <u>1,053</u> | <u>3,250</u> | |

Notes to the consolidated financial statements

21. Interest in joint ventures *continued*

31 December 2016

(only Westmeadow NV)

Current assets, including cash & cash equivalents of €350

Non-current assets - investment property

€000

1,040

5,300

6,340

IFRS 12.B12

IFRS 12.B13

Current liabilities including tax payable of €100

Non-current liabilities including long term borrowings of €1,000

(540)

(1,200)

(1,740)

Equity

Proportion of the Group's ownership

4,600

50%

Carrying amount of the investment

2,300

IFRS 12.B14(b)

Rental income

Property expenses

Other expenses, including depreciation of €300 and finance expense of €100

Loss on valuation of investment property

6,868

(1,516)

(802)

(938)

IFRS 12.B13

IFRS 12.B13

IFRS 12.B13

Profit before income tax

Income tax expense

Profit for the year

3,612

(1,012)

2,600

IFRS 12.B13

Group's share of profit for the period

1,300

The Group has not incurred any contingent liabilities as at 31 December 2017 and 2016 in relation to its interest in the joint ventures, nor do the joint ventures themselves have any contingent liabilities for which the Group is contingently liable.

The Group has not entered into any capital commitments in relation to its interest in the joint ventures and did not receive any dividends from the joint ventures. The Group's share in the capital commitments of the joint ventures themselves is €5,200 (Note [34](#)).

IFRS 12.22 (a)

IFRS 12.23(a)

IFRS 12.B18-

B19

Commentary

IFRS 12.B14 requires separate presentation of goodwill and other adjustments to the investments in joint ventures and associates in the above reconciliation. The Group does not have goodwill or other adjustments.

IFRS 12.21(a) requires the separate disclosure of information for joint operations, as it relates to all types of joint arrangements. The Group does not have any joint operations.

The Group has presented the summarised financial information of the joint ventures based on their IFRS financial statements. IFRS 12.B15 allows this information to be provided using alternative bases, if the entity measures its interest in the joint venture at fair value, and if the joint venture does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost. Applying both the impracticable and undue cost thresholds involves significant judgement and must be carefully considered in the context of the specific facts and circumstances. In either case, the entity is required to disclose the basis on which the information is provided. This is not applicable to the Group.

IFRS 12.22(b) requires additional disclosures when the financial statements of the joint venture used in applying the equity method are as of a different date or for a different period from that of the entity. This is not applicable to the Group.

IFRS 12.22(c) requires disclosure of unrecognised share of losses of a joint venture. This is not applicable to the Group.

Notes to the consolidated financial statements

22. Inventory property

The Group has a division that develops residential property, which it sells in the ordinary course of business and has entered into contracts to sell certain of these properties on completion of construction.

The Group has concluded that these pre-completion contracts were not, in substance, construction contracts. However, where the legal terms were such that the construction represented the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition has been applied and revenue recognised as work progressed. Development expenditure incurred in respect of inventory property dealt with under the percentage of completion method is recognised in profit or loss in the period incurred. IFRIC 15.20

Revenue from sales of residential property where the contracts are not in substance construction contracts and do not lead to a continuous transfer of work in progress, is recognised when both: (i) construction is complete; and (ii) either legal title to the property has been transferred or there has been an unconditional exchange of contracts. Construction and other expenditure attributable to such property are included in inventory property until disposal. During the year, the Group transferred the remaining unsold units of a residential property to investment property, in conjunction with the commencement of the operating lease of these units to a third party. IAS 2.36(d)

The amount recognised in cost of sales for the year in respect of inventory property is:

| | <u>2017</u> | <u>2016</u> | |
|--|---------------------|----------------------|-------------|
| | €000 | €000 | |
| In respect of sales recognised on a percentage of completion basis | 4,000 | 2,000 | IFRIC 15.21 |
| In respect of other inventory property sales | 3,000 | 15,000 | |
| | <u>7,000</u> | <u>17,000</u> | IAS 11.39 |

A summary of movement in inventory property is set out below:

| | <u>2017</u> | <u>2016</u> | |
|---|---------------------|---------------------|--------------|
| | €000 | €000 | |
| At 1 January | 9,580 | 19,000 | |
| Construction costs incurred | 890 | 5,060 | IAS 11.40(a) |
| Interest capitalised | 110 | 520 | IAS 23.26(a) |
| Transfer to completed investment property (Note 17) | (1,047) | – | IAS 40.57(d) |
| Disposals (recognised in cost of sales) | (3,000) | (15,000) | |
| At 31 December | <u>6,533</u> | <u>9,580</u> | |

Commentary

It is common for real estate developers to market their developments well before the start of any construction and this activity then continues throughout the construction period. A typical 'off plan' arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction. The issue dealt with in IFRIC 15 *Agreements for the Construction of Real Estate* is whether the developer is selling a product (goods), e.g., the completed apartment or house, or is selling a service, e.g., a construction service as a contractor engaged by the buyer. Revenue from selling products is normally recognised at delivery. Revenue from selling services is normally recognised on a percentage-of-completion basis as construction progresses.

Moreover, the interpretation introduces the concept of 'continuous transfer'. When an agreement is for the sale of goods, it is possible for a developer to recognise revenue by reference to the stage of completion if the risks and rewards of ownership are transferred to the buyer and control over work-in-progress is transferred on a continuous basis. For example, if the agreement is terminated before construction is complete, but the buyer retains the work in progress and the entity has the right to be paid for the work performed, this might indicate that control over work in progress is transferred during construction. This would mean that the stage of completion principles in IAS 11 would apply.

Refer to Note 6 for disclosures about the anticipated effect of the issued but not yet effective revenue recognition standard, IFRS 15.

IAS 2 *Inventories* does not require a table of movements in inventory. However, such a table is provided here to illustrate how this approach can be applied.

Notes to the consolidated financial statements

22. Inventory property *continued*

The following table provides information about such continuous transfer agreements that are in progress at the reporting date:

| | 2017 | 2016 | |
|---|-------------|-------------|--------------|
| | €000 | €000 | |
| Aggregate costs incurred and expensed to date | 12,000 | 8,000 | IAS 11.40(a) |
| Profit (before tax) recognised to date | 6,000 | 4,000 | IAS 11.40(a) |
| Advances received | 750 | 500 | IAS 11.40(b) |

23. Rent and other receivables

| | 2017 | 2016 | |
|---|---------------|---------------|--------------|
| | €000 | €000 | |
| Rent and service charge receivables | 7,010 | 7,640 | |
| Amounts due in respect of inventory property sales recognised on a percentage of completion basis | – | 12,000 | IAS 11.39(a) |
| Receivables from related parties | 4,630 | 1,810 | |
| Accrued income | 2,920 | 1,410 | |
| | 14,560 | 22,860 | IFRS 7.6 |

Rent and service charge receivables are non-interest bearing and are typically due within 30 days. For further information on terms and conditions relating to related party receivables, refer to Note 30. IFRS 7.34(a)
IAS 24.18(b)

As at 31 December 2017, receivables with nominal value of €2,105 (2016: €1,800) were impaired and fully provided for due to tenant defaults. Movements in the provision for impairment of receivables were, as follows: IFRS 7.37

| | Individually impaired | Collectively impaired | Total | |
|-------------------------------|----------------------------------|----------------------------------|--------------|-----------|
| | €000 | €000 | €000 | |
| At 1 January 2016 | 438 | 1,023 | 1,461 | IFRS 7.16 |
| Charge for the year (Note 10) | 120 | 244 | 364 | |
| Utilised | (11) | (14) | (25) | |
| At 31 December 2016 | 547 | 1,253 | 1,800 | |
| Charge for the year (Note 10) | 102 | 217 | 319 | |
| Utilised | (4) | (10) | (14) | |
| At 31 December 2017 | 645 | 1,460 | 2,105 | |

The table below provides information regarding the credit risk exposure of the Group according to the Group's categorisation of counterparties by nature of tenants and by the Estateland Credit Agency's credit rating:

| | 2017 | 2016 | |
|--|--------------|--------------|--------------|
| | €000 | €000 | |
| Government and quasi-government tenants | 640 | 510 | IFRS 7.36(a) |
| Private tenants with a credit rating of A or above | 3,514 | 4,100 | |
| Private tenants with a credit rating less than A | 1,505 | 2,054 | |
| Tenants with no credit rating | 1,351 | 976 | |
| | 7,010 | 7,640 | IFRS 7.6 |

As at 31 December, the analysis of rent receivables that were past due but not impaired is set out below: IFRS 7.37

| | Neither past due nor impaired | Past due but not impaired | | | | | > 120 days |
|--------------|--|----------------------------------|-----------------------|-----------------------|------------------------|-------------|--------------------------|
| | | < 30 days | 30-60 days | 60-90 days | 90-120 days | | |
| Total | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| 2017 | 7,010 | 4,410 | 600 | 800 | 560 | 400 | 240 |
| 2016 | 7,640 | 5,550 | 940 | 460 | 320 | 230 | 140 |

Notes to the consolidated financial statements

23. Rent and other receivables *continued*

The receivables that are due from tenants vary between international A credit-rated businesses and local specialist retail tenants. The Group holds no collateral in respect of these receivables.

| | <u>2017</u> | <u>2016</u> |
|------------------------------|--------------|--------------|
| | <u>€000</u> | <u>€000</u> |
| International A credit rated | 1,910 | 3,250 |
| Domestic B credit rated | 1,600 | 1,300 |
| Local independent | 900 | 1,000 |
| | <u>4,410</u> | <u>5,550</u> |

See Note 31 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of receivables that are neither past due nor impaired. IFRS 7.36(c)

24. Cash and short-term deposits

| | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------|---------------|
| | <u>€000</u> | <u>€000</u> |
| Cash at bank and on hand | 35,135 | 23,576 |
| Short-term deposits | 42,903 | 11,042 |
| | <u>78,038</u> | <u>34,618</u> |

IAS 7.45

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. IAS 7.50

25. Issued capital

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| | <u>Thousands</u> | <u>Thousands</u> |
| <i>Authorised shares</i> | | |
| Ordinary share of €1 each (issued and fully paid) | 227,700 | 193,700 |
| | <u>2017</u> | <u>2016</u> |
| | <u>€000</u> | <u>€000</u> |
| <i>Ordinary shares issued and fully paid</i> | | |
| At 1 January | 193,700 | 193,700 |
| Issued in the year | 34,000 | – |
| At 31 December | <u>227,700</u> | <u>193,700</u> |

IAS 1.79(a)(i)
IAS 1.79(a)(iii)
IAS 1.79(a)(iv)

During the year, the authorised share capital was increased by €34,000 by the issue of 34,000,000 ordinary shares of €1 each.

| | <u>2017</u> | <u>2016</u> |
|--|--------------|-------------|
| | <u>€000</u> | <u>€000</u> |
| <i>Share premium</i> | | |
| At 1 January | – | – |
| Issued in the year | 6,180 | – |
| Transaction costs for issued share capital | (180) | – |
| At 31 December | <u>6,000</u> | <u>–</u> |

IAS 1.78(e)

Notes to the consolidated financial statements

26. Interest-bearing loans and borrowings

| | Effective interest rate (EIR) % | Maturity | 2017 €000 | 2016 €000 |
|--------------------|--|-----------------|----------------|----------------|
| Non-current | | | | |
| €150,500 bank loan | *EURIBOR +0.45 | 1 November 2019 | 149,547 | 149,777 |
| €85,500 bank loan | *EURIBOR +0.55 | 1 April 2019 | 84,340 | 84,274 |
| €147,500 bank loan | *EURIBOR +0.55 | 1 March 2020 | 140,637 | 16,880 |
| £4,000 bank loan | LIBOR +2.5 | 30 April 2019 | 5,100 | 4,900 |
| | | | 379,624 | 255,831 |

IFRS 7.7

The bank loans are secured by fixed and floating charges over the Group's property portfolio.

* Excludes the effects of related interest rate swaps.

€147,500 bank loan

The Group increased its borrowings under this loan contract by €124,000 (presented above with offsetting costs) during the reporting period. This loan principal is only repayable on 1 March 2020.

The reconciliation of the changes in liabilities arising from financing activities is provided in Note 36.

Commentary

Paragraph 7 of IFRS 7 *Financial Instruments: Disclosures* requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. As the Group has a significant amount of interest-bearing loans and borrowings on its statement of financial position, it has provided detailed information to the users of the financial statements about the EIR as well as the maturity of the loans.

27. Trade and other payables

| | 2017 €000 | 2016 €000 |
|---|--------------|---------------|
| Trade payables | 5,152 | 9,483 |
| Cash settled share based payments (Note 29) | 299 | 194 |
| Unpaid contingent consideration (Note 7) | 842 | – |
| Accruals | 243 | 342 |
| | 6,536 | 10,019 |

Trade payables are non-interest bearing and are normally settled on 30-day terms.

IFRS 7.39

For explanations on the Group's liquidity risk management processes, refer to Note 31.

IFRS 7.39(c)

28. Finance lease liabilities

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. These leases typically have lease terms between 20 and 100 years. Most are at a fixed rental, but a minority contain an obligation to pay a contingent rental calculated by reference to a retail price index.

IFRS 7.31(e)

| | 2017 | | 2016 | |
|---|---|--------------------------------------|---|--------------------------------------|
| | Present value of payments €000 | Minimum lease payments €000 | Present value of payments €000 | Minimum lease payments €000 |
| Within 1 year | 154 | 164 | 205 | 215 |
| After 1 year but not more than 5 years | 510 | 655 | 465 | 670 |
| More than 5 years | 1,049 | 1,156 | 1,085 | 1,110 |
| Total minimum lease payments | 1,713 | 1,975 | 1,755 | 1,995 |
| Less: future interest costs | – | (262) | – | (240) |
| Present value of minimum lease payments | 1,713 | 1,713 | 1,755 | 1,755 |

IFRS 7.39(a)

IAS 17.31(b)

The amount recognised as an expense in the year in respect of contingent rental is €45 (2016: €42).

IAS 17.31(c)

Notes to the consolidated financial statements

29. Share-based payments

Senior Executive Plan

IFRS 2.45(a)

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent with more than 12 months of service. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest if and when the Group's EPS increases by 10% within three years from the date of grant and the senior executive remains employed on such date. The share options granted will not vest if the EPS performance condition is not met.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions on which the share options were granted. However, the above performance condition is only considered in determining the number of instruments that will ultimately vest.

IFRS 2.46

The share options can be exercised up to two years after the three-year vesting period and therefore, the contractual term of each option granted is five years. There are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the SEP as an equity-settled plan.

General Employee Share-option Plan

IFRS 2.45(a)

Under the General Employee Share Option Plan (GESP), the Group, at its discretion, may grant share options of the parent to employees other than senior executives, once the employees have completed two years of service. Vesting of the share options is dependent on the Group's total shareholder return (TSR) as compared to a group of principal competitors. Employees must remain in service for a period of three years from the date of grant. The fair value of share options granted is estimated at the date of grant using a Monte Carlo simulation model, taking into account the terms and conditions on which the share options were granted. The model simulates the TSR and compares it with a group of principal competitors. It takes into account historical and expected dividends, and share price volatility of the Group relative to that of its competitors so as to predict the share performance.

IFRS 2.47(aXiii)

The exercise price of the share options is equal to the market price of the underlying shares on the date of the grant. The contractual term of the share options is five years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

IFRS 2.46

Share appreciation rights

The Group's business development employees are granted share appreciation rights (SARs), settled in cash. The SARs vest when a specified target number of new sales contracts are closed within three years from the date of grant and the employee continues to be employed by the Group at the vesting date. The share options can be exercised up to three years after the three-year vesting period and therefore, the contractual term of the SARs is six years. The fair value of the SARs is measured at each reporting date using a binomial option pricing model, taking into account the terms and conditions on which the instruments were granted and the current likelihood of achieving the specified target.

IFRS 2.45(a)
IFRS 2.46

The carrying amount of the liability relating to the SARs at 31 December 2017 is €299 (2016: €194). No SARs were granted or forfeited during the current or previous reporting period. No SARs have vested at 31 December 2017 and 31 December 2016, respectively.

IFRS 2.51(b)

The expense recognised for employee services received during the year is shown in the following table:

| | <u>2017</u> | <u>2016</u> | |
|--|-------------------|-------------------|--------------|
| | €000 | €000 | |
| Expense arising from equity-settled share-based payment transactions | 307 | 298 | |
| Expense arising from cash-settled share-based payment transactions | 105 | 194 | |
| Total expense arising from share-based payment transactions | <u>412</u> | <u>492</u> | IFRS 2.51(a) |

There were no cancellations or modifications to the awards in 2017 or 2016.

Notes to the consolidated financial statements

29. Share-based payments *continued*

Movements in the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs):

| | 2017 | 2017 WAEP | 2016 | 2016 WAEP | |
|-----------------------------------|----------------|--------------|----------------|--------------|---------------------|
| Outstanding at 1 January | 640,000 | €4.02 | 525,000 | €4.75 | |
| Granted during the year | 250,000 | €3.85 | 155,000 | €3.03 | |
| Forfeited during the year | – | – | (25,000) | €5.33 | |
| Exercised during the year | – | – | – | – | <i>IFRS 2.45(c)</i> |
| Expired during the year | (25,000) | €3.02 | (15,000) | €4.83 | |
| Outstanding at 31 December | 865,000 | €3.95 | 640,000 | €4.02 | <i>IFRS 2.45(d)</i> |
| Exercisable at 31 December | 110,000 | €4.98 | 100,000 | €5.51 | <i>IFRS 2.45(b)</i> |

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 is 2.94 years (2016: 2.60 years). *IFRS 2.45(d)*

The weighted average fair value of options granted during the year was €1.32 (2016: €1.18). *IFRS 2.47(a)*

The range of exercise prices for options outstanding at the end of the year was €3.02 to €6.85 (2016: €3.03 to €6.85). *IFRS 2.45(d)*

The following tables list the inputs to the models used for the three plans for the years ended 31 December 2017 and 31 December 2016: *IFRS 2.47(a)(i)*

| | 2017 SEP | 2017 GESP | 2017 SAR |
|--|---------------------|----------------------|---------------------|
| Weighted average fair values at the measurement date | €3.45 | €3.10 | €2.80 |
| Dividend yield (%) | 3.13 | 3.13 | 3.13 |
| Expected volatility (%) | 15.00 | 16.00 | 18.00 |
| Risk-free interest rate (%) | 5.10 | 5.10 | 5.10 |
| Expected life of share options/SARs (years) | 6.50 | 4.25 | 6.00 |
| Weighted average share price (€) | 3.10 | 3.10 | 3.12 |
| Model used | Binomial | Monte Carlo | Binomial |
| | 2016 SEP | 2016 GESP | 2016 SAR |
| Weighted average fair values at the measurement date | €3.30 | €3.00 | €2.60 |
| Dividend yield (%) | 3.01 | 3.01 | 3.01 |
| Expected volatility (%) | 16.30 | 17.50 | 18.10 |
| Risk-free interest rate (%) | 5.00 | 5.00 | 5.00 |
| Expected life of options/SARs (years) | 3.00 | 4.25 | 6.00 |
| Weighted average share price (€) | 2.86 | 2.86 | 2.88 |
| Model used | Binomial | Monte Carlo | Binomial |

The expected life of the share options and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. *IFRS 2.47(a)(ii)*

Notes to the consolidated financial statements

30. Related party disclosures

The consolidated financial statements of the Group include the financial statements of the parent and the subsidiaries and joint ventures. The principal activities of the Group are described in Note 13. The Group's significant investment in subsidiaries and joint ventures are listed in the following table:

IAS 24.12

| Subsidiary | Country of incorporation | % equity interest | |
|-----------------------------|--------------------------|-------------------|------|
| | | 2017 | 2016 |
| Office portfolio 1 Sarl | Luxembourg | 100 | 100 |
| Office portfolio 2 Sarl | Luxembourg | 100 | 100 |
| Property Business Ltd | Estateland | 80 | – |
| Residential Trading Limited | Estateland | 100 | 100 |
| Retail Property A/S | Denmark | 100 | 100 |
| Single Asset Entity 1 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 2 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 3 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 4 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 5 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 6 GmbH | Germany | 94.9 | 94.9 |
| Single Asset Entity 7 GmbH | Germany | 94.9 | 94.9 |
| Une Property 1 SA | France | 100 | 100 |
| Une Property 2 SA | France | 100 | 100 |
| Une Property 3 SA | France | 100 | 100 |
| Une Property 4 SA | France | 100 | 100 |
| Une Property 5 SA | France | 100 | 100 |
| Joint venture | | | |
| Westmeadow NV | The Netherlands | 50 | 50 |
| Eastmeadow NV | The Netherlands | 50 | – |

IAS 24.14

There were no dividends paid to non-controlling interests in the year. The non-controlling interests in Single Asset Entity 1 GmbH through to Single Asset Entity 7 GmbH are considered immaterial.

IFRS 12.B10(a)

IFRS 12.B10(b)

IFRS 12.12

The non-controlling interest in Property Business Ltd is represented by a 20% interest in the Investment Property of €75,000 and other net liabilities of €5,950 as at 31 December 2017 and a 20% interest in the profit and net cash flows attributable to the group of €1,289 and €1,000, respectively, for the period ended 31 December 2017 (see Note 7 for more information on the assets and liabilities of Property Business Ltd).

Commentary

IFRS 12.10(a) requires entities to disclose information about the composition of the group. The list above discloses information about all of the Group's subsidiaries. Companies need to note, however, that this disclosure is required for material subsidiaries only, rather than a full list of every subsidiary. The above illustrates one example as to how the requirements set out in IFRS 12 can be met. However, local legislation or listing requirements may not require disclosure of a full list of all subsidiaries.

IFRS 12.12(b) requires entities to disclose certain information for each of its subsidiaries that have non-controlling interests that are material to the reporting entity. In the comparative period, the Group did not have a subsidiary with a material non-controlling interest. However, in 2017, an 80% interest in Property Business Ltd was acquired resulting in a non-controlling interest that is material for the Group as at the reporting date. Therefore, the Group disclosed the information required by paragraphs 12(a)-(f) for the current year only. The Group did not disclose information required by paragraph 12(g), since the acquisition was effected during the current year, but it included reference to the Note 7, where information on the business combination is disclosed. In the next year, the Group will disclose the information required by IFRS 12.12 for Property Business Ltd in full, provided that the non-controlling interest continues to be material.

The following table provides the details of transactions that have been entered into with related parties for the relevant financial year:

Fees recharged to joint ventures

| | Fees charged | Due from joint ventures at year end | Due to joint ventures at year end |
|------|--------------|-------------------------------------|-----------------------------------|
| | €000 | €000 | €000 |
| 2017 | 750 | 50 | – |
| 2016 | 750 | 50 | – |

Notes to the consolidated financial statements

30. Related party disclosures continued

Other related party receivables

These are primarily trading balances with a company over which a director has a significant influence. The amounts outstanding are disclosed in Note 23. The movement in the year is the result of cash transfers.

IAS 24.21
IAS 24.18(b)

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: €Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

| | 2017 | 2016 | |
|--|------------|------------|--------------|
| | €000 | €000 | |
| Short-term employee benefits | 810 | 775 | IAS 24.17(a) |
| Other long-term benefits | 98 | 65 | IAS 24.17(c) |
| Termination benefits (Note 10) | 32 | – | IAS 24.17(d) |
| Share-based payment transactions | 10 | 10 | IAS 24.17(e) |
| Total compensation paid to key management personnel | 950 | 850 | |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Directors' interests in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the senior executive plan to purchase ordinary shares have the following expiry dates and exercise prices:

| Date of grant | Expiry date | Exercise price | 2017 | 2016 | IAS 24.17(e) |
|---------------|-------------|----------------|--------------------|--------------------|--------------|
| | | | Number outstanding | Number outstanding | |
| 2016 | 2019 | €2.33 | 10,000 | 10,000 | |
| 2016 | 2019 | €3.13 | 83,000 | 83,000 | |
| 2017 | 2020 | €3.85 | 27,000 | – | |
| Total | | | 120,000 | 93,000 | |

No share options have been granted to the non-executive members of the Board of Directors under this scheme. Refer to Note 29 for further details on the scheme.

Commentary

Certain jurisdictions may require additional and more extensive disclosures, e.g., about the remuneration and benefits of key management personnel and members of the Board of Directors.

31. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of its property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

IFRS 7.33

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Notes to the consolidated financial statements

31. Financial risk management objectives and policies *continued*

Market risk

Market risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risks: interest rate risk and currency risk. The financial instruments held by the Group that are affected by market risk are principally loans and borrowings and the derivative financial instruments. IFRS 7.33

The sensitivity analyses in the following sections relate to the position as at 31 December in 2017 and 2016. IFRS 7.40

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2017.

The analyses exclude the impact of movements in market variables on the non-financial assets and liabilities of foreign operation. The analysis for the contingent consideration liability is provided in Note 7.

The following assumptions have been made in calculating the sensitivity analyses:

- ▶ The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2017 and 2016 including the effect of hedge accounting
- ▶ The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2017 for the effects of the assumed changes of the underlying risk

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates.

To manage its interest rate risk, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2017, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are hedged (2016: 100%). IFRS 7.22(c)

The analysis below describes reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax and equity. It should be noted that the impact of movement in the variable is not necessarily linear.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives are all constant and using the hedge designations in place at the reporting date:

- ▶ The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on finance income less finance expense for one year, based on the floating rate financial liabilities held at the reporting date, including the effect of hedging instruments.
- ▶ The sensitivity of equity is calculated by revaluing swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates.

| | Increase/(decrease) in basis points | Effect on equity | Effect on profit before tax | <i>IFRS 7.40 (a)</i> |
|-------------|--|-------------------|--------------------------------|----------------------|
| | €000 | €000 | €000 | |
| 2017 | | | | |
| Euribor | +15 | (786) | - | |
| Euribor | -15 | 875 | - | |
| | <u> </u> | <u> </u> | <u> </u> | |
| 2016 | | | | |
| Euribor | +10 | (510) | - | |
| Euribor | -10 | 602 | - | |
| | <u> </u> | <u> </u> | <u> </u> | |

There is no impact on profit before tax because the floating rate financial liabilities are 100% hedged with floating to fixed interest rate swaps.

The effect on equity is the aggregate effect of the impact of the fair value of the hedging derivatives.

Notes to the consolidated financial statements

31. Financial risk management objectives and policies *continued*

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to its operating activities (when revenue or expense is denominated in a foreign currency) and its net investments in foreign subsidiaries.

IFRS 7.22(c)

The Group has limited exposure to foreign currencies (primarily related to the activities of its subsidiary in Denmark). The Group limits its foreign currency risk by ensuring to the extent possible that the income and expenses in foreign currencies are in balance (natural hedge).

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 risks from both its leasing activities and financing activities, including deposits with banks and financial institutions and derivatives.

IFRS 7.33

Tenant receivables

Tenants are assessed according to Group criteria prior to entering into lease arrangements. Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement. Outstanding tenants' receivables are regularly monitored. An impairment analysis is performed at each reporting date on an individual basis for major tenants. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

IFRS 7.34(c)

IFRS 7.36(c)

Receivables resulting from the sale of inventory property

Customer credit risk is managed by requiring customers to pay advances before the transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with its policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board of Directors on an annual basis, and may be updated throughout the year, subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risk and, therefore, mitigate financial loss through a counterparty's potential failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2017 and 31 December 2016, respectively, is the carrying amounts of each class of financial instruments.

IFRS 7.33

IFRS 7.36

IFRS 7.B8

IFRS 7.B10

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and loans.

IFRS 7.33

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

IFRS 7.39

| Year ended 31 December 2017 | On | Less | 3 to 12 | 1 to 5 | > 5 years | Total |
|---------------------------------------|------------|--------------|---------------|---------------|----------------|----------------|
| | demand | than 3 | months | years | | |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Interest-bearing loans and borrowings | – | 3,250 | 9,751 | 52,008 | 408,790 | 473,799 |
| Deposits from tenants | – | – | – | 4,036 | – | 4,036 |
| Finance leases | – | 40 | 124 | 1,811 | – | 1,975 |
| Financial derivatives | 23 | 269 | 22 | 141 | – | 455 |
| Trade and other payables | 771 | 5,598 | 167 | – | – | 6,536 |
| | 794 | 9,157 | 10,064 | 57,996 | 408,790 | 486,801 |

IFRS 7.39(a)(b)

Notes to the consolidated financial statements

31. Financial risk management objectives and policies *continued*

| Year ended 31 December 2016 | On demand | Less | | | | Total |
|---------------------------------------|--------------|---------------|----------------|---------------|----------------|----------------|
| | | than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Interest-bearing loans and borrowings | - | 2,183 | 6,550 | 34,931 | 280,003 | 323,667 |
| Deposits from tenants | - | - | - | 2,392 | - | 2,392 |
| Finance leases | - | 51 | 164 | 1,780 | - | 1,995 |
| Financial derivatives | 697 | 7,781 | 348 | 3,978 | - | 12,804 |
| Trade and other payables | 1,265 | 7,998 | 756 | - | - | 10,019 |
| | 1,962 | 18,013 | 7,818 | 43,081 | 280,003 | 350,877 |

The disclosed amounts for financial derivatives in the above table are the net undiscounted cash flows.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

IFRS 7.25

IFRS 7.26

IFRS 7.29

| | Carrying amount | | Fair value | |
|---------------------------------------|-----------------|---------|------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | €000 | €000 | €000 | €000 |
| Financial assets | | | | |
| Rent and other receivables | 14,560 | 22,860 | 14,560 | 22,860 |
| Cash and short-term deposits | 78,038 | 34,618 | 78,038 | 34,618 |
| Financial liabilities | | | | |
| Interest-bearing loans and borrowings | 379,624 | 255,831 | 377,876 | 258,761 |
| Deposits from tenants | 3,634 | 2,285 | 3,650 | 2,285 |
| Finance leases | 1,713 | 1,755 | 1,700 | 1,755 |
| Derivatives | 425 | 12,804 | 425 | 12,804 |
| Contingent consideration | 842 | - | 842 | - |
| Trade and other payables | 5,694 | 10,019 | 5,694 | 10,019 |

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy (described in Note 5) as at 31 December 2017:

IFRS 13.91(a)

IFRS 13.93(a)

IFRS 13.93(b)

IFRS 13.97

IFRS 7.29

| 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|----------------|----------------|----------------|--------------|
| | €000 | €000 | €000 | €000 |
| Rent and other receivables | - | - | 14,560 | 14,560 |
| Cash and short-term deposits | 78,038 | - | - | 78,030 |
| Interest-bearing loans and borrowings | - | 377,876 | - | 377,876 |
| Deposits from tenants | - | 3,650 | - | 3,650 |
| Finance leases | - | 1,700 | - | 1,700 |
| Contingent consideration (Note 7) | - | - | 842 | 842 |
| Trade and other payables | - | 5,694 | - | 5,694 |
| Derivatives | - | 425 | - | 425 |
| 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
| | €000 | €000 | €000 | €000 |
| Rent and other receivables | - | - | 22,860 | 22,860 |
| Cash and short-term deposits | 34,618 | - | - | 34,618 |
| Interest-bearing loans and borrowings | - | 258,761 | - | 258,761 |
| Deposits from tenants | - | 2,285 | - | 2,285 |
| Finance leases | - | 1,755 | - | 1,755 |
| Trade and other payables | - | 10,019 | - | 10,019 |
| Derivatives | - | 12,804 | - | 12,804 |

Notes to the consolidated financial statements

31. Financial risk management objectives and policies *continued*

There were no transfers between Level 1 and 2 during 2017 or 2016.

Management has assessed that the fair values of cash and short-term deposits, rent and other receivables, trade 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:

IFRS 13.92
IFRS
13.93(b)(d)
IFRS 13.97

- ▶ Receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- ▶ The fair value of obligations under finance leases and deposits from tenants is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- ▶ The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques which employ the use of market observable inputs are mainly interest rate swaps. See Note [32](#) for information.
- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using a discount rate that reflects the issuer's borrowing rate including its own non-performance risk as at 31 December 2017.

Commentary

An entity should provide additional information that will help users of its financial statements to evaluate the quantitative information disclosed. An entity might disclose some or all the following to comply with IFRS 13.92:

- ▶ The nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs. For example, for residential mortgage-backed securities, an entity may disclose the following:
 - ▶ The types of underlying loans (e.g., prime loans or sub-prime loans)
 - ▶ Collateral
 - ▶ Guarantees or other credit enhancements
 - ▶ Seniority level of the tranches of securities
 - ▶ The year of issue
 - ▶ The weighted-average coupon rate of the underlying loans and the securities
 - ▶ The weighted-average maturity of the underlying loans and the securities
 - ▶ The geographical concentration of the underlying loans
 - ▶ Information about the credit ratings of the securities
 - ▶ How third-party information such as broker quotes, pricing services, net asset values and relevant market data was taken into account when measuring fair value

The Group does not have any liabilities measured at fair value and issued with an inseparable third-party credit enhancement. But if it had such liabilities, IFRS 13.98 requires disclosure of the existence of credit-enhancement and whether it is reflected in the fair value measurement of the liability.

IFRS 13.99 requires an entity to present the quantitative disclosures of IFRS 13 to be included in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in tabular format.

IFRS 13.93(h)(ii) requires a quantitative sensitivity analysis for financial assets and financial liabilities that are measured at fair value on a recurring basis. For all other recurring fair value measurements that are categorised within Level 3 of the fair value hierarchy, an entity is required to provide:

- ▶ A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement
- ▶ If there are inter-relationships between the inputs and other unobservable inputs used in the fair value measurement, a description of the inter-relationships and how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement

For this purpose, significance must be determined with respect to profit or loss and total assets or total liabilities, or, when changes in fair value are recognised in OCI, total equity. The Group's only financial liability that is categorised within Level 3 of the fair value hierarchy is a contingent consideration arising from a business combination. The Group included the quantitative sensitivity analysis for the contingent consideration in Note [7](#).

Notes to the consolidated financial statements

32. Hedging activities and derivatives

IFRS 7.23(a)

Cash flow hedges

The Group has entered into interest rate swap contracts with notional amounts of €379,624 (2016: €255,831) whereby it pays a fixed rate of interest of between 5.25% and 5.75% and receives a variable rate based on EURIBOR on the notional amount. The swap is used to hedge the exposure to the variable interest rate payments on the variable rate secured loans (Note 26).

The loans and interest rate swaps have the same critical terms and are fully effective. Cash flows are expected to occur between November 2019 and March 2022 and will be recognised through profit or loss at that time.

IFRS 13.93(a)

The aggregate fair value of the interest rate swaps at the end of the reporting period was a liability of €425 (2016: €12,804).

IFRS 13.93(d)

The Group enters into interest rate swap contracts with various counterparties, principally financial institutions with investment grade credit ratings. The valuation techniques applied to fair value these derivatives employ the use of market observable inputs and include swap models which use present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates. All interest rate swap contracts are fully cash collateralised, thereby reducing both counterparty and the Group's own non-performance risk.

The interest rate swaps are classified in Level 2 of the fair value measurement hierarchy.

IFRS 13.93(b)(c)

IFRS 13.93(c)

Year ended 31 December

| | 2017 | 2016 | |
|---------------------------------------|------------|---------------|-----------|
| | €000 | €000 | IFRS 7.39 |
| Value at 1 January | 12,804 | 10,904 | |
| Amounts received/(paid) | 1,210 | (732) | |
| Net changes in fair value through OCI | (13,589) | 2,632 | |
| Value at 31 December | <u>425</u> | <u>12,804</u> | |

33. Capital management

The primary objective of the Group's capital management is to ensure that it remains within its quantitative banking covenants and maintains a strong credit rating. No changes were made in the objectives, policies or processes during the years ending 31 December 2017 and 31 December 2016.

IAS 1.134

The Group monitors capital primarily using a loan-to-value ratio, which is calculated as the amount of outstanding debt divided by the valuation of the investment property portfolio. The Group's policy is to keep its average loan-to-value ratio lower than 80%.

IAS 1.135

Banking covenants vary according to each loan agreement, but typically require that the loan-to-value ratio does not exceed 80% to 85%.

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. During the current period, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

IFRS 7.18

| | 2017 | 2016 | |
|--|----------------|----------------|--------------|
| | €000 | €000 | IAS 1.135(b) |
| Carrying amount of interest-bearing loans and borrowings (Note 26) | 379,624 | 255,831 | |
| Unamortised borrowing costs | 2,376 | 949 | |
| Principal amount of interest-bearing loans and borrowings | 382,000 | 256,780 | |
| External valuation of completed investment property (Note 17) | 452,991 | 388,620 | |
| External valuation of investment property under construction (Note 18) | 30,146 | 30,896 | |
| Total external valuation of investment property | 483,137 | 419,516 | |
| Loan to value ratio | <u>79%</u> | <u>61%</u> | |

Notes to the consolidated financial statements

33. Capital management *continued*

Commentary

IAS 1.134 and IAS 1.135 require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital.

The Group has disclosed a loan-to-property-value ratio as this is the measure it uses to monitor capital. Nevertheless, other measures may be more suitable for other entities.

IFRS 7.18-19 requires disclosure in the event of a default or breaches as at end of reporting period and during the year. Although there are no explicit requirements addressing the opposite situation, the Group has disclosed the restriction on capital represented by financial covenants as it considers it relevant information to the users of the financial statements.

34. Contingencies and commitments

Commitments

As at 31 December 2017, the Group had agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment property under construction of €8,600 (2016: €15,200). There are no contractual commitments in respect of completed investment property. The Group's share in the capital commitments of the joint ventures themselves is €5,200 (Note [21](#)).

IAS 40.75(h)

Legal claim contingency

A previous tenant of the Group has commenced an action against the Group in respect of alterations to the leased property made during its tenancy. It has been estimated that the liability, should the action be successful, is €1,200. A trial date has not yet been set. Therefore, it is not practicable to state the timing of the payment, if any. The Group has been advised by legal counsel that it is possible, but not probable, the action will succeed and, accordingly, no provision for any liability has been made in these financial statements.

IAS 37.86

Contingent liabilities

The Group recognised a contingent liability of €842 in the course of the acquisition of Property Business Ltd (see Notes [7](#) and [27](#)).

35. Events after the reporting period

As at 31 December 2017, the Group held two retail investment properties that were under offer from a third party. The assessed fair value of these properties as at 31 December 2017 was €10,560 and are classified as 'held for sale' in the statement of financial position (Note [17](#)). These properties were disposed of in January 2018 for €10,360, after taking into account attributable expenses, realising a loss on book value of €200.

IAS 10.21

Notes to the consolidated financial statements

36. Changes in liabilities arising from financing activities

IAS 7.44A
IAS 7.44C

| | 1 January 2017 | Cash flows | Foreign exchange movements | New Leases | Other mvts | Change in fair value | 31 December 2017 |
|--|-------------------|----------------|----------------------------------|---------------|---------------|----------------------------|---------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Current obligations under finance leases | 205 | (38) | | - | (13) | - | 154 |
| Non-current interest-bearing loans and borrowings (excluding finance leases) | 255,831 | 123,593 | 200 | - | - | - | 379,624 |
| Non-current obligations under finance leases | 1,550 | - | | 100 | (91) | - | 1,559 |
| Derivatives | 12,804 | - | | - | 1,210 | (13,589) | 425 |
| Total liabilities from financing activities | 270,390 | 123,755 | 200 | 100 | 1,106 | (13,589) | 381,762 |

IAS 7.44B,
IAS 7.44D

| | 1 January 2016 | Cash flows | Foreign exchange movements | New Leases | Other mvts | Change in fair value | 31 December 2016 |
|--|-------------------|---------------|----------------------------------|---------------|---------------|----------------------------|---------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Current obligations under finance leases | 108 | (130) | | - | 227 | - | 205 |
| Non-current interest-bearing loans and borrowings (excluding finance leases) | 168,763 | 87,183 | (115) | - | - | - | 255,831 |
| Non-current obligations under finance leases | 1,487 | - | | 300 | (237) | - | 1,550 |
| Derivatives | 10,904 | - | | - | (732) | 2,632 | 12,804 |
| Total liabilities from financing activities | 181,262 | 87,053 | -115 | 300 | (742) | 2,632 | 270,390 |

IAS 7.44A
IAS 7.44C
IAS 1.38
IAS 7.44B,
IAS 7.44D

The other movements include the reclassification of the non-current obligations under finance leases that will be due in the next reporting period.

Commentary

The amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* that became effective for annual periods beginning on or after 1 January 2017, require entities to disclose any changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. However, the Group voluntarily provided comparative information for the prior year.

Appendix 1 EPRA Performance Measurements

The European Public Real Estate Association (EPRA) is neither an accounting body nor a valuation body, but it publishes Performance Measurements in its Best Practice Recommendations (BPR) which aim to achieve uniform accounting and valuation principles amongst its members. There is no requirement in IFRS to present EPRA Performance Measurements in the financial statements. Other industry organisations, such as the European Association for Investors in Non-Listed Real Estate Vehicles (INREV), have their own metrics. EPRA is principally followed by public companies, whereas INREV is aimed at private entities. EPRA recommends the following metrics:

| Measure | Definition | Purpose | Example |
|------------------------------|--|--|-----------------|
| EPRA Net Initial Yield (NIY) | Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. | A comparable measure for portfolio valuations. | Note 1 |
| EPRA Topped up NIY | NIY adjusted for the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents). | To show a long-term sustainable yield (assuming rent free periods are offered once off). | Note 1 |
| EPRA Earnings | Earnings from operational activities. | A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings. | Note 2 |
| EPRA NAV | Net Asset Value (NAV) adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. | To provide with information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. | Note 3 |
| EPRA NNAV | EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes. | To provide with information on the current fair value of all the assets and liabilities within a real estate company. | Note 3 |
| EPRA Vacancy Rate | Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio. | A "pure" (%) measure of investment property space that is vacant, based on ERV. | Not illustrated |
| EPRA Cost Ratios | Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income. | A key measure to enable meaningful measurement of the changes in a company's operating costs. | Note 4 |

Entities sometimes include EPRA Performance Measurements in such sections of their Annual Report to avoid the need for sign-off by the auditors.

We note that:

- a) If the EPRA Performance Measurements are spread over the annual report, the EPRA recommends a table with reference to the pages of the Annual Report where the Performance Measurements can be found
- b) Some regulators disallow the use of non-GAAP measures such as those recommended by the EPRA BPR, or accept them only under certain conditions, such as the inclusion of reconciliation to the nearest IFRS number. For example, the European Securities and Markets Authority (ESMA) have issued Guidelines on such Alternative Performance Measures (APMs) that require:
 - ▶ APMs to be clearly defined, the basis of calculation disclosed and details given on material assumptions used
 - ▶ The calculation of the APMs to be consistent over time
 - ▶ APMs to be reconciled to the most directly reconcilable item in the financial statements
 - ▶ The relevance and use of the APMs to be explained
 - ▶ Comparatives be provided

Appendix 1 EPRA Performance Measurements *continued*

Note 1 EPRA Net Initial Yield (NIY & Topped up NIY)

EPRA NIY is calculated as the annualised rental income on the cash rents passing at the reporting date, less property expenses and divided by the gross market value of the property. The 'Topped up' NIY adjusts these amounts with reference to the expiration of rent free periods or other lease incentives, such as discounted rent periods and step rents.

| | 2017 | 2016 |
|--|----------------|----------------|
| | €000 | €000 |
| Completed Investment property - wholly owned | 452,991 | 388,620 |
| Completed Investment property - share of joint ventures | 105,000 | 2,650 |
| Inventory <i>at fair value</i> * | – | – |
| Gross completed property portfolio valuation | 557,991 | 391,270 |
| Annualised cash rent passing - wholly owned property | 28,150 | 24,200 |
| Annualised cash rent passing - share of joint ventures | 11,100 | 3,240 |
| Property outgoings (excluding those costs allowed in EPRA BPR) - wholly owned | (2,005) | (3,050) |
| Property outgoings (excluding those costs allowed in EPRA BPR) - share of joint ventures | (2,320) | (626) |
| Service charge shortfall | (70) | (57) |
| Annualised net rents | 34,855 | 23,707 |
| Notional rent expiration of rent free periods | 1,610 | 1,205 |
| Topped up net annualised rent | 36,465 | 24,912 |
| | % | % |
| EPRA NIY | 6.2 | 6.0 |
| EPRA Topped up NIY | 6.5 | 6.4 |

* This is considered as nil as it relates to development.

Note 2 EPRA earnings

The EPRA considers that its earnings metric is a measure of underlying operational performance to reflect the income return on investment rather than a capital return. It, therefore, excludes certain items such as valuation gains and profits and losses on disposals.

| | 2017 | 2016 |
|--|--------------------|--------------------|
| | €000 | €000 |
| Earnings for basic EPS | 20,759 | 13,469 |
| Revaluation movements on investment property | (18,900) | (11,485) |
| Related deferred tax | 4,158 | 2,086 |
| Profit on disposal of investment property | (2,000) | – |
| Current tax on disposal of investment property | 510 | – |
| Non-controlling interest in respect of the above | 1,623 | 665 |
| Earnings for EPRA EPS | 6,150 | 4,735 |
| | € per share | € per share |
| EPRA EPS | 0.03 | 0.02 |

Appendix 1 EPRA Performance Measurements *continued*

Note 3 EPRA Net Asset Value (NAV & NNAV)

EPRA NAV

The EPRA NAV seeks to represent the fair value of an entity's equity on a long-term basis, which is not equivalent to fair value as defined in IFRS 13. Items that EPRA considers will have no impact on the long term, such as value of derivatives and deferred taxes on property values, are therefore excluded.

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| | <u>€000</u> | <u>€000</u> |
| Basic NAV | 285,413 | 217,382 |
| Value of derivatives | 425 | 12,804 |
| Deferred taxation | 11,314 | (2,992) |
| Goodwill caused by deferred taxation on a business combination | (2,600) | – |
| Adjustment to measure inventory property at fair value, otherwise held at cost | 850 | 1,100 |
| NCI in respect of the above | (899) | (873) |
| EPRA NAV | <u>294,503</u> | <u>227,421</u> |
| | <u>€ per share</u> | <u>€ per share</u> |
| EPRA NAV | 1.29 | 1.17 |

EPRA NNAV

Whilst EPRA NAV seeks to provide a consistent measure of the value of the Group on an ongoing basis, NNAV is designed to provide a spot measure of NAV including all assets and liabilities at fair value. Items that the EPRA considers should be included, therefore, are the fair value of financial instruments and deferred taxes on property values on a fair value basis.

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| | <u>€000</u> | <u>€000</u> |
| EPRA NAV | 294,503 | 227,421 |
| Fair value of financial instruments | (425) | (12,804) |
| Deferred taxation <i>at fair value</i> | 4,500 | – |
| EPRA NNAV | <u>298,578</u> | <u>214,617</u> |
| | <u>€ per share</u> | <u>€ per share</u> |
| EPRA NNAV | 1.31 | 1.11 |

Note 4 EPRA Cost ratios

EPRA cost ratios are aimed at providing a consistent base-line from which companies can provide further information and describe ratios including 'direct vacancy costs' and 'excluding direct vacancy costs'. Direct vacancy costs are property expenses that are directly related to the property (and have been included in the administrative/operating expenses) including the following: rates/property taxes, service charge, the relevant units' contributions to the tenant association's share of marketing costs, insurance premiums, CRC - carbon tax or any other costs directly billed to the unit, e.g., individually metered energy bills.

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| | <u>€000</u> | <u>€000</u> |
| Administrative costs | 4,876 | 4,276 |
| Property operating costs | 2,118 | 3,149 |
| Net service charge costs | 70 | 57 |
| Share of joint venture expenses | 1,659 | 959 |
| EPRA costs (including direct vacancy costs) | <u>8,723</u> | <u>8,441</u> |
| Direct vacancy costs | 248 | 250 |
| EPRA costs (excluding direct vacancy costs) | <u>8,971</u> | <u>8,671</u> |
| Gross rental income | 22,470 | 24,333 |
| Share of joint venture gross rental income | 7,178 | 3,434 |
| EPRA gross rental income | <u>29,648</u> | <u>27,767</u> |
| | <u>%</u> | <u>%</u> |
| EPRA cost ratio (including direct vacancy costs) | 29.4 | 30.4 |
| EPRA cost ratio (excluding direct vacancy costs) | 30.2 | 31.2 |

Appendix 2

IFRS are illustrated across our various illustrative financial statements, as follows:

| | | Good Group | Good Group - Alternative Format | Good Group Interim | Good First-time Adopter | Good Investment Fund (Equity and Liability) | Good Real Estate | Good Mining | Good Petroleum | Good Bank | Good Insurance |
|---|---|------------|---------------------------------|--------------------|-------------------------|---|------------------|-------------|----------------|-----------|----------------|
| International Financial Reporting Standards (IFRS) | | | | | | | | | | | |
| IFRS 1 | <i>First-time Adoption of International Financial Reporting Standards</i> | | | | ✓ | | | | ✓ | | |
| IFRS 2 | <i>Share-based Payment</i> | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ |
| IFRS 3 | <i>Business Combinations</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IFRS 4 | <i>Insurance Contracts</i> | | | | | | | | | | ✓ |
| IFRS 5 | <i>Non-current Assets Held for Sale and Discontinued Operations</i> | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | |
| IFRS 6 | <i>Exploration for and Evaluation of Mineral Resources</i> | | | | | | | ✓ | ✓ | | |
| IFRS 7 | <i>Financial Instruments: Disclosures</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IFRS 8 | <i>Operating Segments</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IFRS 9 | <i>Financial Instruments</i> | | | | | | | | | | |
| IFRS 10 | <i>Consolidated Financial Statements</i> | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | ✓ |
| IFRS 11 | <i>Joint Arrangements</i> | ✓ | ✓ | ✓ | | | ✓ | | | | |
| IFRS 12 | <i>Disclosure of Interests in Other Entities</i> | ✓ | ✓ | | | | ✓ | | | ✓ | ✓ |
| IFRS 13 | <i>Fair Value Measurement</i> | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IFRS 14 | <i>Regulatory Deferral Accounts</i> | | | | | | | | | | |
| IFRS 15 | <i>Revenue from Contracts with Customers</i> | | | | | | | | | | |
| IFRS 16 | <i>Leases</i> | | | | | | | | | | |
| IFRS 17 | <i>Insurance Contracts</i> | | | | | | | | | | |
| International Accounting Standards (IAS) | | | | | | | | | | | |
| IAS 1 | <i>Presentation of Financial Statements</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 2 | <i>Inventories</i> | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | |
| IAS 7 | <i>Statement of Cash Flows</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| IAS 8 | <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 10 | <i>Events after the Reporting Period</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 11 | <i>Construction Contracts</i> | | | | | | ✓ | | | | |
| IAS 12 | <i>Income Taxes</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 16 | <i>Property, Plant and Equipment</i> | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 17 | <i>Leases</i> | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 18 | <i>Revenue</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 19 | <i>Employee Benefits</i> | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ |
| IAS 20 | <i>Accounting for Government Grants and Disclosure of Government Assistance</i> | ✓ | ✓ | ✓ | ✓ | | | | | | |
| IAS 21 | <i>The Effects of Changes in Foreign Exchange Rates</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 23 | <i>Borrowing Costs</i> | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 24 | <i>Related Party Disclosures</i> | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 26 | <i>Accounting and Reporting by Retirement Benefit Plans</i> | | | | | | | | | | |

| | Good Group | Good Group - Alternative Format | Good Group Interim | Good First-time Adopter | Good Investment Fund (Equity and Liability) | Good Real Estate | Good Mining | Good Petroleum | Good Bank | Good Insurance |
|---|---|---------------------------------|--------------------|-------------------------|---|------------------|-------------|----------------|-----------|----------------|
| International Accounting Standards (IAS) continued | | | | | | | | | | |
| IAS 27 | <i>Separate Financial Statements</i> | | | | | | | | | |
| IAS 28 | ✓ | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ |
| IAS 29 | <i>Financial Reporting in Hyperinflationary Economies</i> | | | | | | | | | |
| IAS 32 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 33 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 34 | <i>Interim Financial Reporting</i> | | | | | | | | | |
| IAS 36 | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 37 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 38 | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 39 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IAS 40 | ✓ | ✓ | ✓ | ✓ | | ✓ | | | | ✓ |
| IAS 41 | <i>Agriculture</i> | | | | | | | | | |
| Interpretations | | | | | | | | | | |
| IFRIC 1 | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | | |
| IFRIC 2 | <i>Members' Shares in Co-operative Entities and Similar Instruments</i> | | | | | | | | | |
| IFRIC 4 | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | | |
| IFRIC 5 | <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> | | | | | | | | | |
| IFRIC 6 | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | | |
| IFRIC 7 | <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i> | | | | | | | | | |
| IFRIC 9 | ✓ | ✓ | ✓ | | | | | | ✓ | ✓ |
| IFRIC 10 | ✓ | ✓ | ✓ | | | | | | | |
| IFRIC 12 | <i>Service Concession Arrangements</i> | | | | | | | | | |
| IFRIC 13 | ✓ | ✓ | ✓ | ✓ | | | | | | |
| IFRIC 14 | <i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> | | | | | | | | | |
| IFRIC 15 | <i>Agreements for the Construction of Real Estate</i> | | | | | | | | | |
| IFRIC 16 | ✓ | ✓ | ✓ | ✓ | | ✓ | | | | |
| IFRIC 17 | ✓ | ✓ | ✓ | ✓ | | | | | | |
| IFRIC 18 | ✓ | ✓ | ✓ | ✓ | | | | | | |
| IFRIC 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> | | | | | | | | | |
| IFRIC 20 | <i>Stripping Costs in the Production Phase of a Surface Mine</i> | | | | | | | | | |
| IFRIC 21 | ✓ | ✓ | ✓ | | | | ✓ | | ✓ | |
| IFRIC 22 | <i>Foreign Currency Transactions and Advance Consideration</i> | | | | | | | | | |
| IFRIC 23 | <i>Uncertainty over Income Tax Treatments</i> | | | | | | | | | |
| SIC 7 | <i>Introduction of the Euro</i> | | | | | | | | | |
| SIC 10 | <i>Government Assistance – No Specific Relation to Operating Activities</i> | | | | | | | | | |

| | Good Group | Good Group - Alternative Format | Good Group Interim | Good First-time Adopter | Good Investment Fund (Equity and Liability) | Good Real Estate | Good Mining | Good Petroleum | Good Bank | Good Insurance |
|----------------------------------|---|---------------------------------|--------------------|-------------------------|---|-------------------------|-------------|----------------|-----------|----------------|
| Interpretations continued | | | | | | | | | | |
| SIC 15 | <i>Operating Leases – Incentives</i> | ✓ | ✓ | ✓ | ✓ | ✓ | | | | |
| SIC 25 | <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i> | | | | ✓ | | | | | |
| SIC 27 | <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> | ✓ | ✓ | ✓ | ✓ | | | | | |
| SIC 29 | <i>Service Concession Arrangements: Disclosures</i> | | | | | | | | | |
| SIC 31 | <i>Revenue – Barter Transactions Involving Advertising Services</i> | | | | | | | | | |
| SIC 32 | <i>Intangible Assets – Web Site Costs</i> | | | | | | | | | |

Please make the underlining for the grand total in the table for 2017 below consistent with this table for 2016

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