# GLOBALWORTH REAL ESTATE INVESTMENTS LIMITED

## ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

### 31 DECEMBER 2013

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## CHAIRMAN'S STATEMENT

Since its incorporation in February 2013 and subsequent admission to trading on AIM in July, Globalworth has made excellent progress. The Company has raised total equity of €291 million[1] from anchor investors, including the Founder, and implemented the first phase of its investment plan aimed at creating shareholder value through the acquisition of high quality assets (existing or to be developed) in its principal target market of Romania at attractive discounts to their value. These assets are predominantly leased to multinationals or financial institutions on long, Euro-denominated, annually indexed triple-net leases[2].

We believe that the opportunity in Romania is very substantial. With over 21 million inhabitants, Romania ranks as the second largest country in the CEE and the seventh largest in the EU, where it has had full membership since 2007. It boasts a solid and improving infrastructure, the second lowest wage costs in the EU, and a low and stable flat tax rate of 16 per cent. In 2013, it achieved one of the highest growth rates of economic growth in Europe with GDP rising by 3.5%[3].

Unemployment has remained low at 7.1% compared to an EU average of 10.9% and is expected to fall to 5% in 2014, making it one of the lowest rates in Europe. Driven by increased exports, a current account deficit of only 1% in 2013 has ensured a stable currency, despite the recent volatility in currency markets.

The medium term growth of the economy is expected to be bolstered by grants and subsidies, with an estimated €40 billion of EU and Romanian State funding being made available between 2014 and 2020. The Romanian State has already supported projects worth €3 billion, half of which has been directed to the automotive sector which now employs over 100,000 people and generates an annual turnover in excess of €12.5 billion. Examples of multinationals which have recently invested or expanded in Romania are Deutsche Bank, Daimler, Delphi, Bosch, OMV, Microsoft, Dell, Renault, Lufkin and Continental. Romania is emerging as one of the most attractive countries in Europe for the relocation of call centres, outsourced production and service facilities.

Since 2011, demand for office space has consistently surpassed new supply levels. In 2013, demand was more than double the level of new stock in the Bucharest office market and this imbalance is expected to continue for the foreseeable future. Not surprisingly the Bucharest office sector, which accounts for 73 per cent of Globalworth's portfolio by value, witnessed very positive momentum in 2013.

Having completed the first phase of our investment programme by acquiring a target portfolio of eight high quality real estate assets in Bucharest and an asset manager platform, we are now aiming to purchase a number of pre-identified investment opportunities with an estimated acquisition and development cost of over €230 million. This next phase or our development will enable Globalworth to consolidate its position as the leading real estate investor in Romania and one of the largest in the broader SEE/CEE region.

We look forward to a very busy and exciting 2014.

Geoff Miller
Chairman

8 May 2014

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[1] Pro-forma amount, estimated as presented in Note 12 of the consolidated financial statements for the period ended 31 December 2013 (page 75), including €65 million loan mandatorily convertible into equity in December 2014.
[2] The structure of this type of lease requires the lessee to pay for real estate taxes on the leased asset, building insurance and maintenance.
[3] Source: National Institute of Statistics

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## Romanian Market Overview

Before commenting on the progress of the Company since IPO, it is worth providing certain key highlights on the economy and real estate market of Romania, the Company's principal target market.

Romania has a number of strong macroeconomic fundamentals, as follows:

- It is the second largest country in the CEE and seventh largest in the EU with c.21.4 million inhabitants;
- Full membership of the EU since 2007;
- Solid and improving infrastructure (one of the fastest internet connections in the world);
- Low wage cost (second lowest in the EU) and a low and stable tax rate (16 per cent flat);
- High standards of education;
- The economy has seen one of the highest growth rates in Europe with GDP up by 3.5% in 2013 (+5.2% in Q4)[4] and is expected to maintain momentum through to 2015;
- Unemployment has remained low at 7.1% vs. an EU average of 10.9% and is expected to fall to 5% in 2014 making it one of the lowest rates in Europe;
- The low current account deficit (1% in 2013) driven by increased exports has ensured a stable currency, despite the recent volatility in currency markets;
- Strict control of government spending has led to the budget deficit falling to 2.5 per cent in 2013 from 3 per cent in 2012;
- Inflation has fallen steadily from 6% in 2010 to 1.55% by the end of 2013 with a 2014 target of 2.5% (National Bank of Romania);
- The country has one of the lowest Public Debt to GDP (c.39%) ratios in the EU
- c.€40 billion of EU and Romanian State funding to be available between 2014 and 2020 according to the Romanian Ministry of European Funds:
    - The Romanian State has supported projects of c.€3 billion in value - half of the investments were directed to the automotive sector which now employs more than 100,000 people and generates an annual turnover of more than €12.5 billion;
    - Examples of multinationals which have recently invested and/or expanded in Romania (most of which benefiting from hundreds of millions of grants and subsidies) are Deutsche Bank, Daimler, Delphi, Bosch, OMV, Microsoft, Dell, Renault, Lufkin and Continental.

Given the above, there has been a marked increase in levels of foreign direct investment, particularly in the IT&T and automotive industries where Romania is emerging as one of the most attractive countries for the relocation of call centres and outsourced production and service facilities. The Outsourcing Journal recently estimated that Romania will rank in first position for outsourcing in Europe.

[4] Source: National Institute of Statistics

The international capital markets have given a positive vote of confidence to the improvement and potential of the Romanian economy. In January 2014, Romania borrowed $1 billion for 10 years at a coupon of 4.875 per cent and $1 billion for 30 years at a coupon of 6.125 per cent, with the offer being oversubscribed six times. The issue was supported by US and UK investors who subscribed for more than 80 per cent of the offering. In April 2014, Romania raised €1.25 billion through the issuance of Eurobonds with a maturity of 10 years at a cost of 3.7% per annum, the lowest in its history.

On the real estate side, the Bucharest office sector (the Company's primary market accounting for c.73 per cent of its portfolio by value) has witnessed very positive momentum during 2013, mainly in terms of new lettings. Demand is mainly driven by expansion of IT companies, financial institutions and companies in the manufacturing, industrial and energy sectors, largely as a result of Romania's emergence as a major outsourcing location. A recent report by Jones Lang LaSalle highlighted that most major outsourcing companies have opened at least one centre in Romania.

Since 2011, demand for office space has consistently surpassed new supply levels. In 2013, demand was more than double compared to the level of new stock in the Bucharest office market, with over 276,500 sqm of space leased. Demand is expected to continue to outstrip supply in the medium term. Prime rental rates have stabilised over this period and now range from €16 to €19 per square metre per month.

Office yields have also stabilised at 8.25-8.50 per cent, although transaction activity is still well below pre-crisis levels. Accordingly, there is now a significant positive gap of 200-250 bps between the Bucharest office market and the more active markets of Warsaw and Prague, which is a strong indicator that as yields bottom out in these markets, institutional investor interest for Romania will increase.

## Group's achievements

Since its listing on AIM in July 2013, the Group's activities have focused on the following objectives:

- Completing the acquisition of the portfolio described in the Company's admission document;
- Achieving important portfolio and asset management milestones in the leasing of assets, obtaining permits and restructuring debt facilities;
- Sourcing new acquisitions;
- Strengthening the management team.
- Raising new capital

I am pleased to report that excellent progress has been made on all fronts.

## Property acquisitions

By 31 December 2013 we completed the acquisition of Globalworth Asset Managers S.R.L. (GAM)[5] and the Bucharest One property. Subsequent to the period end, we closed the acquisitions of TCI, BOB, BOC and Upground Towers properties, therefore, concluding the acquisition of all assets in the Initial Portfolio and Founder Pipeline as described in the IPO admission document.

It is important to emphasise the fact that the real estate portfolio held as at 31 December 2013 has been acquired at a cost of €81 million[6]. Comparing it to its Open Market Value ("OMV") as of 31 December 2013 of €119.8 million[7], the portfolio was acquired at a c.32 per cent discount. Considering the additional costs required to be spent on the development assets (City Offices, Bucharest One, Floreasca One and Herastrau One), the total cost to acquire and develop the properties held at 31 December 2013 is c.€168.7 million, compared with an OMV as of 31 December 2013 upon completion of €245.4 million, reflecting a discount of c.31 per cent.

Taking into account the property acquisitions subsequent to the period end, the Company's current real estate portfolio has been acquired at a cost of €343.0 million, reflecting an entry yield on stabilised NOI of c.11.0 per cent. This compares very favourably to current yields in the market for similar properties of 8.25-8.50 per cent. Comparing it to its Open Market Value (OMV) as of 31 December 2013 of €486.5 million[8], the portfolio was acquired at a c.30 per cent discount. Considering the additional costs required to be spent on the development assets (Bucharest One and Herastrau One), the total cost to acquire and develop the portfolio is c.€430.7 million, compared with an OMV as of 31 December 2013 upon completion of €612.0 million, reflecting a discount of c.30 per cent. As a result, we believe there exists significant unrealised upside potential, which we expect to further increase as market conditions and institutional investor perception of, and interest in, the market further improves.

## Portfolio and Asset Management

On the asset and portfolio management side, the Company and the asset management team residing within GAM have been very busy and have achieved a number of significant milestones, as follows:

Property leases

On the letting side, we have concluded some of the most important leasing transactions in the Bucharest market.

By 31 December 2013, we secured in BOC Honeywell's extension and further take-up of new space for 10 years with a total 11,000 sqm and Intel's lease extension for 10 years for 3,850 sqm. In BOB we signed with Deutsche Bank a new lease for c.6,000 sqm for 10 years. Moreover, TCI won the tender to house the Romanian Ministry of European Funds for a total take up of c.6,200 sqm (over various phases).

It is also worth noting that in the period post 31 December 2013, a 10 year lease contract was concluded with Vodafone for c.16,000 sqm in Bucharest One, the largest letting transaction in 2014 to date and one of the largest ever in the Bucharest office market. In addition, after the period end we have agreed Stefanini's relocation (from BOC) and further take-up for a total of 6,200 sqm for c.7 years and concluded negotiations with a new tenant in BOC, Dolce Sport (Romtelecom) for 2,000 sqm.

[5] Owner of City Offices, Herastrau One, Floreasca One, and 31 apartments at Upground Towers as well as the Asset Manager operations
[6] For properties the acquisition of which was completed at 31 December 2013, including 60% of the acquisition cost for the Floreasca One property.
[7] For properties the acquisition of which was completed at 31 December 2013, including 60% of the OMV for the Floreasca One property.
[8] Adjusted for the 60% ownership of the Floreasca One investment.

Building permits

On the permitting side, the most important highlight was obtaining the necessary permits to start the construction of Bucharest One. This was the result of over 12 months of intense efforts by the team to obtain a number of approvals, the most important being the approval of the local Metro authority. Once completed (expected end of December 2015) Bucharest One will be the most iconic office tower in Bucharest and a significant contributor to the Company's NOI and expected capital appreciation, hence getting the relevant permits on time and in line with the Company's expectation was of paramount importance.

Financing

As indicated to investors at the time of the IPO, the Company intends to have moderate levels of gearing. The Loan to Value ratio at 31 December 2013 is 16.9 per cent versus the Company's target of 60 per cent at group level.

Since 31 December 2013, on the debt financing side, there have been a number of significant wins.

First and foremost, the Company concluded a €65 million short-term bridge facility with UBS which has enabled it to complete the acquisitions of BOB, BOC and TCI, which were concluded by the end of March 2014. In April 2014, and as part of the Company's c.€144 million capital raising (see below), the UBS facility was transferred to York Capital and Oak Hill Advisors and will convert on a mandatory basis to equity (at €5.90 / share) by 18 December 2014.

In addition, it would be remiss not to highlight that we have obtained the change of control waivers from the lending banks on BOB/BOC and Upground for a total debt quantum of c. €162 million. Although that would in itself constitute a major accomplishment given current market conditions in the local and international lending markets, the waiver was also accompanied by an extension of the maturities of the related facilities to 2016 for Upground and 2018 for BOB/BOC.

## Personnel

On the personnel side, we have made a number of additional hires mainly in the areas of finance/financial reporting and project management / engineering. It is worth highlighting the appointment of Andreas Papadopoulos as Chief Financial Officer, who joined the Company in March 2014. Andreas is a very experienced corporate finance and accounting professional having spent most of his career with EY in various senior positions in Southeast and Central and Eastern Europe. He has significant knowledge of the Romanian market having worked in the country for several years on a number of important assignments.

We are looking for additional targeted hires in a number of functions within 2014 in line with the growth of the Company.

## Sourcing of new property acquisitions

In addition to the current portfolio, there are a number of other investments which have either been secured and which are in line with the Company's strategy of acquiring and developing income-producing assets at attractive-valuations and mispriced or underperforming assets that can be transitioned into high quality properties. These new investments have an estimated acquisition and development cost of c.€231 million and expected NOI yield of c.16%.

## Capital Raising

On 23 April 2014, the Company announced that it has raised €144 million. Of the funds raised, c.€79 million has been raised by way of an equity issue of new ordinary shares of no par value in the Company ("Ordinary Shares") at €5.90 per share. In addition, the transfer of the Company's recently signed €65 million facility from UBS to York Capital and Oak Hill Advisors has been completed. This facility will mandatorily convert (together with fees and accrued interest thereon) to Ordinary Shares by 18 December 2014 at €5.90 per share, which means that in due course the Company will have effectively raised a further €65 million by way of equity.

The funds raised (c.€144 million) will be partially invested for the development of projects currently owned by the Company (c.€23 million), for the acquisition (and development) of new real estate opportunities (c. €56 million) and the repayment of the €65 million facility through a mandatory conversion to Ordinary Shares, which is to be completed by 18 December 2014.

## Outlook

With the completion of the first phase of our investment programme and the conclusion of our second capital raise, the Company is very well placed to conclude a number of very attractive, pre-identified investment opportunities during the remainder of 2014. We are also optimistic about the future prospects of the Romanian economy and real estate market which we believe will show further signs of growth and improvement this year.

Ioannis Papalekas
Chief Executive Officer

8 May 2014

## PORTFOLIO REVIEW

The table below summarises certain key portfolio statistics for the properties held as of 31 December 2013, as well as for the properties the acquisition of which was completed subsequent to the period end.

| Asset Name | Status | Valuation[10] at 31 December 2013 (€m) | Valuation[11] on Completion (€m) | Acquisition Cost (€m) | Dev/ment Cost (€m) | LTV[9] % | Current annualised NOI (€m) |
|---|---|---|---|---|---|---|---|
| Asset Manager (RE) | Comp. / Dev. | 73.2 | 104.1 | 51.0 | 22.7 | 31.7% | 2.1 |
| *City Offices* | Comp. /Re-dev. | *55.9* | *62.4* | *37.0* | *6.5* | *25.6%* | *1.7* |
| *Herastrau One* | *Development* | *6.1* | *28.8* | *6.0* | *14.0* | *45.1%* | - |
| *Floreasca One*[12] | *Development* | *3.5* | *5.2* | *2.0* | *2.2* | *38.5%* | - |
| *Upground Apt* | *Completed* | *7.7* | *7.7* | *6.0* | - | *25.9%* | *0.4* |
| Bucharest One | Development | 48.1 | 141.3 | 30.0 | 65.0 | 35.4% | - |
| **Sub-Total** | | **121.3** | **245.4** | **81.0** | **87.7** | **33.2%** | **2.1** |
| Asset Manager | Operations | - | 22.4 | 15.0 | - | - | 2.7 |
| **Total as at 31 December 2013** | | **121.3** | **267.8** | **96.0** | **87.7** | **29.5%** | **4.8** |
| **Assets from entities acquired subsequent to period end:** | | | | | | | |
| BOB[13] | Completed | N/A | 50.5 | 42.0 | - | 69.3% | 3.4 |
| BOC | Completed | N/A | 139.0 | 110.0 | - | 61.4% | 9.6 |
| Upground Towers | Completed | N/A | 101.0 | 52.0 | - | 37.6% | 2.4 |
| TCI[14] | Completed | N/A | 76.0 | 58.0 | - | 42.2% | 4.5 |
| **Sub-Total** | | | **366.5** | **262.0** | **-** | **43.2%** | **19.9** |
| **Total** | | **121.3** | **634.4** | **358.0** | **87.7** | **38.0%** | **24.6** |

9 Based on debt levels as of March 2014 and OMV of properties as of December 2013.
10 Per the consolidated financial statements for the period ended 31 December 2013 (Note 13).
11 Independent Valuation of real estate assets represents the value at completion (as of December 2013) and the valuation of the asset manager operations as of June 2013.
12 The valuation on completion figures associated with the Floreasca One are adjusted to reflect the 60% ownership of GWI in the investment
13 Total equity utilised in the investment of c.€5.0 million, with an additional €2.0 million paid by BOB (through its reserves) to reduce debt in place at the time of the transaction.
14 Current debt in TCI of c.€32 million to be converted to equity in December 2014.

We outline below a summary description, key information and statistics of the major assets of the Company, the acquisition of which was completed by 31 December 2013:

| City Offices – Office, Retail & Parking (Completed) | |
|---|---|
| **Description** | • "City Offices" is a mixed-use property comprising two connected buildings, a Commercial Building ("CB") and a Multilevel Parking ("MP"). It is located at the southern part of Bucharest in the densely populated area of Eroii Revolutiei. City Offices, a former retail mall, was recently re-developed/re-positioned to its current use with construction works completed in December 2013, with additional fit-out works currently underway. |
| **Location** | • South of Bucharest |
| **Completion Year** | • 2014 |
| **GBA "CB"&"MP" / GLA (total sqm)** | • 32,210 & 28,883 / 32,024 |
| **Parking spaces indoor/outdoor** | • 1,019 / - |
| **OMV as of 31 December 2013: "As Is" / "On Completion"** | • €55.9 million / €62.4 million |
| **Acquisition Cost** | • €37.0 million |
| **Development Cost** | • €6.5 million |
| **LTV: "As Is" / "On Completion"** | • 25.7 per cent / 25.6 per cent |
| **Occupancy[15]** | • 25.8 per cent (office and retail) |
| **Annualised NOI Contracted/Stabilised[16]** | • €1.7 million / €5.4 million |
| **Average rent per square metre per month (Commercial)** | • €16.3 |
| **WALL** | • 6.8 years |
| **Stabilised Yield** | • 12.4 per cent |
| **Strategy** | • Lease and hold the property |
| **Key tenants** | • Mega Image, Global Vision, Vodafone, Billa, MaxBet, Piraeus Bank |

[15] As of March 2014
[16] Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

Since the IPO, the main focus has been the completion of the redevelopment of the asset as part of its reconversion from a mall to a mixed-use office, retail and parking asset. The main redevelopment phase of the project was substantially completed at the end of 2013 and there are currently ongoing tenant fit-out works in the interior of the building.

On the letting side, we are currently in active negotiations with a number of multinationals for the leasing of the office space. Although the building is not located in a developed office sub-market of Bucharest, it has a number of features which make it attractive to potential tenants, as follows:

- It is situated next to the Eroii Revolutiei Metro station, being two stops away from the city centre (Unirii square).
- It is located in a densely populated area, which should prove attractive both for the retail component of the project as well as for the office one as many workers/employees of large multinationals live in the vicinity.
- The asset was acquired out of insolvency for c.€17 million, including the parking building, substantially below not only its market value, but also its replacement cost. As a result of the low cost basis, the service charge and parking cost charged to the tenants are considerably lower than properties of similar size and specification in the market, making City Offices economically very attractive for potential tenants.

| Bucharest One – Office (Development) | |
|---|---|
| **Description** | • "Bucharest One" is a flagship office development project to be constructed in the northern part of Bucharest in the Floreasca/Barbu Vacarescu area. Upon completion, the building will be the second tallest tower in Bucharest, offering c.48,732 sqm of GBA over twenty three floors above ground. Development is under way with a number of permits already received. Construction is expected to be completed in 2015. |
| **Location** | • North Bucharest |
| **Completion Year** | • 2015 |
| **GBA /GLA (sqm)** | • 48,732 / 47,026 |
| **Parking spaces indoor/outdoor** | • 537 / 122 |
| **OMV as of 31 December 2013 "As Is" / "On Completion"** | • €48.1 million / €141.3 million |
| **Acquisition Cost** | • €30.0 million |
| **Development Cost** | • €65 million |
| **LTV "As Is" / "On Completion"** | • - / 35.4 per cent |
| **Occupancy**[17] | • 37.5% pre-let |
| **Annualised NOI Contracted/Stabilised**[18] | • €4.0 million / €12.5 million |
| **Average rent per square metre per month (Commercial)** | • €16.0 (pre-let) |
| **WALL** | • 9.4 years (pre-let) |
| **Stabilised Yield** | • 13.2 per cent |
| **Strategy** | • Develop the project/Lease and hold the property |
| **Key tenants** | • Vodafone and Huawei |

In December 2013 we achieved the significant milestone of obtaining all relevant permits to begin the construction of this landmark project. This marks the culmination of more than 12 months of efforts by our development management team. The development is expected to be finalised in Q4 2015. Upon completion, Bucharest One will be the city's second tallest building and is expected to constitute one of the most desirable assets in the market due to its unique location in the city's new Central Business District (CBD). The development is situated on the corner of three main boulevards and benefits from exceptional architectural design, proposed LEED Platinum accreditation (the first building of its kind in Bucharest) and top of the range high efficiency M&E systems.

On the letting side, we have pre-let c.40% of the property after having signed in February 2014 a lease agreement with Vodafone for c.16,000 sqm for a 10 year period and Huawei for 2,500 sqm for a 5 year period.

[17] As of March 2014
[18] Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

On the debt financing side, we have recently agreed the terms with a major European financial institution for €50 million development facility, which we expect to sign within Q2 2014.

### Assets acquired subsequent to 31 December 2013

We outline below a summary description, key information and statistics of the major assets acquired post period end.

| **BOB – Office Building (Completed)** | |
|---|---|
| **Description** | • "BOB" is a modern ("class A") office building located in the Northern part of Bucharest on Dimitrie Pompeiu Boulevard. The property is part of a wider building complex developed by Ioannis Papalekas between 2006 and 2011 which includes BOC and Upground Towers |
| **Location** | • North of Bucharest |
| **Completion Year** | • 2008 |
| **GBA / GLA (sqm)** | • 25,040 / 22,391 |
| **Parking spaces indoor/outdoor** | • -/161 |
| **OMV as of 31 December 2013** | • €50.5 million |
| **Acquisition Cost** | • €42 million |
| **Development Cost** | • - |
| **LTV** | • 69.3 per cent |
| **Occupancy[19]** | • 89.8 per cent |
| **Annualised NOI Contracted/Stabilised[20]** | • €3.4 million / €4.2 million |
| **Average rent per square metre per month (Commercial)** | • €12.9 |
| **WALL** | • 7.3 years |
| **Stabilised Yield** | • 10 per cent |
| **Strategy** | • Lease and hold the property |
| **Key tenants** | • Deutsche Bank, Stefanini, Securitas, NX Data, Snamprogetti, Banca Romaneasca |

Since July 2013 the Asset Manager closed significant new lettings in BOB which replaced a number of tenants which had already left and leases which were about to expire. The most significant lettings were with Deutsche Bank (6,000 sqm) for 10 years and Stefanini (6,200 sqm) for c.7 years.

[19] As of March 2014

[20] Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

| BOC – Office Building (Completed) | |
|---|---|
| **Description** | • "BOC" is a modern ("class A") office building located in the Northern part of Bucharest on Dimitrie Pompeiu Boulevard. The property is part of a wider building complex developed by Ioannis Papalekas between 2006 and 2011 which includes BOC and Upground Towers. |
| **Location** | • North of Bucharest |
| **Completion Year** | • 2009 |
| **GBA / GLA (sqm)** | • 58,449 / 57,607 |
| **Parking spaces indoor/outdoor** | • 842/53 |
| **OMV as of 31 December 2013** | • €139.0 million |
| **Acquisition Cost** | • €110 million |
| **Development Cost** | • - |
| **LTV** | • 61.4 per cent |
| **Occupancy[21]** | • 94.8 per cent |
| **Annualised NOI Contracted/Stabilised[22]** | • €9.6 million / €10.1 million |
| **Average rent per square metre per month (Commercial)** | • €13.2 |
| **WALL** | • 6.4 years |
| **Stabilised Yield** | • 9.2 per cent |
| **Strategy** | • Lease and hold the property |
| **Key tenants** | • Hewlett Packard/Global E-Business Center, Intel, Nestle, Honeywell, Banca Romaneasca, EADS |

The letting activity in BOC was mainly concentrated around extending current leases with some of our core tenants. Highlights include Honeywell's extension and take-up of new space in BOC for 10 years for 11,000 sqm, Intel's lease extension in BOC for 10 years for 3,850 sqm, and Romtelecom/Dolce Sport (2,000 sqm) for 10 years.

21 As of March 2014

22 Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

| Tower Center International (TCI) – Office (Completed) | |
|---|---|
| **Description** | • Tower Center International ("TCI") is a recently completed landmark office ("class A") building centrally located in Bucharest's CBD area at Victoriei Square. The property consists of two interconnected buildings and is currently the 2nd tallest building in Bucharest. It comprises 24,711sqm GBA extending over twenty six floors above ground. |
| **Location** | • CBD of Bucharest |
| **Completion Year** | • 2012 |
| **GBA /GLA (sqm)** | • 24,711 / 22,228 |
| **Parking spaces indoor/outdoor** | • 130 / 38 |
| **OMV as of 31 December 2013** | • €76.0 million |
| **Acquisition Cost** | • €58 million |
| **Development Cost** | • - |
| **LTV**[23] | • 42.2 per cent |
| **Occupancy**[24] | • 90.3 per cent |
| **Annualised NOI Contracted/Stabilised**[25] | • €4.5 million/€5.0 million |
| **Average rent per square metre per month (Commercial)** | • €17.8 |
| **WALL** | • 5.4 years |
| **Stabilised Yield** | • 8.6 per cent |
| **Strategy** | • Lease and hold the property |
| **Key tenants** | • EY, Inside Software (Cegeka), Hidroelectrica, Huawei, DB, Ministry of European Funds |

Following the lease agreements signed with EY, Hidroelectrica and Inside Software (Cegeka) before the IPO, the main highlight of the leasing activity of this asset post IPO was the lease agreement with Romania's Ministry of European Funds (MEF) which, among others, is responsible for coordinating the significant EU subsidy programme for the country. MEF's agreement to lease c.6,300 sqm brought the occupancy of the asset to over 90 per cent, a significant achievement considering that almost a year ago the asset was completely vacant. With a tenant roster of prime tenants, this asset can be now considered one of the most attractive investment properties in the Bucharest office market.

[23] Based on debt levels as of March 2014 and OMV of the property as of 31 December 2013
[24] As of March 2014
[25] Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

| Upground Towers – Residential & Retail (Completed) | |
|---|---|
| **Description** | • "Upground Towers" is a modern residential complex located in the Northern part of Bucharest on Fabrica de Glucoza Street. It was completed in 2009 and comprises two buildings with a total GBA of 101,354 sqm. In total, Upground Towers comprises of 571 residential units of which GWI currently owns 446. In addition, GWI owns 25 retail units and 618 parking spaces in the complex. |
| **Location** | • North Bucharest |
| **Completion Year** | • 2011 |
| **GBA /GLA (sqm)** | • 67,457 / 59,871 (of which c.6,555 is retail space) |
| **Parking spaces indoor/outdoor** | • 563 / 55 |
| **OMV as of 31 December 2013** | • €108.8 million[26] |
| **Acquisition Cost** | • €58.0 million |
| **Development Cost** | • - |
| **LTV "As Is" / "On Completion"** | • 37.7 per cent |
| **Occupancy[27]** | • Retail: 97.3%, Residential: c.51.1% |
| **Annualised NOI Contracted/Stabilised[28]** | • €2.8/€5.4 million |
| **Average rent per square metre per month** | • Retail: 10.3 €/sqm |
| **Weighted Average Lease Expiry** | • Retail: 9.5 years / Residential: 1 year |
| **Stabilised Yield** | • 9.3 per cent |
| **Strategy** | • Lease/sale residential component and hold retail component |
| **Key tenants** | • Mega Image, World Class, Geta Voinea, Huawei, Subway |

[26] €101 million for the part owned by Upground Estates and €7.7 million for the apartments owned by the Asset Manager
[27] As of March 2014
[28] Stabilised NOI; represents the Company's expectation of the NOI of that asset when it is built (if applicable) and fully let (and after any rent-free period)

## Debt Financing

The table below summarises the key features of the Group's bank debt facilities.

| Asset / Company Name | Lender | Base Rate | Margin (%) | Outstanding amount (31/12/2013) in €[29] | Outstanding amount (21/03/2014) in €[30] | Undrawn amount (21/03/2014) in €[30] | Maturity Date |
|---|---|---|---|---|---|---|---|
| **BOB** | National Bank of Greece | 3M Euribor | 3.20 | N/A | 17,485,438 | - | Dec. 2018 |
| | Bank of Cyprus | 3M Euribor | 3.20 | N/A | 17,485,438 | - | Dec. 2018 |
| **BOC** | National Bank of Greece | 3M Euribor | 3.20 | N/A | 42,655,184 | - | Dec. 2018 |
| | Bank of Cyprus | 3M Euribor | 3.20 | N/A | 42,655,184 | - | Dec. 2018 |
| **GAM** | Marfin Bank | 3M Euribor | 6.00 | 2,963,000 | 2,963,000 | - | May 2014 |
| | Unicredit | 3M Euribor | 3.00 | 3,205,000 | 1,888,500 | - | Nov. 2014 |
| | Bancpost (Eurobank) | 3M Euribor | 6.25 | 13,139,664 | 14,094,360 | 2,405,640 | Mar. 2019 |
| | Bancpost (Eurobank) | 3M Euribor | 6.25 | - | - | 8,000,000 | Mar. 2019 |
| | Bancpost (Eurobank) | 3M Robor | 1.95 | 220,661 | 264,258 | 735,742 | Nov. 2014 |
| **Upground** | National Bank of Greece | 3M Euribor | 4.75 | N/A | 38,000,000 | - | Dec. 2016 |
| **Floreasca One** | Piraeus Bank | 3M Euribor | 7.00 | 133,756 | 138,666 | 2,861,334 | Dec. 2015 |
| | Piraeus Bank | 3M Robor | 6.00 | 31,673 | 32,840 | 367,160 | June 2015 |
| **TCI**[31] | UBS | 6M Euribor | 4.00 | - | 32,072,493 | - | Aug. 2014 |
| **Globalworth Holdings Cyprus**[31] | UBS | 6M Euribor | 14.85 | - | 32,927,507 | - | Aug. 2014 |
| **Total** | | | | **19,693,754** | **242,662,868** | **14,369,876** | |

As of 21 March 2014, Globalworth had €242.7 million (31 December 2013: €19.7 million) of outstanding bank borrowings and €14.4 million (31 December 2013: €14.7 million) of undrawn facilities.

The Loan to Value ratio was 49.9 per cent[32] as of 21 March 2014 (31 December 2013: 16.9 per cent).

The weighted average cost of Globalworth's debt as of 21 March 2014 is 5.66 per cent (31 December 2013: 5.95 per cent) with a weighted average maturity of 3.1 years (31 December 2013: 3.7 years). These statistics, however, are skewed by the high cost and short term nature of the UBS facility concluded in February 2014, which enabled us to complete the acquisitions of BOB, BOC and TCI. It is worth noting that, as stated above, in April 2014, the €65 million facility with UBS has been acquired by York Capital and Oak Hill Advisors and will be converted on a mandatory basis to equity in December 2014.

[29] As per the consolidated financial statements. "N/A" denotes that a loan balance as at 31 December 2013 was not applicable for the Group, as BOB, BOC and Upground were acquired subsequent to 31 December 2013.
[30] As per the Trading and Market update published on 24 March 2014
[31] Acquired by York Capital and Oak Hill Advisors in April 2014 and will be converted on a mandatory basis to equity in December 2014
[32] Based on debt levels as of March 2014 and OMV of the property as of 31 December 2013

## Outlook

With the completion of the acquisition of all properties in the Initial Portfolio and Founder Pipeline as outlined in the IPO admission document by the end of March 2014, the current portfolio highlights are as follows:

- 8 high quality real estate properties located in Bucharest, Romania, which principally comprise of high-grade office buildings (standing and developments)
- Contracted annualised portfolio NOI of €24.6[33] million
- Loan to Value ratio of 49.9 per cent
- Portfolio occupancy (commercial space) of 77.7 per cent
- WALL (commercial space) of 6.5 years
- Proportion of triple net leases: 100 per cent
- Multinational tenants of commercial space as a per cent of total NOI: 74.5 per cent
- Per cent of Portfolio OMV in office space: 72.9 per cent
- Per cent of Portfolio OMV in assets under development: 11.6 per cent

Dimitris Raptis
Deputy CEO and Chief Investment Officer

8 May 2014

[33] Includes €2.7 million of Asset Manager NOI

# DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group for the period ended 31 December 2013.

## The Company

Globalworth Real Estate Investments Limited (the "Company") was registered in Guernsey on 14 February 2013 and is an authorised closed-ended investment company. At 31 December 2013, the Company has seven wholly owned subsidiaries comprising the "Group". The Company was admitted to trading on the AIM market of the London Stock Exchange ("AIM") on 25 July 2013.

## Investment policy

The Group's investment strategy focuses on generating attractive risk-adjusted returns, made up of a combination of yield and capital appreciation, by investing in a diversified portfolio of properties.

*Profile of Underlying Investments*

- Focus on commercial assets (existing or to be developed)
- Geographically located in the South Eastern Europe / Central and Eastern Europe with a primary focus on Romania
- Most of the income to be derived from multinational corporates and financial institutions
- Euro-denominated, long-term, triple-net and annually indexed leases, with corporate guarantees where possible

*Investment Themes*

- Distressed investments
- Acquisition of unfinished or partially-let commercial buildings at prices below replacement cost
- Restructuring
- Acquisition of real estate owned by financial institutions or others seeking to restructure their balance sheets through monetisation
- Developments with pre-lettings from high quality tenants

## Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income on page 39.
The Board of Directors has concluded that at this juncture the Company is best served by retaining its current cash reserves to support its investment strategy. Consequently, the Directors do not recommend the payment of a dividend for the period ended 31 December 2013.

## Corporate governance

The Association of Investment Companies ("AIC") published in October 2010 the AIC Code of Corporate Governance (the "AIC Code") and the AIC Corporate Governance Guide (the "AIC Guide") which are designed to provide Boards of its member investment companies with a framework of best practice in respect of the governance of investment companies. The AIC Code has been endorsed by the Financial Reporting Council which has confirmed that by following the AIC Corporate Governance Guide, investment company boards should fully meet their obligations in relation to the UK Corporate Governance Code (the "UK Code"). The AIC Code was updated in February 2013 (including the Jersey and Guernsey editions) following the revised corporate governance code issued by the UK Financial Reporting Council in September 2012. The changes to the AIC Code are effective for reporting periods beginning on or after 1 October 2012.

The Company has adopted the AIC Code which addresses all the principles set out in the Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. In reporting against the AIC Code, the Company also complies with the corporate governance obligations applicable to Guernsey registered public companies whose shares are quoted on AIM.

The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission ("GFSC"). Companies reporting against the UK Code or the AIC Code are deemed to comply with the GFSC Code.

In this regard, the Company has established an audit committee and a remuneration committee with terms of reference briefly summarised on pages 23 and on pages 31-33 below.

## Corporate governance principles

The Board has considered the principles and recommendations of the AIC Code with reference to the AIC Guide. The Board considers that it has complied with the AIC Code during the period ended 31 December 2013 subject to the exceptions explained below.

## The Board

The Board comprises the Chairman, who is a non-executive director, two executive directors and two other non-executive Directors (four non-executive directors in total served during the period up to 1 December 2013, at which date one of the non-executive directors resigned). Pages 21 and 23 outline the profile of the directors who served during the period to 31 December 2013.

The articles of incorporation of the Investment Adviser provide that the board of directors of the Investment Adviser (Globalworth Investment Advisers Limited) comprises two executive directors (currently being Ioannis Papalekas and Dimitris Raptis) and two non-executive Directors (currently being Geoff Miller and John Whittle).

With the exception of the Company and the Investment Adviser, there are no common directorships between members of the Board.

At each annual general meeting of the Company, any Director who has been appointed by the Board since the last annual general meeting or who held office at the time of the two preceding annual general meetings and who did not retire at either of them shall retire from office and may offer himself for election or re-election by the Members. The Company at the meeting at which a Director retires in the manner aforesaid may fill the vacated office by appointing a person thereto by Ordinary Resolution and in default the retiring Director shall, if willing to act, be deemed to have been reappointed unless at such meeting it is expressly resolved not to fill the vacated office or a resolution for the re-appointment of such Director shall have been put to the meeting and lost.

Ioannis Papalekas is not required to submit himself for re-election during the first five years following Admission unless required to do so by a Two Thirds Vote. These arrangements are in line with the term of the Founder's Service Agreement with the Investment Adviser.

Dimitris Raptis is not required to submit himself for re-election at the Company's first annual general meeting.

The Company's non-executive directors are required to submit themselves for re-election at the Company's first annual general meeting.

### Chairman and Senior Independent Director

The Chairman of the Board is Geoff Miller. In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence, and has determined that Mr. Miller is an Independent Director. As the Chairman is an Independent Director, no appointment of a senior Independent Director has been made.

### Directors

The Directors are responsible for the determination and oversight of the Company's investing policy and strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance and the activities and performance of the Management Team. Two of the Directors are executives and three of them are non-executives.

The Directors during the period ended 31 December 2013 are as follows:

| | Date appointed | Date resigned |
|---|---|---|
| | | |
| Ioannis Papalekas – Chief Executive Officer | 14 February 2013 | |
| Dimitris Raptis – Deputy Chief Executive Officer and Chief Investment Officer | 14 February 2013 | |
| Geoff Miller – non-executive Director, Chairman of the Board* | 6 June 2013 | |
| Eli Alroy – non-executive Director | 6 June 2013 | |
| John Whittle – non-executive Director, Chairman of the Audit Committee and Chairman of the Remuneration Committee | 6 June 2013 | |
| David Kanter – non-executive Director | 6 June 2013 | 1 December 2013 |

* Appointed as Chairman of the Board on 5 December 2013.

Details of the experience of the executive and non-executive Directors are set out below.

**Ioannis Papalekas, Founder & Chief Executive Officer**

The founder of Globalworth, Ioannis has over 15 years of real estate investment and development experience of which 12 in Romania, having created one of the most successful real estate development and investment groups in the Romanian real estate market. Experienced in the acquisition, master planning, development, reconstruction, refurbishment, operation and asset management of land and buildings across all major asset classes in Romania, Ioannis has been responsible for the development of more than 400,000 sqm of commercial (office, retail and logistics) space and 1,000 residential units in Romania, realising an IRR of 175% and an equity multiple of 4.7x on invested capital.

**Dimitris Raptis, Deputy Chief Executive Officer and Chief Investment Officer**

Dimitris joined Globalworth in November 2012, following 16 years of experience in the financial services and real estate investment management industries with Deutsche Bank, of which the last 12 years as a senior member of the real estate investment management group of Deutsche Bank's Asset and Wealth Management division (RREEF).

From 2008 to 2012, Dimitris was Managing Director and European Head of Portfolio Management for RREEF Opportunistic Investments (ROI). In this role he was responsible for overseeing ROI's acquisitions across Europe as well as managing ROI's pan-European real estate investment portfolio consisting of 40 investments with a gross asset value in excess of €6 billion. From 2000 to 2008, Dimitris was a senior member of the team responsible for originating, structuring and executing real estate investments, with a main focus on the French, Italian and South Eastern European markets with an enterprise value in excess of €5.5 billion across all major asset classes.

**Geoff Miller, Non-Executive Director, Chairman of the Board**

Geoff Miller has over 20 years' experience in research and fund management in the UK, specialising in the finance sector, with a focus on the specialty finance, insurance and investment company sub-sectors. He was formerly a number one rated UK mid and small cap financials analyst covering investment banks, hedge funds and hedge fund managers, structured products, insurance vehicles, investment companies and real estate companies.

He is based in Guernsey having worked in Moscow and Singapore in recent years.

Geoff is currently Chief Executive Officer of GLI Finance Limited (admitted to AIM and CISX), Non-Executive Director and Chairman of the Risk Committee of Hastings Insurance Group Limited (holding company for a UK insurance broker and Gibraltar-based insurance underwriter), as well as acting as a Director for a number of private companies.

**Eli Alroy, Non-Executive Director**

Eli Alroy has extensive international experience in real estate investment and project management. From 1994 to 2012 Eli was Chairman of the Supervisory Board of Globe Trade Centre S.A. (GTC), traded on the Warsaw stock exchange. During part of this period (from 1994 to 1997) Eli also served as the CEO of Kardan Real Estate, prior to which between 1992 and 1993 he worked as the CEO of the development company A.M.T.

In 2007 he was awarded the title of CEE Real Estate Industry Professional of the Year. In 2010 Eli Alroy was honoured with the prestigious CEEQA Real Estate Lifetime Achievement award, sponsored by the Financial Times, for his commitment to the real estate industry in Central and Eastern Europe.

**John Whittle, Non-Executive Director, Chairman of the Audit and Remuneration Committees**

John has a strong background in large third party fund administration, having worked extensively in high technology service industries, and has in-depth experience of strategic development and mergers & acquisitions.

He has worked on the boards of listed companies as well as within private equity, property and the fund of funds sectors. He is currently a director of FTSE 250 listed International Public Partnerships Ltd, LSE main market listed Starwood European Real Estate Financing Limited, as well as India Capital Growth Fund Ltd and Advance Frontier Markets Fund Ltd, both of which are admitted to trading on AIM.

## Committees of the Board

The committees of the Board comprise the audit committee and the remuneration committee, with terms of reference briefly summarised below.

***Audit committee***

The audit committee comprises two independent non-executive Directors. The audit committee is chaired by John Whittle and the other member is Geoff Miller. The audit committee considers, amongst other matters: (i) the integrity of the consolidated financial statements of the Company, including its annual and interim accounts and the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct.

In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues. During the period ended 31 December 2013 there was one meeting of the Audit Committee. Further details on the work of the Audit Committee during the period are provided in the Audit Committee report on pages 31-33.

***Remuneration committee***

The remuneration committee comprises two independent non-executive Directors. The remuneration committee is chaired by John Whittle and the other member is Geoff Miller. The remuneration committee has as its remit, amongst other matters, the determination and review of the remuneration of the executive Directors and the terms of any performance, incentive or bonus plans of the Group, including the setting of performance thresholds and the extent of participation above any such thresholds, the allocation of aggregate entitlements across the Management Team, the allocation of any such entitlements as between shares and cash and the setting of any vesting periods (in each case, taking such independent advice as it considers appropriate in the circumstances). In addition, the remuneration committee prepares an annual report on the remuneration policies of the Company. The remuneration of the non-executive Directors is a matter for the Board. No Director or manager may be involved in any decisions as to his own remuneration.

The complete details of the remuneration committee's formal duties and responsibilities are set out in its terms of reference, which at present can be obtained from the Company's Secretary and will be placed shortly on the Company's website.

During the short period from admission to AIM up to the period end no remuneration committee meeting was held, as it was not considered necessary due to the fact that the remuneration of the Board members was set prior to admission to AIM in July 2013 and disclosed in the IPO admission document.

## Risk Management and Internal control

The Group has a conservative risk philosophy as it only accepts risks associated with the nature of its business activities. The most common risks associated with the real estate investments and development sector relate to the:

a) fluctuations in the value of assets
b) rented space vacancies
c) volatility in market rents
d) risks associated with development activities

The Board is responsible for establishing and maintaining the Company's system of internal control and for maintaining and reviewing its effectiveness. The system of internal control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and as such can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As the Company was recently admitted to AIM, following advice from Audit Committee members, the Board has focused on the implementation of the recommendations made by Ernst & Young on the financial reporting processes of the Group, in the process of preparation for admission to AIM, as contained in their related report, dated 24 July 2013. Since admission the Company has made suitable appointments in the area of financial management and supervision over internal control, with the recent appointment of a Chief Financial Officer and a Financial Controller, who are also currently focusing on the strengthening of internal controls over financial reporting and other significant processes of the Group. The Board intends to implement shortly a process of quarterly examination and evaluation of identified significant risks faced by the Company, as well as the controls in place to manage or mitigate those risks.

## Supply of information to the Board

The Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance and compliance. A representative of the Investment Adviser attends each Board meeting thus enabling the Board to discuss fully and review the Company's operations and performance. Each Director has direct access to the Company Secretary, and may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

## Delegation of functions

The Board has contractually delegated to external agencies the custodial services and the accounting and company secretarial requirements of the Company and some of its subsidiaries. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered.

## Investment Adviser

Under the Investment Advisory Agreement the Company has appointed the Investment Adviser, subject to the overall control and supervision of the Board of the Company, to act as investment adviser for a fixed five year period. The Investment Adviser has no authority to act for or represent the Company (or any other member of the Group) in any other capacity. The appointment is on an exclusive basis and the Company shall not be entitled to take any actions in relation to the Investing Policy other than on the recommendation of the Investment Adviser.

The Investment Adviser is obliged to advise in respect of potential and actual investments of the Company in pursuit of the Company's Investing Policy, subject to any applicable investment restrictions and having regard to any investment guidelines.

Subject to any applicable law, the Investment Adviser complies with all reasonable instructions issued by the Board (so long as these are not outside the Investing Policy as recorded in the admission document or contrary to the exclusivity of the Investment Adviser in relation to the Company's investment activities).

The Investment Adviser is entitled to a fee which reflects expected expenditure as agreed with the Company, including so as to fund awards to employees of the Investment Adviser under the Management Team performance incentive scheme to be approved by the remuneration committee of the Board and any payments to be made to any executive director on the termination of his employment with the Investment Adviser. At quarterly Board meetings the Investment Adviser summarises its activities, proposals and achievements and the independent directors review the performance of the Investment Adviser and the Executive Directors in relation thereto. Having considered the portfolio performance and investment strategy, the Board has agreed that the interests of the shareholders as a whole are best served by the continuing appointment of the Investment Adviser on the terms agreed.

No separate Management Engagement Committee has been constituted as the monitoring of management is considered a primary function of the Board.

The Investment Advisory Agreement remains in force during the initial fixed five year period unless terminated by the Company by a Two Thirds Vote by the Board.

## Remuneration Report

During the period ended 31 December 2013 the remuneration of the Directors was as follows:

| | Salaries & Fees | | | | | Other Benefits* | ***Total remuneration |
|---|---|---|---|---|---|---|---|
| | Payment currency | | Company 2013 | Subsidiaries 2013 | Total 2013 | 2013 | 2013 |
| | EUR | GBP | EUR | EUR | EUR | EUR | EUR |
| Ioannis Papalekas | 250,000 | - | 250,000 | - | 250,000 | 18,351 | 268,351 |
| Dimitris Raptis | 408,335 | - | - | 408,335 | 408,335 | **- | 408,335 |
| Geoff Miller | - | 52,500 | 45,056 | 16,760 | 61,816 | - | 61,816 |
| Eli Alroy | 113,887 | - | 113,887 | - | 113,887 | - | 113,887 |
| John Whittle | - | 42,500 | 33,352 | 16,676 | 50,028 | - | 50,028 |
| David Kanter (resigned on 1 December 2013) | 44,172 | - | 44,172 | - | 44,172 | - | 44,172 |
| | **816,394** | **95,000** | **486,467** | **441,771** | **928,238** | **18,351** | **946,589** |

* Represents the estimated value of furnished accommodation benefit in kind provided by GAM.

** For Dimitris Raptis furnished accommodation benefit in kind is provided by Upground, which was acquired by the Group subsequent to the period end, on 20 March 2014, consequently the related costs are incurred by the Group from the acquisition date onwards.

*** The amounts indicated represent accrued amounts corresponding to the period during which the beneficiaries were members of the Board. Out of the total Director's remuneration expense for salaries and fees, of €928,238, €283,913 was payable as of 31 December 2013.

## Substantial interests

At 31 December 2013, the following shareholders had substantial interests (more than 3%) in the issued share capital of the Company:

| | Number of shares | % of issued share capital of the Company |
|---|---|---|
| | | |
| Ioannis Papalekas | 13,186,934 | 63.1% |
| Gordel Holdings Limited | 2,660,000 | 12.7% |
| Altshuler Shaham Group | 1,995,703 | 9.5% |
| Villar International Limited | 1,000,000 | 4.8% |
| Pictet & Cie, Banquiers | 830,000 | 4.0% |
| | | |

## Directors' interests

At 31 December 2013, Directors held (either directly or through companies controlled by them) the following declarable interests in the Company:

| | Number of shares | Number of warrants held |
|---|---|---|
| | | |
| Ioannis Papalekas | 13,186,934 | 3,135,846 |
| Dimitris Raptis | 110,000 | 110,000 |
| Geoff Miller | 11,000 | 11,000 |
| Eli Alroy | 130,000 | 260,000 |
| John Whittle | 9,000 | 9,000 |

The Group has granted a number of warrants to Ioannis Papalekas ("the Founder"), Dimitris Raptis, Geoff Miller, Eli Alroy and John Whittle. Pursuant to the warrant agreements, the warrants confer the right to subscribe, at the Placing Price, for a specific number of ordinary shares. The warrants will vest and become exercisable when the market price of an ordinary share, on a weighted average basis over 60 consecutive days, exceeds a specific target price.

The Founder warrants are not transferable prior to the earlier of the second anniversary of Admission and vesting, save that they may be transferred to any other member of the Management Team (or any company owned, directly or indirectly, by that member) after the first anniversary of Admission. Subject to vesting, the warrants are exercisable in whole or in part during the period commencing on Admission and ending on the date falling ten years from the date of Admission.

***Founder Warrant Agreement***

On 24 July 2013 the Company entered into a warrant agreement with Ioannis Papalekas and Zorviani Limited under which the Company agreed to issue at, and subject to, Admission to Zorviani Limited three tranches of Warrants, each representing 5 per cent. of the aggregate of the Placing Shares and the Ordinary Shares subscribed by Zorviani Limited (or other Founder Companies), pursuant to the Founder Admission Subscription and the Founder Equity for Assets Subscriptions, subject to the market price per Ordinary Share being at least €7.50, €10.00 and €12.50 (respectively) as a weighted average over a period of 60 consecutive days (each a "Market Price Vesting Threshold"). In each case, the subscription price will be €5.00.

***Director Warrant Agreement***

On 24 July 2013 the Company entered into a warrant agreement with Dimitris Raptis, Eli Alroy, Geoff Miller and John Whittle under which the Company agreed to issue to such persons at, and subject to, Admission, Warrants over 110,000, 260,000, 11,000 and 9,000 (respectively) Ordinary Shares, subject to the market price per Ordinary Share being at least €7.50 as a weighted average over a period of 60 consecutive days (the "Market Price Vesting Threshold"). In each case, the subscription price will be €5.00.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law they have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), and applicable law.
The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these consolidated financial statements, the Directors are required to:

Å select suitable accounting policies and then apply them consistently;
Å make judgments and estimates that are reasonable and prudent;
Å state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
Å prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that the Company maintains proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the consolidated financial statements comply with the Companies (Guernsey) Law 2008, as amended. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors confirm to the best of their knowledge that:

Å so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant information and to establish that the Company's Auditor is aware of that information;
Å these Consolidated Financial Statements have been prepared in conformity with IFRS, as adopted by the EU, and give a true and fair view of the financial position of the Company; and
Å this Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Company's performance, business model and strategy.

## Board meetings, Committee meetings and Directors' attendance

The number of meetings of the Board of Directors and the Audit Committee attended by each Director during the period ended 31 December 2013 is set out below.

| | **Board Meetings** | | **Audit Committee** | |
|---|---|---|---|---|
| | Held | Attended | Held | Attended |
| | | | | |
| Ioannis Papalekas | 9 | 8 | N/A | N/A |
| Dimitris Raptis | 9 | 8 | N/A | N/A |
| Geoff Miller | 9 | 9 | 1 | 1 |
| Eli Alroy | 9 | 5 | N/A | N/A |
| John Whittle | 9 | 7 | 1 | 1 |
| David Kanter<br>*(resigned on 1 December 2013)* | 8 | 7 | 1 | 1 |

In addition to the above, two Board Committee meetings were held during the Period which were attended by Geoff Miller and Dimitris Raptis.

## Performance evaluation

The Board formally considers on an annual basis its effectiveness as a Board, the balance of skills represented and the composition and performance of its committees. The Board considers that it has an appropriate balance of skills and experience in relation to the activities of the Company. The Chairman evaluates the performance of each of the Directors on an annual basis, taking into account the effectiveness of their contributions and their commitment to the role. The performance and contribution of the Chairman is reviewed by the other Directors under the leadership of the Chairman of the Audit Committee.

As the Company has recently been admitted to AIM and not all Board members had a full year of service to date, the review of the independence and performance of Board members will be carried out in the coming months.

## Nomination committee

The Board as a whole fulfils the function of a Nomination Committee. The size and independence of the Board is such that it is considered that the function of such a committee is best carried out by the Board as a whole. Any proposal for a new director will be discussed and approved by the Board.

## Diversity

The Company maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background. This policy will be also followed when appointing new directors to the Board.

## Auditors

The Auditors, Ernst & Young LLP, have indicated their willingness to continue in office. Accordingly, a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

## Ongoing Charges

In accordance with the recommended methodology set out by the AIC, the ongoing charges ratio of the Group for the period ended 31 December 2013 was 2.13 per cent. (excluding exceptional costs). No performance fees were charged during the year.

## Shareholder communications

A report on Shareholder communications is considered at each Board Meeting. A quarterly announcement is published on the Company's website reporting the quarter-end Net Asset Value. Regular Trading Updates are also posted in the Company's website with commentary on significant events in the evolution of the Company's portfolio and performance.

The Investment Adviser and the Corporate Brokers maintain regular dialogue with institutional shareholders, feedback from which is reported to the Board. In addition, Board members are available to answer shareholders' questions at any time, and specifically at the Annual General Meeting. The Company Secretary is available to answer general shareholder queries at any time during the year. The Board monitors activity in the Company's shares and the discount or premium to net asset value at which the shares trade both in absolute terms and relative to the Company's peers.

The Company has the power to buy-back shares in the market, the renewal of which power is sought from shareholders on an annual basis at the annual general meeting, and the Board considers on a regular basis the exercise of those powers. The Board did not consider it appropriate to exercise such powers during the period ended 31 December 2013.

## Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements as the Company has adequate financial resources to continue in operational existence for the foreseeable future. The Directors based their conclusion on their assessment, which considered, among other parameters and information, the continuous success of the Company in both securing debt financing from internationally renowned banking institutions (for example, with UBS a €65 million debt raise in February 2014) and the very recent and substantial fundraising for a total of c.€144 million in April 2014 (including the €65 million UBS debt taken over by York Capital and Oak Hill Advisors, which is mandatorily convertible to equity in December 2014) to support its ongoing development program.

## Annual General Meeting

The Annual General Meeting of the Company will be held on Thursday 19 June 2014 at 1 pm British Summer Time at Frances House, Sir William Place, St. Peter Port, Guernsey.

Approved by the Board of Directors and signed on behalf of the Board on 8 May 2014.

John Whittle
Director

# REPORT OF THE AUDIT COMMITTEE

**Introduction**

We present below the Audit Committee (the "Committee") Report for the period ended 31 December 2013.

**Structure and Composition**

The Committee is chaired by John Whittle and the other member is Geoff Miller.

The Chairman of the Committee is appointed by the Board and the members are appointed by the Board, in consultation with the Chairman of the Committee. The Committee shall have a minimum of two members. All members of the Committee shall be independent non-executive directors with relevant financial experience.

John Whittle is a Chartered Accountant, having worked in the past with Price Waterhouse in London before embarking on a career in business services, predominantly telecoms. He also holds the IoD Diploma in Company Direction. His recent, relevant financial experience includes being a member of the Audit Committee of Advance Frontier Markets Fund Ltd, which is also listed on AIM, as well as a chairman of the Audit Committees of International Public Partnerships Ltd (a FTSE 250 company) and Starwood European Real Estate Finance Ltd (listed on the main market of the London Stock Exchange). In addition, he is a non-executive director of several other Guernsey investment funds. He was previously Finance Director of Close Fund Services, a large independent fund administrator, where his responsibilities included the managing of the client financial reporting team.

**Principal Duties of the Committee**

The role of the Committee includes:

- monitoring the integrity of the consolidated financial statements and any formal announcements regarding financial performance;
- reviewing and reporting to the Board on the significant issues and judgments made in the preparation of the Group's published financial statements, having regard to matters communicated by the independent auditors, preliminary announcement and other financial information;
- keeping under review the effectiveness of the company's internal controls and risk management systems;
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- reviewing the effectiveness of the external audit process and the auditors' independence;
- considering and making recommendations to the Board on the appointment, reappointment, replacement and remuneration of the Company's independent auditor; and
- assessing whether the annual report and accounts taken as a whole, is fair, balanced and understandable.

The complete details of the Committee's formal duties and responsibilities are set out in the Committee's terms of reference, which at present can be obtained from the Company's Secretary and will be placed shortly on the Company's website.

**Activities of the Committee**

Since admission to AIM the Committee has been active with the following activities.

- Drafting and presenting to the Board for approval the Terms of Reference for the Committee.
- Making recommendations to the Board in connection with the urgency of appointment of a Chief Financial Officer to provide oversight of the portfolio financials and facilitate the completion of the annual audit.
- Reviewing and commenting upon the preliminary results announcement and Draft Annual Report for the period ended 31 December 2013
- Holding regular meetings and discussion with the external auditor:

- The Committee has met once since admission with the Company's auditor, at the planning stage of the audit. During this meeting the audit plan was presented, reviewed and discussed, as well as a discussion was held on the principal risks on which the audit would be focused on. The auditors explained during this meeting that the principal risk the audit would focus on was property portfolio valuation. Other significant financial reporting matters relevant for the Company and the audit include business combination accounting, loan covenant compliance and related party transactions.
- The Chairman of the Committee held discussions with the auditor at the end of the audit at the reporting stage, before the approval of the Company's consolidated financial statements and Annual Report.
- The Committee shall also meet shortly with the external auditor to discuss in detail the findings and recommendations based on their audit for the period ended 31 December 2013.

- Reviewing the Annual Report for the period ended 31 December 2013 prior to its approval by the Board.

**Independent Auditor**

Ernst & Young LLP has been the independent auditor from the date of the initial listing on the AIM Market of the London Stock Exchange.

The recent revisions to the UK Corporate Governance Code introduced a recommendation that the independent audit of FTSE 350 companies be put out to tender every ten years. Similarly, the EU and the Competition Commission have also issued draft requirements to tender every 10 years and extend for a maximum of further 10 years before mandatory rotation, which is yet to be finalised. The Committee will follow the developments around the FRC, EU and Competition Commission guidance on tendering at the appropriate time.

The auditor has notified to the Audit Committee its independence of the Group.

The independence and objectivity of the independent auditor is reviewed by the Committee which also reviews the terms under which the independent auditor is appointed to perform non-audit services.

Services which are permissible in accordance auditor's independence and other professional standards, such as tax compliance, accounting and disclosure advice, special purpose audits, periodic reviews of financial information, and pre-acquisition due diligence reviews, are normally permitted to be performed by the independent auditor.

**Audit fees and Non-audit Services**

The table below summarises the remuneration of Ernst & Young LLP and other entities of Ernst & Young during the period ended 31 December 2013:

| | **Audit fees** | **Non-Audit Fees** |
|---|---|---|
| | **€ '000** | **€ '000** |
| Audit of the consolidated financial statements | 159 | - |
| Reporting Accountant's Fees (AIM admission) | - | 42 |
| Non-audit services related to AIM admission | - | 406 |
| Other non-audit services | - | 217 |
| | **159** | **665** |

**Internal Control**

As the Company was recently admitted to AIM, the primary focus of the Committee during the period was on the careful consideration of the recommendations made by Ernst & Young on the financial reporting processes of the Group, in the process of preparation for admission to AIM, as contained in their related long form report, dated 24 July 2013, and in making suitable recommendations to the Board for their implementation.

For any questions on the activities of the Committee not addressed in this report, a member of the Audit Committee remains available to attend each Annual General Meeting to respond to such questions.

John Whittle
Audit Committee Chairman

8 May 2014

## KEY HIGHLIGHTS

Key highlights as of and for the period ended 31 December 2013:

- Portfolio Open Market Value ("OMV") of €121.3 million
- Debt financing of €20.5 million
- Loan to Value of 16.9 per cent
- EPRA[34] Net Assets Value ("NAV") of €126.2 million[35]
- EPRA NAV/share of €6.03
- Revenues of €8.1 million
- Profit before tax of €13.7 million
- Profit after tax of €12.7 million
- Basic and diluted weighted average earnings per share €(cents) 173.93

[34] European Public Real Estate Association

[35] A reconciliation with the net assets at 31 December 2013 per the consolidated statement of financial position is presented on page 37

## Group's results for the period

The Company was incorporated in February 2013 and was admitted to AIM towards the end of July 2013. Since admission to AIM the Company focused on the acquisition of the Initial Portfolio and Founder Pipeline, as described in the IPO admission document, which was successfully completed in March 2014. Therefore, the results for the period ended 31 December 2013 only include the results of the acquired assets up to 31 December 2013, as described in more detail in the sub-section "Property acquisitions" below.

The total revenues for the period amounted to c.€8.1 million, analysed into the following components:

- The rental revenues for the period of c.€0.26 million reflect the rental income of the commercial space in the City Offices Building (the most significant part of which was undergoing refurbishment and conversion to office space from a shopping mall), and income from the leased apartments at Upground Towers since their acquisition through the acquisition of Globalworth Asset Managers (GAM). With the completion of the acquisition of the Initial Portfolio and Founder Pipeline the Group expects a very significant increase in rental revenues from the properties acquired which are currently rented or will be rented out in the near future. Details on the most recently available NOI data for all properties currently in our portfolio are presented in the Portfolio Review Report on pages 9 - 18.

- The property management fees for the period of c.€4.9 million include the fees from the property management services performed by GAM since 30 September 2013 for the properties in the Initial Portfolio and Founder Pipeline. With the completion of the acquisition of the properties in the Initial Portfolio and Founder Pipeline in March 2014, these revenues may not be as significant going forward, as compared to the total anticipated revenues of the Group.

- Property development fees for the period of c.€2.9 million comprise fit-out works performed by GAM for properties in the Initial Portfolio and Founder Pipeline. With the completion of the acquisition of the properties in the Initial Portfolio and Founder Pipeline in March 2014, going forward such revenues are expected to include amounts from similar works carried out for our tenants.

Operating expenses for the period of c.€2.8 million include the costs incurred mainly by GAM during the period since 30 September 2013, including c.€2.4 million for fit-out works and other utility costs.

Administrative expenses for the period amount to c.€1.9 million and include c.€0.9 million Directors' remuneration, c.€0.4 million fees for audit and other professional services, c.€0.25 million company administration and incorporation expenses for subsidiaries, €0.2 million salaries and wages, and other miscellaneous costs.

As disclosed in Note 13 of the consolidated financial statements, the Group has recognised an unrealised gain of c.€1.4 million from the revaluation of properties held since their acquisition.

As disclosed in Note 5.2 of the consolidated financial statements, the Group has recognised a bargain purchase gain on the acquisition of Corinthian Five S.R.L., which represents a non-recurring item that was recorded in accordance with IFRS 3 "Business Combinations" provisions.

A cost of c.€0.04 million was also recognised during the period in connection with the share based payment warrants scheme for the Directors. Further details on this scheme and the parameters used to determine the fair value of its cost for the period are disclosed in Note 21 of the consolidated financial statements.

Finance costs incurred during the period of c.€0.3 million relate to interest expenses on bank loans of GAM.

The income tax expense for the period of c.€1 million includes c.€0.8 million current income tax expense and c.€0.2 million deferred income tax expense. The current income tax expense is associated with the taxable profit of GAM for the period at the corporate income tax rate in Romania of 16%.

The profit for the period after tax amounted to c.€12.7 million, whereas the unaudited reported loss after tax for the period ended 30 June 2013, prior to admission to AIM, was c.€141.

## NET ASSET VALUE (NAV)

### Basic NAV per share

Basic NAV per share amounts are calculated by dividing net assets in the consolidated statement of financial position attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding at period end. 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:

| DESCRIPTION | Group<br>31 December 2013<br>€ |
|---|---|
| Net assets as per consolidated statement of financial position | 120,278,973 |
| Less: | |
| Non-controlling interests | (588,231) |
| NAV attributable to ordinary equity holders of the parent | 119,690,742 |
| Shares in issue at period end | 20,905,637 |
| **NAV per share** | **5.73** |

### EPRA NAV per share

EPRA NAV includes properties and other investment interests at fair value and excludes certain items not expected to crystallise in a long-term investment property business model.

| DESCRIPTION | Group<br>31 December 2013<br>€ |
|---|---|
| NAV attributable to ordinary equity holders of the parent | 119,690,742 |
| Exclude: | |
| Deferred tax liability | 12,432,311 |
| Goodwill as a result of deferred tax | (5,965,217) |
| EPRA NAV attributable to ordinary equity holders of the parent | 126,157,836 |
| Shares in issue at period end | 20,905,637 |
| **EPRA NAV per share** | **6.03** |

# GLOBALWORTH REAL ESTATE INVESTMENTS LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS**
**31 DECEMBER 2013**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**for the period from 14 February to 31 December 2013**

| | Note | 2013 € |
|---|---|---|
| Rental income and property management fees/asset manager recharges | 6 | 8,109,764 |
| Property operating and asset management expenses | 7 | (2,805,450) |
| **Net operating income** | | **5,304,314** |
| Administrative expenses | 8 | (1,856,224) |
| Acquisition costs | 5 | (107,980) |
| Change in fair value of investment property | 13 | 1,362,576 |
| Bargain purchase gain on acquisition of subsidiary | 5.2 | 9,377,342 |
| Share based payments | 21 | (43,807) |
| Foreign exchange loss | | (77,704) |
| | | **8,654,203** |
| **Profit before financing cost** | | **13,958,517** |
| Finance cost | 9 | (254,997) |
| Finance Income | 10 | 1,803 |
| **Earnings before tax** | | **13,705,323** |
| Income Tax expense | 11 | (975,651) |
| **Profit for the period** | | **12,729,672** |
| Other comprehensive income | | - |
| **Total comprehensive income for the period** | | **12,729,672** |
| Attributable to: | | |
| Equity holders of the parent | | 12,690,644 |
| Non - controlling interests | | 39,028 |
| | | **12,729,672** |
| Basic and diluted weighted average earnings per share (cents) | 12 | 173.93 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2013**

| **ASSETS** | **Note** | **2013** |
|---|---|---|
| **Non-Current assets** | | **€** |
| Investment property | 13 | 121,334,700 |
| Goodwill | 16 | 12,616,452 |
| Advance for investment property | 14 | 8,750,000 |
| Other long term assets | 17 | 172,445 |
| Long term prepayments | | 113,461 |
| | | 142,987,058 |
| **Current assets** | | |
| Trade and other receivables | 18 | 11,180,341 |
| Cash and cash equivalents | 19 | 9,505,852 |
| Investment property held for sale | 15 | 1,875,800 |
| | | 22,561,993 |
| **Total assets** | | **165,549,051** |
| **EQUITY AND LIABILITIES** | | |
| **Total equity** | | |
| Issued share capital | 20 | 106,956,291 |
| Share based payment reserve | 21 | 43,807 |
| Retained earnings | | 12,690,644 |
| Equity attributable to ordinary equity holders of the parent | | 119,690,742 |
| Non-controlling interests (NCI) | | 588,231 |
| | | **120,278,973** |
| **Non-current liabilities** | | |
| Interest bearing loans and borrowings | 22 | 165,429 |
| Deferred tax liability | 11 | 12,432,311 |
| Finance lease liabilities | 24 | 20,831 |
| Deposits from tenants | | 28,474 |
| | | **12,647,045** |
| **Current liabilities** | | |
| Interest bearing loans and borrowings | 22 | 20,296,201 |
| Trade and other payables | 23 | 11,494,264 |
| Finance lease liabilities | 24 | 25,527 |
| Income tax payable | | 726,059 |
| Deposits from tenants | | 80,982 |
| | | **32,623,033** |
| **Total equity and liabilities** | | **165,549,051** |

Approved by the Board of Directors and signed on behalf of the Board on 8 May 2014.

John Whittle
Director

*The accompanying notes are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the period from 14 February to 31 December 2013**

| | Note | Equity attributable to ordinary equity holders of the parent | | | | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| | | Issued share capital | Share based payment reserve | Retained earnings | Total | | |
| | | € | € | € | € | € | € |
| **As at 14 February 2013** | | **-** | **-** | **-** | **-** | **-** | **-** |
| Issue of shares on incorporation by Founder | | 1 | - | - | 1 | - | 1 |
| Shares of the Founder redeemed | | (1) | - | - | (1) | - | (1) |
| Shares issued for cash | 20 | 53,593,515 | -- | - | 53,593,515 | - | 53,593,515 |
| Issue cost recognised to equity | 20 | (4,941,622) | -- | - | (4,941,622) | - | (4,941,622) |
| Shares issued for acquisition of subsidiary | 5.1 | 36,456,000 | - | - | 36,456,000 | - | 36,456,000 |
| Non-controlling interests arising on a business combination | 5.1 | - | - | - | - | 549,203 | 549,203 |
| Fair value of option warrants issued for executive share scheme | 21 | - | 43,807 | - | 43,807 | - | 43,807 |
| Shares issued for acquisition of subsidiary | 5.2 | 21,848,398 | - | - | 21,848,398 | - | 21,848,398 |
| Profit of the period | | – | – | 12,690,644 | 12,690,644 | 39,028 | 12,729,672 |
| **As at 31 December 2013** | | **106,956,291** | **43,807** | **12,690,644** | **119,690,742** | **588,231** | **120,278,973** |

*The accompanying notes are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the period from 14 February to 31 December 2013**

| | Note | 2013<br>€ |
|---|---|---|
| Profit before tax | | **13,705,323** |
| *Adjustments to reconcile profit before tax to net cash flows* | | |
| Change in fair value of investment property | 13 | (1,362,576) |
| Bargain purchase gain on acquisition of subsidiary | 5.2 | (9,377,342) |
| Share based payments | 21 | 43,807 |
| Foreign exchange loss | | 77,704 |
| Net financing costs | | 253,194 |
| **Operating profit before changes in working capital** | | **3,340,110** |
| (Increase) in trade and other receivables | | (4,591,958) |
| Increase in trade and other payables | | 1,519,259 |
| Interest paid | | (253,194) |
| Income tax paid | | (10,142) |
| **Cash flows from operating activities** | | **4,075** |
| **Investing activities** | | |
| Expenditure on investment property under refurbishment and development | | (1,768,894) |
| Advances paid for acquisition of subsidiary and investment property | | (8,000,000) |
| Payment for acquisition of subsidiaries less cash acquired | 5 | (26,548,449) |
| **Cash flows from investing activities** | | **(36,317,343)** |
| **Financing activities** | | |
| Proceeds from share issuance | | 53,093,515 |
| Repayment of share capital issue cost recognised to equity | | (4,441,622) |
| Proceeds from interest bearing loans and borrowings | | 4,576,380 |
| Repayment of interest bearing loans and borrowings | | (7,409,153) |
| **Cash flows from financing activities** | | **45,819,120** |
| **Net increase in cash and cash equivalents** | | **9,505,852** |
| Cash and cash equivalents as of 14 February 2013 | | - |
| **Cash and cash equivalents as of 31 December 2013** | 19 | **9,505,852** |

Non-cash transactions
The principal non-cash transactions relate to the issuance of shares as consideration for the acquisitions discussed in Note 5.

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1 CORPORATE INFORMATION

Globalworth Real Estate Investments Limited ('the Company') was incorporated in Guernsey as a non-cellular company with liability limited by shares on 14 February 2013, with registered number 56250. The Company is domiciled in Guernsey and listed on Alternative Investment Market of the London Stock Exchange (AIM). The registered office of the Company is Frances House, Sir William Place, PO Box 156, Street Peter Port, GY1 4EU, Guernsey.

The Company and its subsidiaries (together, "the Group") have been formed to take advantage of investment opportunities in real estate assets situated in the SEE and CEE region, with primary focus on properties located in Romania.

### Directors

The Directors of the Group are:

- Ioannis Papalekas, *Chief Executive Officer*
- Dimitris Raptis, *Deputy Chief Executive Officer and Chief Investment Officer*
- Geoff Miller, *Non-executive, Chairman of the Board*
- Eli Alroy, *Non-executive*
- David Kanter, *Non-executive (resigned on 1 December 2013)*
- John Whittle, *Non-executive (Chairman of the Audit Committee and the Remuneration Committee)*

The Group has 35 employees as of 31 December 2013.

These consolidated financial statements have been authorised by the board of directors on 8 May 2014.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout the period presented.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as adopted by the European Union ('EU'). The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013 and for the period then ended.

The consolidated financial statements have been prepared on a historical cost basis, except for investment property and investment property held for sale which are measured at fair value. The consolidated financial statements are presented in Euro ("€" or "EUR"). The financial year of the Group ends at 31 December. The consolidated financial statements were prepared for a period less than a full year starting from the date of incorporation of Globalworth Real Estate Investments Limited, i.e. 14 February 2013.

The consolidated financial statements are prepared on a going concern basis, as explained in the Directors' Report on page 30.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgments in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in Note 3.

## a) Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted

• IAS 28 Investments in Associates and Joint Ventures (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

• IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendments are effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

• IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments to IFRS 9 and IFRS 7-Mandatory Effective Date and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39

IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurement of financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The subsequent package of amendments issued in November 2013 initiate further accounting requirements for financial instruments. These amendments a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. This standard and subsequent amendments have not yet been endorsed by the EU. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

• IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

• IFRS 11 Joint Arrangements

The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

- IFRS 12 Disclosures of Interests in Other Entities

The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Management has assessed that there would be no significant impact on the consolidated financial statements for its interest in subsidiaries. Management has also assessed that the amendments will have no impact on the Group's financial position and performance.

- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. Management has assessed that there will be no significant impact on the Group's financial position and performance.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

- IFRS 14 Regulatory Deferral Accounts

The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This standard has not yet been endorsed by the EU. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets

This amendment is effective for annual periods beginning on or after 1 January 2014. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. Management has assessed that the amendments will have no significant impact on the Group's financial position and performance.

- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting

This amendment is effective for annual periods beginning on or after 1 January 2014. Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

- IAS 19 Defined Benefit Plans (Amended): Employee Contributions

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment has not yet been endorsed by the EU. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

- IFRIC Interpretation 21: Levies

The interpretation is effective for annual periods beginning on or after 1 January 2014. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation has not yet been endorsed by the EU. Management has assessed that the amendments will have no impact on the Group's financial position and performance.

The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. Management has assessed that none of these are expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 2 Share-based Payment: This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

- IFRS 3 Business combinations: This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

- IFRS 8 Operating Segments: This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

- IFRS 13 Fair Value Measurement: This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

- IAS 16 Property Plant & Equipment: The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- IAS 24 Related Party Disclosures: The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- IAS 38 Intangible Assets: The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. Management has assessed that none of these are expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 3 Business Combinations: This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- IFRS 13 Fair Value Measurement: This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

- IAS 40 Investment Properties: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

## 2.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs adopted for use in the EU and the Companies (Guernsey) Law 2008, as amended. The Consolidated financial statements give a true and fair view of the state of affairs of the Group as of 31 December 2013 and of its profit for the period then ended, and are in compliance with the Companies (Guernsey) Law 2008, as amended.

## 2.3 Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December (please refer to Note 4 Investment in Subsidiaries). Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the period from the date of obtaining control to 31 December, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 2.4 Business combinations

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. The Group continues to measure the non-controlling interest at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at acquisition date and any resulting gain or loss is recognised in profit or loss. Under IFRS 3 Revised, acquisition of additional shares from non-controlling shareholders are regarded as equity transactions and therefore no additional goodwill is recognised.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in the income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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 re-assessment 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.

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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

## 2.5 Property acquisitions and business combinations

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 3.

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

## 2.6 Intangibles assets

a) Goodwill

Goodwill only arises upon a business combination and 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, after recognising the acquiree's identifiable assets, liabilities and contingent liabilities.

Subsequently, the goodwill is carried at cost and is subject to regular reviews by the Group and impairment test at least once per year or whenever there is an indication of impairment. At the date of acquisition, goodwill is allocated to one or more cash generating units expected to benefit from the acquisition. The recoverable amount of a cash-generating unit is determined using the most appropriate method, most commonly the discounted cash flows method, and is applied to the full cash generating unit rather than each legal entity.

Goodwill may arise on acquiring an asset via a share deal, where the Group inherits the fiscal basis of the assets. As IFRS require recognition of deferred taxes on a nominal basis, while share transactions are based on market value of these taxes, a difference may appear that is reflected in the goodwill. The impairment of this goodwill is calculated according to the amounts of tax optimisation existing at the date of reporting.

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 on a nominal basis), the post-tax discount rate is adjusted in order to determine the appropriate pre-tax discount rate used to determine the value in use for impairment testing purposes (Note 16).

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 5).

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.

b) Software licences

Acquired computer software licences are initially capitalised at cost, which includes purchase prices and other directly attributable costs of preparing the assets for its intended use. Costs associated with maintaining the computer software are recognised as an expense when incurred. Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit and loss using the straight-line method over their estimated useful lives of one to two years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each statement of financial position date. The effects of any revision are recognised in profit and loss when the changes arise.

## 2.7 Foreign currency translation

**Functional currency and presentation currency**
The consolidated financial statements are presented in EUR, which is the Group's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Consideration in determining the functional currency is given to the denomination of the major cash flows of the entity e.g. revenues and financing. As a consequence, the Group uses the EUR as the functional currency, rather than the local currency (RON) for the entities incorporated in Romania, and Pounds Sterling ("GBP") for the companies incorporated in Guernsey.

**Foreign currency transactions and balances**
Foreign currency transactions during the period are initially recorded in the functional currency at the exchange rates approximating those ruling on the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies other than the Group's functional currency are retranslated at the rates of exchange prevailing on the statement of financial position date. Gains and losses on translation are taken to profit and loss.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 was determined.

## 2.8 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

## 2.9 Investment property

Investment property comprises completed property and property under construction or refurbishment that is held to earn rentals or for capital appreciation or both. Residential property 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.

Investment properties are initially measured 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.

After initial recognition, investment property is carried at fair value. Investment property under construction is measured at fair value if the fair value is considered to be reliably determinable. Investment properties under construction for which the fair value cannot be determined reliably, but for which the Group expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the statement of financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. This value corresponds to the price that a third-party investor would be disposed to pay in order to acquire each of the properties making up the portfolio of assets and in order to benefit from their rental income.

These valuations form the basis for the carrying amounts in the consolidated financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The disposal of an investment property is usually subject to the payment to the public authorities of transfer taxes or a value added tax if it is sold as a property as compared to sale of shares in a business which is exempt from corporate tax and value added tax.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. In order to avoid double accounting, the assessed fair value shall be reduced by the carrying amount of any accrued income (if any outstanding at period end date) resulting from the spreading of lease incentives and/or minimum lease payments.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognised when either they have been disposed of or when the investment property 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 would result in either gains or losses at the retirement or disposal of investment property.

Any owner occupied investment property is transferred to the line "other tangible assets" of the financial position. Its fair value at the time of transfer becomes its so-called acquisition cost. If the Company only occupied a small part of the building, the whole building is recognised as "Investment Property" in the statement of financial position and continues to be carried at fair value.

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.

### 2.10 Investment property held for sale

Investment property is classified as investment property held for sale when their carrying amount is to be recovered principally through a sale transaction rather than from continuing use and a sale is considered highly probable. Investment property held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Investment property held for sale is presented separately as current items in the statement of financial position. On re-classification, investment property that is measured at fair value continues to be so measured.

### 2.11 Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the Group.

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. 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. 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.

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:

- 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

For assets and liabilities that are recognised in the financial statements 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.

### 2.12 Segment reporting

The Board of Directors is of the opinion that the Group is engaged mainly in two segments of business, being offices investment property and residential investment property, in one geographical area, Romania. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Executive Directors.

The Group receives no revenues from external customers, nor holds any non-current assets, in any geographical area other than Romania.

### 2.13 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditures relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can measured reliably. All other repair and maintenance expenses, such as repairs and maintenance and overhead costs, are charged to the income statement in the period when they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of an asset is included the in profit or loss account in the year the item is derecognised.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

| | Useful lives |
|---|---|
| Office and computer equipment | 2 years |
| Vehicles | 4 years |
| Office furniture and fixtures | 9 years |

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment. The effects of any revision are recognised in the profit and loss when the change arises.

### 2.14 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units' (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

For goodwill, impairment is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### 2.15 Revenue recognition

Revenue is recognised when the amount of revenue and associated costs can be reliably measured, it is probable that economic benefits associated with the transaction will be realised, and the stage of completion of the transaction can be reliably measured. This concept is applied to the key-revenue generating activities of the Group as follows:

a) Rental income

Rental income is measured at the fair value of the consideration received or receivable, 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.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which the benefit derived from the leased asset is diminished.

Fixed or determinable rental increases which can take the form of actual amounts or agreed percentages are recognised on a straight-line basis over the term of the lease. If the increases are related to a price index to cover inflationary cost increases, then the policy is not to spread the amount but to recognise them when the increase takes place (applied prospectively when the right to receive it arises).

The value of rent free periods and all similar lease incentives is spread on a straight-line basis over the term of the lease.

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

b) Rendering of services
Revenue from property management is recognised at the time the service is provided. Revenue from rendering property development services is recognised by reference to the stage of completion.

c) Service charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are netted of with the related costs in expenses.

d) Sale of completed property
A property is regarded as sold when the significant risks and returns 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.

The Group assesses its revenue arrangements against the following specific criteria in order to determine if it is acting as principal or agent:

- Has primary responsibility for providing the goods or services
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has concluded that it is acting as a principal in all of its revenue arrangements.

## 2.16 Operating Expenses

a) Services costs
Services costs paid, as well as those borne on behalf of the tenants, are included under direct property expenses. Their reclaiming from the tenants is presented separately.

b) Works carried out on properties
Works carried out which are the responsibility of the building's owner are recorded in the financial statements in the following ways, depending on the type of works concerned:

- expenditure on maintenance and repairs which does not add any extra functionality to or increase the standard of comfort of the building is considered as current expenditure for the period, and as property costs;
- improvement works are works carried out on an occasional basis to add functionality to the property or significantly enhance the standard of comfort, thus making it possible to raise the rent and, hence, the estimated rental value. The costs of these works are capitalised by reason of the fact that and in so far as the expert normally recognises a pro tanto appreciation in the value of the property. Works which generate expenses to be activated are identified taking into account the previous criteria during the preparation of the budgets. The capitalised expenses are related to materials, engineering works, technical studies, internal costs, architect fees and interests during the construction.

c) Commissions paid to letting agents and other transaction costs
Commissions relating to property rentals are charged to profit and loss for the year under the caption property operating costs. Commissions relating to the acquisition of properties, transfer duties, notary fees and other ancillary costs are considered as transaction costs and included in the acquisition cost of the acquired property. These costs are also considered as part of the acquisition cost when the purchase is done through a business combination. Commissions on property sales are deducted from the disposal price obtained to determine the gain or loss made. Property valuation costs and technical valuation costs are always charged to the income statement as current expenditure.

## 2.17 Finance income

Interest income is recognised using the effective interest method under the caption finance income in the income statement. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

## 2.18 Financial instruments

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

*Classification of financial instruments*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets of the Group mainly include cash and cash equivalents and trade and other receivables.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities of the Group mainly comprise interest bearing loans and borrowings, trade and other payables, finance lease payables and tenant security deposits.

*Initial recognition of financial instruments*

Financial instruments are recognised on the balance sheet when the Group becomes a party to the contractual obligations of the instrument. For regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the assets within the time frame established generally by regulation or convention in the marketplace concerned, the trade date is applied.

Initially, financial instruments are recognised at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognised in determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss.

*Subsequent measurement of financial instrument*

Subsequently, financial assets and liabilities are measured according to the category to which they are assigned.

*De-recognition of financial instruments*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Offsetting of financial instruments*

A financial asset and a financial liability is offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

*Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have-not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in profit or loss.

### 2.19 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value. Such investment includes cash in hand and balances at banks and short term bank deposits with maturity of three months or less.

### 2.20 Trade and other receivables

Trade and other receivables are recognised initially at fair value, subsequently at amortised cost including, where relevant, adjustment for the time value of money. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned. If collection is expected in more than one year, they are classified as noncurrent assets.

### 2.21 Tenant security deposits

Tenant security deposits represent advances made by lessees as guarantees during the lease period and are repayable by the Group upon termination of lease contracts.

Tenant deposits liabilities are initially recognised at fair value and subsequently measured at amortised cost where material. 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.

## 2.22 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

## 2.23 Borrowing costs

Borrowing costs associated with direct expenditure on properties under development or undergoing major refurbishment are capitalised. 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. Otherwise, the interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of land or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for redevelopment are in progress. 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.

## 2.24 Employee benefits

Short-term employee benefits include wages and salaries. Short-term employee benefits are recognised as expenses as services are rendered. The Group makes mandatory contributions to the funds set up by the Romanian State for pensions, healthcare and unemployment benefits, calculated on the basis of the salaries of employees of the Group.

## 2.25 Share-based payments

The Directors of the Group have received remuneration in the form of share options, in recognition of the services performed. The share options granted to the Directors of the Group are equity settled.

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity (share based payment reserve), over the period in which the service conditions are fulfilled. 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. The expense recorded in the income statement for the period represents the movement in cumulative share based payment reserve in equity as at the beginning and end of that period and is recognised in share based payments expense.

For equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all service conditions are satisfied. Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the executive as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

## 2.26 Taxation

The Group is subject to corporate income tax in several jurisdictions, but mainly in Romania. Significant judgement is required to determine the total provision 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 statement in the period in which the determination is made.

Current tax

Current tax is based on taxable profit of the period. Current tax is the tax payable on the taxable income for the year using tax rates applicable at statement of financial position date together with any adjustment in respect of previous years. Tax is included in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) Ordinance, 1989. The Directors intend to conduct the Company's affairs so that it remains eligible for exemption.

The subsidiaries in Romania, Netherlands and Cyprus are subject to income taxes in respect of local sources of income.

Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill, or of an asset, or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where 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; and
- deferred tax assets are only recognised to the extent that it is foreseeable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (to the extent it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

Output VAT related to sales is payable to tax authorities on the earlier of collection of receivables from customers or delivery of services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as other receivable and other payables. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### 2.27 Provisions

A provision is recognised when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### 2.28 Share capital

Ordinary shares are classified as equity. The costs of issuing or acquiring equity are recognised in equity (net of any related income tax benefit), as a reduction of equity on the condition that these are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.

### 2.29 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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, even if that right is not explicitly specified in an arrangement.

**Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating 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.

### Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

### 2.30 Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

## 3 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the management to make certain critical accounting estimates, judgement and assumptions that affect carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the Group financial statements, and the carrying amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from management's estimates. Revisions to accounting estimates are reviewed periodically and, as adjustments become necessary, they are recognised in the period in which the estimate is revised and in any future periods affected.

### 3.1 Critical judgments in applying the entity's accounting policies

**Judgments other than estimates**

In the process of applying the Group's accounting policies, the management makes the following judgments and estimates which have a significant effect on the classification and measurement of the financial statement elements:

*Selection of functional currency*

The Group used its judgment, based on the criteria outlined in IAS 21, and determined that the functional currency of the Group is the EUR. The EUR is also the presentation currency of the financial statements.

Management believes that the functional currency used by the Group is the EUR, based on the following considerations:

a) Valuations for determining the fair value of investment property are expressed in EUR;
b) All sales are denominated in EUR (rentals, inventory sales, income from re-charge of expenses). In Romania the entities invoice and receive payment in RON, and bear the exchange rate risk between the invoice date and the payment date;
c) Receipts from customers are mainly retained in EUR;
d) Borrowings are denominated in EUR;
e) Acquisitions of investment property are carried out in EUR;
f) Other purchases are mixed: RON and EUR, depending on the currency defined in the contract. Property management services that are provided are in EUR.

*Classification of investment property*

The Group is required to determine whether a property qualifies as investment property or inventory property. Investment property comprises land and buildings (principally offices, residential property and retail property) which 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. The Group considers that when the property is in a condition which will allow the generation of cash flows from its rental that the property is no longer a property under development but an investment property.

*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, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

*Business combinations*

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents an acquisition of a business or an acquisition of an asset. As noted in the accounting policy note 2.4, where an integrated set of activities are acquired in addition to the property more specifically the consideration is made of the extent to which significant processes are acquired, the transaction is accounted for as a business combination.

When the acquisition of subsidiaries does not represent a business, 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. In particular, for the acquisition of Corinthian Five S.R.L. the Group considered the existing agreements concluded or under negotiation with future tenants as well as for the development of the property consist significant processes acquired, therefore, the transaction is accounted for as a business combination.

## 3.2 Critical accounting estimates and assumptions

### 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 beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Valuation of property*

The fair value of investment property as of 31 December 2013 has been determined by Coldwell Banker, independent real estate valuation expert, using recognised valuation techniques and the principles of IFRS 13. These techniques comprise the sales comparison approach and the income capitalisation approach and require certain estimates and assumptions such as discount rates and exit yield.

The sales comparison approach compares the subject property with quoted prices of similar properties in the same or similar location. In preparing the valuation reports on the Group's investment property, the external appraisers excluded distressed sales when considering comparable sales prices.

For income generating properties, various methods are used to indicate value, all of which share the common characteristic that the value is based on actual or estimated income that is or could be generated by a potential owner.

The income capitalisation method takes into consideration the income that a property is expected to generate if leased out assuming a stabilised occupancy level, and applying to that income a capitalisation rate reflecting the investors' interest in a property of this kind. This method, often known as all risks yield method, cannot be reliably used where the income is expected to change in future periods to an extent greater than that generally expected in the market.

When a more sophisticated analysis of risk is required, various forms of discounted cash flows models can be used. Valuators typically use Discounted Cash-Flow Analysis (DCF), which implies income projections of the property for a discrete period of time, usually between 5-10 years.

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating income, along with an estimate of the exit value anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Under the residual value method, the value is estimated as the difference between the market value of the building that can be built on the plot of land and all the building's construction costs, as well as the developer's profit. This method relies on the contribution concept by estimating from the future income of the building, the amount that can be distributed to the land. All the key information was based on market data analysis. Under this method, first the market value of the future building is estimated, once completed and then from this value the costs (i.e. hard, soft, financing, etc.) which is related to the development of the building(s) and the reasonable profit margin expected by the developer are deducted.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at estimates of market values as at 31 December 2013, the independent valuation experts used their market knowledge and professional judgment and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investment properties than would have existed in a more active market. Changes in the economic conditions of the Romanian real estate market may not be captured in its totality since valuation dates do not always coincide with financial period end date.

Further details are provided in Note 13.

*Impairment of Goodwill on acquisitions*

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years approved by management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested.

These calculations require the use of estimates which mainly include the assumptions on the financial performance of its operations.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Further details are provided in Note 16.

*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. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense 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 of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

At each statement of financial position date, the Group assesses whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realised from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of the Group's ability to utilise future tax benefits.

*Share-based payments*

The share options granted to directors are equity settled and, therefore, the Group measures their cost by reference to the fair value of the warrants instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected vesting period, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21.

*Trade receivables*

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the counterparty and the status of any disputed amounts. Further details on trade receivables and the allowance formed against their carrying value are provided in Note 18.1.

## 4 INVESTMENT IN SUBSIDIARIES

*Holding companies*

Upon completion of the initial public offering, the Group set up the following subsidiaries to deal with the investments, financing and holding of the Group's activities:

- Globalworth Real Estate Investments Limited, the Company (Parent of the Group)
- Globalworth Investment Advisers Limited (the "Investment Adviser"), incorporated on 14 February 2013 in Guernsey (Channel Islands) (100% owned by the Parent)
- Globalworth Finance Guernsey Limited, incorporated in Guernsey on 6 September 2013 (100% owned by the Parent)
- GWI Finance BV, incorporated in Netherlands on 23 September 2013 (100% owned by the Parent)
- Globalworth Holdings Cyprus Limited, ("GHCL") incorporated in Cyprus on 14 August 2013 (100% owned by the Parent)
- Zaggatti Holdings Limited, incorporated in Cyprus on 4 December 2013 (100% owned by GHCL)
- Tisarra Holdings Limited, incorporated in Cyprus on 11 November 2013 (100% owned by GHCL)
- Ramoro Limited, incorporated in Cyprus on 11 November 2013 (100% owned by GHCL).

*Property companies and Asset Management Company*

Prior to the completion of the initial public offering, the Company signed Share Sale and Purchase Agreements for the acquisition of 100% of the shares of the following entities incorporated in Romania:

- Globalworth Asset Managers S.R.L. ("Asset Manager", owner of City Offices and Herastrau One Offices, 31 Upground Towers apartments, and 60% shareholder of Victoria Ventures S.A., which in turn owns Floreasca One property);

  On 27 September 2013, the Group acquired Pieranu Enterprises Limited, the holding company of Globalworth Asset Managers S.R.L. (99.991%), which further is parent of Victoria Ventures S.A. with ownership of 60%. Further details are disclosed in Note 5.1.

- Corinthian Five S.R.L. (owner of Bucharest One Offices):
  On 24 December 2013, the Group acquired Corinthian Five S.R.L. (the owner of Bucharest One property and holding company of Floreasca Office Building S.A. "FOB" with 100% ownership). As of 31 December 2013, part of Bucharest One property was owned by FOB, however, subsequent to period end FOB was merged in Corinthian Five S.R.L. through legal merger. The details are disclosed in Note 5.2.

- Tower Center International S.R.L. (owner of Tower Center Offices):
  On 18 February 2014, the Group acquired Tower Center International S.R.L. (the owner of Tower Center Offices). Further details are disclosed in the subsequent events note (Note 30).

- Upground Estates S.R.L. (owner of Upground residential and commercial Towers):
  On 20 March 2014, the Group acquired Upground Estates S.R.L. (the owner of Upground residential and commercial Towers). Further details are disclosed in the subsequent events note (Note 30).

- BOB Development S.R.L. (owner of BOB Offices) and BOC Real Property S.R.L. (owner of BOC Offices):
  On 13 December 2013, the Company signed Share Sale and Purchase Agreements (together with the aforementioned Share Sale and Purchase Agreements, the "Acquisition Agreements") for the acquisition of 100% of the shares of Oystermouth Holding Limited and Dunvant Holding Limited, holding companies of BOB Development S.R.L. (owner of BOB Offices) and BOC Real Property S.R.L. (owner of BOC Offices).

On 21 March 2014, the Group acquired these companies and further details are disclosed in the subsequent events note (Note 30).

## 5 BUSINESS COMBINATION

### 5.1 Acquisition of Pieranu Enterprises Limited

On 27 September 2013 the Group acquired 100% of the share capital of Pieranu Enterprises Limited and obtained control of Pieranu Enterprises Limited. Pieranu Enterprises Limited is an unlisted holding company based in Cyprus and as of the acquisition date had investments of 99.991% in Globalworth Asset Managers S.R.L., an unlisted company based in Romania, which in its turn, had an investment of 60% in Victoria Ventures S.A. (also based in Romania).

Globalworth Asset Managers S.R.L. operates in the real estate investment, management and development business and owns 31 residential apartments in the Upground residential and commercial complex and an office building ("City Offices") which is under refurbishment as of 31 December 2013. This company also provides property management services to other Group subsidiaries. Victoria Ventures S.A. owns an office building ("Floreasca One"), which is under construction as of 31 December 2013. As a result of the acquisition, the Group is expected to increase its presence in the SEE and CEE regions. It also expects to reduce costs through economies of scale. Further details about the properties acquired under business acquisitions are disclosed in Note 13.

The effective date of acquisition was 27 September 2013 but because from 27 to 30 September 2013 only immaterial transactions took place the assets acquired and liabilities assumed for goodwill calculation were those as of 30 September 2013.

Assets acquired and liabilities assumed

The following table summarises the consideration paid for Pieranu Enterprises Limited, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

| | **Note** | **€** |
|---|---|---|
| Investment property (completed or under refurbishment) | 13 | 66,467,796 |
| Investment property under development | | 3,463,555 |
| Intangibles | 17 | 11,156 |
| Other non-current assets | 17 | 202,203 |
| Trade receivables | | 1,144,510 |
| Other receivables | | 2,344,983 |
| Advances for property | | 500,000 |
| Income tax receivable | | 32,211 |
| Advances to suppliers | | 1,024,214 |
| Non-Current Assets (“NCA”) held for sale | 15 | 1,875,800 |
| Cash and cash equivalents | | 1,622,821 |
| **ASSETS** | | **78,689,249** |
| | | |
| Interest bearing loans and borrowings | 22 | 23,378,833 |
| Deferred tax liability | | 5,965,217 |
| Trade payables | | 3,665,257 |
| Other payables | | 91,281 |
| **LIABILITIES** | | **33,100,588** |
| | | |
| **Total identifiable net assets at fair value** | | **45,588,661** |
| Non-controlling interest | | (549,204) |
| Goodwill arising on acquisition | | 12,616,452 |
| **Purchase consideration transferred** | | **57,655,909** |
| | | |
| ***Purchase consideration*** | | |
| | | |
| Shares issued, at fair value | 20 | 36,456,000 |
| Cash paid | | 4,532,632 |
| Cash paid for assignable loans | | 11,719,503 |
| Purchase price adjustment payable | | 4,947,774 |
| **Total consideration** | | **57,655,909** |

The fair value of trade receivables was €1,144,510. The gross contractual amount for trade receivables due was €1,179,637, of which €35,127 was expected to be uncollectible.

The fair value of other receivables was €2,344,983. It included VAT receivables with a fair value of €1,550,728, other receivables with gross contractual amount of €793,711, of which €203,458 expected to be uncollectible.

The other noncurrent assets represent office equipment, furniture and fixtures for an amount of €202,203 and intangibles (licensees) for an amount of €11,156. The Group has assessed the fair value of these assets equal to their carrying value at acquisition date. The intangibles have finite useful life and were assessed to be amortised over 1 to 2 years.

At acquisition date the Group has recognised a deferred tax liability of €5,965,217, which comprises the tax effect of the difference between the tax base and the fair value of the property at acquisition date.

The goodwill of €12,616,452 comprises, besides the effect of deferred tax liabilities of €5,965,217, the value of expected synergies arising from the acquisition and intangible assets that did not qualify for separate recognition at acquisition date. None of the goodwill is expected to be deductible for tax purposes.

The Group has elected to measure the non-controlling interest in Victoria Venture S.A. (40% of the company) at the proportionate share of Victoria Venture S.A.'s net identifiable assets.

The purchase price adjustment payable includes mainly the effect of disposal fees of €4,950,000 that Globalworth Asset Managers S.R.L. expected to receive as disposal fees from the shareholders of BOB Development S.R.L., BOC Real Property S.R.L., Corinthian Five S.R.L. and Upground Estates S.R.L. at the date of their acquisition by the Group. These disposal fees are based on the management agreement which is in place for the services provided by Globalworth Asset Managers S.R.L. to these entities.

*Cash flow on acquisition*

| | € |
|---|---|
| Cash paid for the acquisition of subsidiaries | (16,252,135) |
| Cash acquired under the acquisition of subsidiaries | 1,622,821 |
| **Net cash flow on acquisition (included in cash flows from investing activities)** | **(14,629,314)** |

***Fair value of shares issued***

The Group issued 6,200,000 ordinary shares as consideration for the 100% interest in Pieranu Enterprises Limited. The fair value of the shares is calculated with reference to the market price of the shares of the Company at the date of acquisition, which was €5.88 each. The fair value of the consideration given in shares is therefore €36,456,000.

The revenue included in the consolidated statement of comprehensive income since 30 September 2013 contributed by Pieranu Enterprises Limited (and its subsidiaries) was €8,109,764. Pieranu Enterprises Limited (and its subsidiaries) contributed a profit of €4,933,672 over the same period. If the combination had taken place at the beginning of the year, the profit after tax for the Group would have amounted to €14,150,721 and revenue (rental income, property management fees/asset manager recharges) would have amounted to €12,000,106.

***Contingent consideration***

As part of the Asset Manager Acquisition Agreement, the following contingent considerations have been agreed.

There will be additional cash payments to the previous owner of Pieranu Enterprises Limited, of €600,000, if the Floreasca One Property will have in place a valid building permit for offices use within six months from the transfer date. As at the period end, the probability to have a building permit for the office building within six months from the transfer date is remote, therefore, the fair value of the contingent consideration was estimated at €nil and remained unchanged since acquisition. This is a Level 3 measurement in the fair value measurement hierarchy as at 31 December 2013.

## 5.2 Acquisition of Corinthian Five S.R.L.

On 24 December 2013 Tisarra Holdings Limited and Globalworth Holding Cyprus Limited (fully owned by Globalworth Real Estate Investments Limited) acquired 100% of the shares of Corinthian Five S.R.L., an unlisted holding company based in Romania.

As of the acquisition date, Corinthian Five S.R.L. had an investment of 100% in Floreasca Office Building S.A., an unlisted company based in Romania. Corinthian Five S.R.L. and Floreasca Office Building S.A. operate in the real estate development business and have office buildings under construction.

The effective date of acquisition was 24 December 2013 but because between 24 and 31 December 2013 only immaterial transactions took place, the assets and liabilities of the Corinthian Five portfolio, formed of Corinthian Five S.R.L. and Floreasca Office Building S.A., used for goodwill calculation are those as of 31 December 2013.

Assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of the Corinthian Five portfolio as at the date of acquisition were:

| | Note | € |
|---|---|---|
| Investment property – under development | 13 | 48,070,000 |
| Other receivables | | 2,269,773 |
| Cash and cash equivalents | | 150,865 |
| **ASSETS** | | **50,490,638** |
| Loans and borrowings | | 523,392 |
| Deferred tax liability | | 6,255,541 |
| Trade payables and other payables | | 552,118 |
| **LIABILITIES** | | **7,331,051** |
| **Total identifiable net assets at fair value** | | **43,159,587** |
| Bargain purchase gain arising on acquisition | | (9,377,342) |
| **Purchase consideration transferred** | | **33,782,245** |

***Purchase consideration***

| | Note | € |
|---|---|---|
| Shares issued, at fair value | 20 | 21,848,398 |
| Cash paid | | 12,070,000 |
| Purchase price adjustment receivable | | (136,153) |
| **Total consideration** | | **33,782,245** |

The fair value of other receivables acquired was €2,269,773 which mainly includes VAT receivable from the State budget. The Group has assessed that the full carrying amount is collectable from the State. At acquisition date the Group recognised a deferred tax liability of €6,255,541, which comprises the tax effect of the difference between the tax base and the fair value of the property at acquisition date.

The bargain purchase gain of €9,377,342 comprises the purchase price discount agreed between the Group and the seller, related to both the assignment of existing shareholder loans and the valuation of investment property on acquisition date.

| | € |
|---|---|
| ***Cash flows on acquisition:*** | |
| Cash paid for the acquisition of subsidiaries | (10,000,000) |
| Cash paid for VAT receivable balance | (2,070,000) |
| Cash acquired under the acquisition of subsidiaries | 150,865 |
| **Net cash flow on acquisition (included in investing activities)** | **(11,919,135)** |

***Fair value of shares issued***

The Group issued 3,986,934 ordinary shares as consideration for the 100% interest in Corinthian Five S.R.L. and assignable loans. The fair value of the shares is calculated with reference to the market price of the shares of the Company at the date of acquisition, which was €5.48 each. The fair value of the consideration given in shares is therefore €21,848,398.

Since Corinthian Five S.R.L. and its subsidiary were acquired at period end, these companies have not contributed to the revenues and profits of the Group during the period ended 31 December 2013. If the combination had taken place at the beginning of the year, the profit after tax for the Group would have been €45,591,328, however, there would have been no impact on the revenue (rental income, property management fees/asset manager recharges) of the Group as the investment properties are under development.

**Acquisition costs**

The incidental costs of €107,980, incurred in connection with the above disclosed acquisitions have been expensed and are included in the operating results under the line “Acquisition costs”.

## 6 REVENUE

| | € |
|---|---|
| Rental income | 259,603 |
| Service charge income | 14,286 |
| Property management fee | 4,891,308 |
| Property development | 2,944,567 |
| | **8,109,764** |

There was no contingent rental recorded during the period end as the base rent was higher than the level of sales generated by the lessees.

**Operating leases – Group as lessor**

The duration of the leases whereby the Group leases out its investment property under operating leases is three years or more and such agreements include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| | **2013** **€** |
|---|---|
| Not later than 1 year | 1,308,741 |
| Later than 1 year and not later than 5 years | 4,202,075 |
| Later than 5 years | 1,644,034 |
| **TOTAL** | **7,154,850** |

## 7 SERVICE CHARGE, OTHER PROPERTY OPERATING EXPENSES

| | 2013 |
|---|---|
| | € |
| Property management, utilities and insurance | 336,807 |
| Property fit out works | 2,409,621 |
| Property maintenance cost and other | 59,022 |
| | **2,805,450** |

| | € |
|---|---|
| Property expenses arising from investment property that generate rental income | 174,452 |
| Property expenses arising from investment property that did not generate rental income | 221,377 |
| Other expenses related to external property management services | |
| | 2,409,621 |
| **Total service charge, other property operating expenses** | **2,805,450** |

## 8 ADMINISTRATIVE EXPENSES

| | Note | € |
|---|---|---|
| Directors' remuneration | 26 | 928,238 |
| Stock exchange expenses | | 10,177 |
| Administration and incorporation of subsidiaries cost | | 245,598 |
| Audit and advisory services | | 360,109 |
| Salaries and wages | | 193,038 |
| Travel and accommodation | | 73,702 |
| Bank charges | | 45,362 |
| | | **1,856,224** |

**Operating leases – Group as lessee**

The duration of the leases whereby the Group has leased office space under operating leases was five years at inception. The future aggregate minimum rentals payable under non-cancellable operating leases are as follows:

| | 2013 |
|---|---|
| | € |
| Not later than 1 year | 209,530 |
| Later than 1 year and not later than 5 years | - |
| **TOTAL** | **209,530** |

## 9 FINANCE COST

| | € |
|---|---|
| Interest on bank loans | 254,417 |
| Interest on other short term loans | 580 |
| | **254,997** |

## 10 FINANCE INCOME

It includes interest income on bank deposits of subsidiaries.

## 11 TAXATION

| | € |
|---|---|
| Current income tax expense | 777,531 |
| Deferred income tax expense | 198,120 |
| **Income tax expense reported in the income statement** | **975,651** |

The income tax rate applicable to the Company is nil. The current income tax charge of €777,531 represents tax charges on profit arising in Romania that is subject to corporate income tax at the rate of 16%. The reconciliation between tax expense and the product of accounting profit multiplied by Romania's corporate income tax rate for the period ended 31 December 2013 is as follows:

| | € |
|---|---|
| **Profit before tax** | 13,705,323 |
| Income before tax multiplied by rate of corporation tax in Romania of 16% | 2,192,852 |
| Effect of lower tax rates in other countries | 217,199 |
| Non-deductible tax expense | 47,615 |
| Non-taxable income | (1,500,663) |
| Tax losses not utilised (for subsidiaries acquired during the period) | 18,648 |
| **Income tax expense reported in the income statement** | **975,651** |
| **Effective tax rate (%)** | **7.1** |

| | Consolidated statement of financial position € | Consolidated statement of comprehensive income € |
|---|---|---|
| **Deferred tax liability** | | |
| Revaluation of investment property at fair value | 12,432,311 | 198,120 |
| | **12,432,311** | **198,120** |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets (as disclosed below) related to tax losses for its subsidiaries in Romania acquired during the period end, which can be carried forward against future taxable income.

Summary of tax losses and corresponding expiry year:

| **Assessed tax losses €** | **Deferred tax asset (not recognised) €** | **Tax year** | **Expiry year** |
|---|---|---|---|
| 5,662 | 906 | 2011 | 2018 |
| 41,230 | 6,597 | 2012 | 2019 |
| 1,754,851 | 280,776 | 2013 | 2020 |
| **1,801,743** | **288,279** | | |

Under the Romanian legislation, the tax losses since 2009 can be carried forward over a period of seven years. The corporate income tax rate in Romania is 16% as of 31 December 2013. In Romania, the tax position is open to further verification for 5 years and no subsidiary in Romania had a corporate income tax audit in the last 5 years.

The Group companies registered in Cyprus need to comply with the Cyprus tax regulations, however, the Group does not expect any taxable income in Cyprus, as dividend and interest income, which are the most significant future sources of income of the Group companies registered in Cyprus, are exempt from corporate income tax. The subsidiaries in Cyprus are only holding companies and do not hold any non-current assets.

## 12 BASIC AND DILUTED WEIGHTED AVERAGE EARNINGS PER SHARE (CENTS)

Basic earnings per share (EPS) amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | **2013**<br>**€** |
|---|---|
| Net profit attributable to ordinary equity holders of the parent for basic earnings | 12,690,644 |
| **Weighted average number of ordinary shares** | **7,296,225** |

***Shares in issue during the year:***

| Date | Event | Number of shares issued | % of the period | Weighted average |
|---|---|---|---|---|
| 14 February 2013 | Incorporation of the Company | 1 | 100% | 1 |
| 25 July 2013 | Shares issued for cash at Initial Public Offer | 10,718,702 | 50% | 5,342,655 |
| 27 September 2013 | Acquisition of Pieranu Enterprises Limited (Note 5.1) | 6,200,000 | 30% | 1,854,206 |
| 24 December 2013 | Corinthian Five S.R.L. (Note 5.2) | 3,986,934 | 2.5% | 99,363 |
| **31 December 2013** | **Shares in issue at period end** | **20,905,637** | | **7,296,225** |

***Shares issued subsequent to the period end:***

Shares issued after the reporting period and that would have changed significantly the number of ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period:

| Date | Event | Note | Number of shares issued | Pro-forma share capital value (€ million) |
|---|---|---|---|---|
| **31 December 2013** | **Shares in issue at period end** | | **20,905,637** | **107** |
| 18 February 2014 | Acquisition of Tower Center International S.R.L. | 30.2 | 2,733,220 | 15 |
| 20 March 2014 | Acquisition of Upground Estates S.R.L. | 30.4 | 2,600,000 | 14 |
| 21 March 2014 | Acquisition of Oystermouth Holding Limited and Dunvant Holding Limited | 30.5 | 1,071,795 | 6 |
| 25 March 2014 | Shares issued for outstanding consideration payable for acquisition of Pieranu Enterprises Limited | 5.1 | 989,555 | 5 |
| 24 April 2014 | Additional fundraising | 30.8 | 13,344,919 | 79 |
| | **Shares issued after the period end** | | **20,739,489** | **119** |
| **8 May 2014** | **Shares in issue** | | **41,645,126** | **226** |
| | Shares to be issued upon conversion of debt to equity* | 30.8 | n/a | 65 |
| **Total** | | | | **291** |

*Number of shares to be estimated upon conversion of the UBS loan to equity.

## 13 INVESTMENT PROPERTY

| DESCRIPTION | 31 December 2013 € |
|---|---|
| Completed investment property | 7,724,700 |
| Investment property under refurbishment | 55,900,000 |
| Investment property under development | 57,710,000 |
| **Carrying value at end of period** | **121,334,700** |

***Movements in fair value of Investment Property***
*All amounts in €*

| Company Name | Globalworth Asset Managers S.R.L. | | | Victoria Ventures S.A. | Corinthian Five S.R.L. | TOTAL |
|---|---|---|---|---|---|---|
| **Asset Name** | **Upground apartments** | **City Offices** | **Herastrau One** | **Floreasca One** | **Bucharest One** | |
| | *Completed* | *Under refurbishment* | *Land for further development* | *Under development* | | |
| **Carrying value at beginning of the period** | **-** | **-** | **-** | **-** | **-** | **-** |
| *Additions resulting from*: | | | | | | |
| Business acquisitions (Note 5) | 7,830,700 | 52,400,000 | 6,237,096 | 3,460,000 | 48,070,000 | 117,997,796 |
| Subsequent expenditure | - | 1,810,600 | - | 155,809 | - | 1,966,409 |
| Capitalised borrowing costs | - | 7,386 | - | 533 | - | 7,919 |
| | 7,830,700 | 54,217,986 | 6,237,096 | 3,616,342 | 48,070,000 | 119,972,124 |
| *Disposals* | - | - | - | - | - | - |
| Fair value adjustment | (106,000) | 1,682,014 | (137,096) | (76,342) | - | 1,362,576 |
| **Fair value at end of period** | **7,724,700** | **55,900,000** | **6,100,000** | **3,540,000** | **48,070,000** | **121,334,700** |
| Expected value on finalisation | 7,724,700 | 62,400,000 | 28,800,000 | 8,660,000 | 141,300,000 | 248,884,700 |

The Group's investment properties were valued at 31 December 2013 by CBAR Research & Valuation Advisors S.R.L. (Coldwell Banker Valuation), independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. All properties are located in Romania and further details about properties are disclosed in the Portfolio Review on pages 9 - 18.

The Group's investment department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to Chief Financial Officer (CFO), the Chief Investment Officer (CIO) and the Chief Executive Officer (CEO). Discussions of valuation processes and results are held between the CFO, CIO, CEO, the valuation team and the independent valuers at least once every year, in line with the Group's annual reporting dates.

At each financial year end the investment team along with the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the initial valuation report at acquisition;
- holds discussions with the independent valuer.

Changes in Level 2 and 3 fair values are analysed at each reporting date during the annual valuation discussions between the CFO, CIO and CEO and the valuation team. The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

There has been no change in the valuation techniques adopted by the Group during the period.

***Valuation techniques underlying management's estimation of fair value***

For investment properties under refurbishment with carrying amount of €55,900,000 and investment properties under development with a total carrying amount of €51,610,000, the valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs taking in to account the costs to complete and completion date. These inputs include:

| | |
|---|---|
| Future rental cash inflows | based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties; |
| Discount rates | reflecting current market assessments of the uncertainty in the amount and timing of cash flows; |
| Estimated vacancy rates | based on current and expected future market conditions after expiry of any current lease; |
| Maintenance costs | including necessary investments to maintain functionality of the property for its expected useful life; |
| Capitalisation rates | based on actual location, size and quality of the properties and taking into account market data at the valuation date; |
| Terminal value | taking into account assumptions regarding maintenance costs, vacancy rates and market rents. |
| Costs to complete | these are largely consistent with internal budgets developed by the Group's finance department, based on management's experience and knowledge of market conditions. Costs to complete also include a reasonable profit margin. |
| Completion dates | properties under construction require approval or permits from oversight bodies at various points in the development process, including approval or permits in respect of initial design, zoning, commissioning, and compliance with environmental regulations. Based on management's experience with similar developments, all relevant permits and approvals are expected to be obtained. However, the completion date of the development may vary depending on, among other factors, the timeliness of obtaining approvals and any remedial action required by the Group. |
| Stabilised vacancy | represents the reasonably estimated vacancy rate registered by the building with the proper marketing, management and maintenance conditions. |

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase in future rental values. An increase in the future rental income may be linked with higher costs. If the remaining lease term increases the yield may decrease.

For completed investment property (Upground apartments) and a land plot classified as investment property under development (Herastrau One), with carrying amounts of €7,724,700 and €6,100,000, respectively, the valuation was determined using the sales comparison approach. Properties valued using the sales comparison approach take into account comparable properties in close proximity. These values are adjusted for differences in key attributes such as property size, location, quality of interior fittings (for residential), opening and visibility of land plot, development coefficient of land plot, building permit status. The most significant input into this valuation approach is price per square metre.

The completed investment property includes residential apartments for an amount of €7,724,700. The Group considers that these apartments are in a condition which will allow the generation of cash flows from their rental.

Interest bearing loans and borrowings are secured on investment property to the value of €65,974,900 (Note 22).

Revenues are derived from a large number of tenants and one of the tenants contributes more than 10% of the Group's rental revenues. Information about fair value measurements using significant unobservable inputs (Level 3) and observable inputs either directly or indirectly (Level 2) are disclosed in the table below:

| Investment property | Valuation techniques | Fair value hierarchy | Sales Value (€ per sq. meter) | Rental Value (€ per sq. meter) | Discount rate % | Capitalisation rate for terminal value | Cost to complete (€ million) | Vacancy rate (Weighted avg.) % | Valuation (€) |
|---|---|---|---|---|---|---|---|---|---|
| Upground apartments | Sales comparison | Level 2 | 1,185 | - | - | - | - | - | 7,724,700 |
| Herastrau One | Sales comparison | Level 2 | 1,800 | - | - | - | - | - | 6,100,000 |
| City Offices | Discounted cash flows with estimated costs to complete | Level 3 | - | Retail 1*: 16.15<br>Retail 2**– 26.04<br>Office - 12 | 8.75% - 9.25%<br>9.75% - 10.25% | 8.5% – 9.5% | 6.5 | Retail 1*: 10%<br>Retail 2**: 10%<br>Office: 15% | 55,900,000 |
| Floreasca One | Residual method | Level 3 | - | 13.5 | 9.5% | 8.5% | 3.2 | 10% | 3,540,000 |
| Bucharest One | Residual method | Level 3 | - | 16.5 | 8.25% | 7.25% | 63.7 | 5% | 48,070,000 |
| | | | | | | | | | **121,334,700** |

*City offices building
**City parking building

Gains and losses recorded in the income statement for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to €1,605,672 and are presented in the consolidated income statement under the line item 'Change in fair value of investment property.

All gains and losses recorded in the income statement 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 (under refurbishment and construction) held at the end of the reporting period.

Significant increases (decreases) in the rental value (per sq. meter per annum), rental growth per annum and discount rate (and exit yield) in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the assumption made for the rental value (per sq. meter per annum) is accompanied by:

- A similar change in the rent growth per annum and discount rate (and exit yield)
- An opposite change in the long term vacancy rate

A quantitative sensitivity analysis for most sensitive inputs is disclosed below:

| **2013** | **Valuation techniques** | **Sensitivity on management's estimates** | | | **Estimate** | | **Sensitivities in discount and capitalisation rate** | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Estimate** | **Impact from decrease in estimate (€000)** | **Impact from increase in estimate (€000)** | | | **Impact (€000)** | **Impact (€000)** | **Impact (€000)** |
| Upground apartments | Sales comparison | Sales price per square metre increase by €40 or decrease by €35 | (240) | 268 | | - | - | - | - |
| Herastrau One | Sales comparison | Sales price per square metre increase or decrease by €100 | (340) | 340 | | - | - | - | - |
| City Offices | Discounted cash flows with estimated costs to complete | | | | | | **Change in exit yield** | | |
| | | | | | | | **-0.25%** | **0%** | **+0.25%** |
| | | - | - | - | **Change in Discount rate** | **-0.25%** | 1,600 | 600 | (400) |
| | | - | - | - | | **+0%** | 1,000 | - | (1,000) |
| | | - | - | - | | **+0.25%** | 300 | (700) | (1,700) |
| | | | | | | | **Change in exit yield** | | |
| | | | | | | | **-0.25%** | **0%** | **+0.25%** |
| Floreasca One | Residual method | Cost to Completion increase or decrease by 3% per square metre | 70 | (70) | | | | | |
| | | - | - | - | **Change in Discount rate** | **0%** | 260 | - | (250) |
| | | | | | | | **Change in exit yield** | | |
| | | | | | | | **-0.25%** | **0%** | **+0.25%** |
| Bucharest One | Residual method | Cost to Completion increase or decrease by €25 per square metre | 1,240 | (1,330) | **Change in Discount rate** | **0%** | 5,000 | - | (4,800) |

## 14 ADVANCES FOR INVESTMENT PROPERTY

Apart from the completed acquisition of Pieranu Enterprises Limited and Corinthian Five S.R.L., until 31 December 2013 the Group also paid advances for the acquisition of Tower Center International S.R.L. for an amount of €6,000,000, for the Timisoara Airport Park ("TAP") property for an amount of €750,000, and a land plot in Bucharest for an amount of €2,000,000 (as disclosed in Note 30.8).

## 15 INVESTMENT PROPERTY HELD FOR SALE

| Location | Property Type | 2013 € |
|---|---|---|
| Victor Brauner, Bucharest, Romania | - land plot with an old industrial building | 144,000 |
| Chesarie, Bucharest, Romania | - 1 plot of land with a building structure<br>- 2 flats which are arranged as office spaces | 250,000 |
| Voluntari, Ilfov, Romania | - 2 plots of land on which a complex of 26 houses was built and finalised in 2013 | 1,481,800 |
| **TOTAL** | | **1,875,800** |

Prior to the acquisition of Globalworth Asset Managers S.R.L. (the subsidiary), the subsidiary signed a pre-sale agreement on 25 September 2013 to a third party, for the sale of the above non-current assets to third parties at agreed value of €1,875,800. Therefore, on acquisition date the Group classified these properties as investment property held for sale and measured at the price agreed through the pre-sale agreement, and no gain or loss was recognised in the consolidated income statement.

The notarial deeds for these properties have been signed and the agreed sales price was also received in cash by the related subsidiary. The transaction has been approved by the shareholders of the subsidiary before the acquisition date and the transfer of legal title is pending the approval of the lending bank.

## 16 GOODWILL

| | 2013 € |
|---|---|
| Opening balance at beginning of the period | - |
| Arising on business acquisition (Note 5.1) | 12,616,452 |
| Carrying amount at period end | **12,616,452** |

Goodwill is allocated to the Group's cash-generating units (CGUs), which were determined to be individual properties owned by subsidiaries acquired by the Group for the goodwill arising from deferred tax liabilities, and respectively the property management activities of Globalworth Asset Managers S.R.L.

The goodwill recognised during the period of €12,616,452 relates to the acquisition of the investment property portfolio in Globalworth Asset Managers S.R.L. in Romania, on 27 September 2013 as disclosed in Note 5.1.

The goodwill of €12,616,452 comprises, besides the effect of deferred tax liabilities of €5,965,217 recognised at acquisition date under IAS 12 Income Taxes, the value of expected synergies arising from the acquisition and contractual rights for management services to other companies (consisting companies acquired or expected to be acquired by the Group) as intangible assets that did not qualify for recognition as separate asset at acquisition date. Since the Company is exempt from income tax as per Guernsey taxation regulations, none of the goodwill is expected to be deductible for tax purposes.

No impairment charge arose as a result of the impairment test at period end since there was no significant change in fair value of assets acquired during the period ended 31 December 2013. The goodwill tested for impairment was allocated to the residential apartments, office building under refurbishment and property management division (each of which is considered as separate cash generating unit), acquired from the acquisition of Pieranu Enterprises Limited and represents the portfolio premium paid on the acquisition as disclosed in Note 5.1.

The fair values of the properties were assessed based on reports by external valuers and Note 13 discusses the main related assumptions.

The value-in-use of the property management activity was determined based on the following main assumptions:

- budgets for 3 years which include besides the existing contracts additional contracts which were in advanced stages of negotiation as of 31 December 2013
- discount rate of 13.3% p.a.
- extrapolation in perpetuity from 2017 onwards, considering a growth rate of 2.0% p.a.

The management believes that as of 31 December 2013 no reasonable change in assumptions could result in an impairment charge.

## 17 OTHER LONG TERM ASSETS

| | Cost | Accumulated depreciation / amortisation | Net carrying value |
|---|---|---|---|
| | € | € | € |
| Intangibles | 17,841 | 10,401 | 7,440 |
| Computers and related equipment | 135,016 | 80,724 | 54,292 |
| Vehicles | 191,583 | 103,436 | 88,147 |
| Office equipment, furniture and fixtures | 46,852 | 24,286 | 22,566 |
| **TOTAL** | **391,292** | **218,847** | **172,445** |

All of the above assets were acquired under business combinations (see details in Note 5.1). Subsequent to the acquisitions through business combinations, there were new additions for an amount of €30,037 in Vehicles and €3,501 in Computers and related equipment. During the period €9,342 depreciation and amortisation was charged to the income statement.

## 18 TRADE AND OTHER RECEIVABLES

| | Note | 2013 |
|---|---|---|
| | | € |
| Prepaid expenses | | 135,295 |
| Guarantees receivable | | 106,611 |
| Advances for fit-out works costs | | 550,075 |
| Rent and service charge receivable | 18.1 | 379,618 |
| Property management fee receivable | 18.2 | 7,253,843 |
| VAT and income tax receivable from the State budget | | 2,316,881 |
| Sundry debtors | 18.3 | 301,865 |
| Consideration receivable for business acquisition | 5.2 | 136,153 |
| **TOTAL** | | **11,180,341** |

### 18.1 Rent and service charge receivables

Rent and service charge receivables are non-interest bearing and are typically due within 30-90 days.
The allocation of the carrying amount of the Group's trade and other receivables by foreign currency is presented in Note 27.

As at 31 December 2013, rent receivables with nominal value of €34,936 were impaired and fully provided for due to uncertainty of its recoverability. The movements in the provision for impairment of receivables were as follows:

| | 2013 |
|---|---|
| | € |
| Opening balance at the beginning of the period | - |
| Charge during the period | 34,936 |
| **Carrying amount at period end** | **34,936** |

### 18.2 Property management fees

Property management fees are non-interest bearing and are due within 120 days. As of 31 December 2013, the balance was neither past due nor impaired.

Analysis by credit quality of financial assets, cumulated for rent, service charge and property management, is as follows:

| | 2013 € |
|---|---|
| **Rent, service charge and management fee receivables:** | |
| **Neither past due nor impaired** | **7,594,730** |
| **Past due but not impaired:** | |
| - Less than 120 days overdue | - |
| - 120 to 365 days overdue | 38,731 |
| **Total past due but not impaired** | **38,731** |
| **Individually determined to be impaired (gross):** | |
| - Less than 120 days overdue | - |
| - 120 to 365 days overdue | 34,936 |
| **Total individually determined to be impaired (gross)** | **34,936** |
| Less: impairment provision | (34,936) |
| **Total** | **7,633,461** |
| Rent and service charge receivables | 379,618 |
| Property management fees receivables | 7,253,843 |
| **Total Rent, service charge and management fee receivables, net of provision for impairment (Note 18)** | **7,633,461** |

The customer balances which were overdue but not provisioned are due to the fact that the related customer committed and started to pay the outstanding balances subsequent to the period end.

Rent, service charge and management fees receivables balance includes €7,556,892 due from related parties.

### 18.3 Sundry debtors

Sundry debtors include €202,356 fully provisioned at 31 December 2013. The Group acquired this balance at nil value at the acquisition date of the subsidiary as disclosed in Note 5.1.

## 19 CASH AND CASH EQUIVALENTS

| | 2013 |
|---|---|
| | € |
| Cash at bank and in hand | 9,439,384 |
| Short term deposits | 66,468 |
| | **9,505,852** |

Details of cash and cash equivalents in all currencies are as follows:

| | Currency | 2013 |
|---|---|---|
| | | € |
| Current Accounts | | |
| | EUR | 9,106,630 |
| | RON | 243,554 |
| | GBP | 87,114 |
| | USD | 2,086 |
| Short term deposits | | |
| | RON | 66,468 |
| **TOTAL** | | **9,505,852** |

Short term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest 1% per annum.

The Group has pledged part of its short term deposits in order to fulfil collateral requirements for interest expense on long term loans, as disclosed in Note 22. Under contractual terms for interest bearing loans the banks also have moveable security rights over the cash at bank balance for an amount of €128,980.

## 20 SHARE CAPITAL

| | 2013 |
|---|---|
| | € |
| **Ordinary shares issued and fully paid** | |
| At 14 February | 1 |
| Issued during the period | 106,956,290 |
| | **106,956,291** |

On incorporation the share capital of the Company was €1 consisting of one fully paid Ordinary Share issued to the Founder[36] (the “Subscriber Share”). By a written, special resolution of the Founder (being the sole shareholder of the Company) passed on 14 July 2013, the Founder agreed that the Subscriber Share be re-designated as a redeemable share and that the Company was authorised to redeem the Subscriber Share at its issue price of €1 upon Admission. The Company has redeemed the Subscriber Share at its issue price of €1 upon Admission.

The issued share capital of the Company following Admission date (i.e. 24 July 2013) was €53,593,515, corresponding to a number of 10,718,703 shares at €5 / share listing price. The transaction costs incurred for the Group’s listing on the AIM are recognised in equity as a reduction of share capital: €4,941,622.

[36] The Founder is Ioannis Papalekas, including any company wholly owned.

On 27 September 2013, additional 6,200,000 ordinary shares were issued at €5.88 each (€36,456,000) as consideration for the acquisition of subsidiaries, as disclosed in Note 5.1.

On 24 December 2013, additional 3,986,934 ordinary shares were issued at €5.48 each (€21,848,398) as consideration for the acquisition of subsidiaries, as disclosed in Note 5.2.

There is no limit on the authorised share capital of the Company. The Company can issue no par value and par value shares at €5 per share as the shareholders see fit for the five year period following the incorporation of the Company (unless renewed, revoked or varied by a general meeting). As of 31 December 2013, this authority has not been revoked by the members. Ordinary shares carry no right to fixed income but are entitled to dividends as declared from time to time. Each ordinary share is entitled to one vote at meetings of the Company.

With effect from 1 July 2008, Guernsey Company Law no longer makes any distinction between distributable and non-distributable reserves, requiring instead that a company passes a solvency test in order to be able to make distributions to shareholders. Under the Guernsey Company Law, share premium for issuance of shares above their par value per share is recognised directly in share capital and no separate share premium reserve account is recognised.

## 21 SHARE BASED PAYMENTS

The Group has granted a number of warrants, as disclosed in Note 26, to the Founder and the Directors. Pursuant to the warrant agreements, the warrants confer the right to subscribe, at the Placing Price on grant date, for a specific number of ordinary shares.

The warrants will vest and become exercisable when the market price of an ordinary share, on a weighted average basis over 60 consecutive days, exceeds a specific target price, as disclosed in Note 26, and the Directors are employed on such date.

The Founder warrants are not transferable prior to the earlier of the second anniversary of Admission and vesting, save that they may be transferred to any other member of the Management Team (or any company owned, directly or indirectly, by that member) after the first anniversary of Admission. For the Founder the vesting period is 30 months and for other executive and non-executive Directors is 6 years, over which period the fair value of the warrants will be amortised in the income statement on a straight line basis.

Subject to vesting, the warrants are exercisable in whole or in part during the period commencing on Admission and ending on the date falling ten years from the date of Admission. There are no cash settlement alternatives. The Group does not have the intention to offer cash settlement for these warrants. There have been no cancellations or modifications to any of the plans during the period.

The fair value of the warrants is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the warrants were granted. The contractual term of each warrant granted is ten years.

The fair value of warrants as of 31 December 2013 is €258,509, out of which €43,807 was recorded as an expense for the period with a corresponding credit to equity as share based payment reserve.

| | 2013 Number of shares | 2013 Weighted average value |
|---|---|---|
| Outstanding at beginning of the period | | |
| Granted during the period | 3,525,846 | 5 |
| **Outstanding at 31 December** | **3,525,846** | **5** |
| | | |
| **Exercisable at 31 December 2013** | **None** | **-** |

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is 9.58 years. The weighted average fair value of options granted during the year was €0.073 per share.

The following table list the inputs to the model used for the warrants schemes for the period ended 31 December 2013:

| | **2013** |
|---|---|
| Dividend yield | 10.0% |
| Expected volatility | 20.0% |
| Risk–free interest rate | 3.1% |
| Expected life of share options (years) | 10.0 |
| Weighted average barrier value | 9.7 |
| Weighted average share price | 5.0 |
| Model used | Binomial |

The expected life of the share options is based on management's current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility and dividend yield reflects the assumption that the historical volatility of similar real estate groups in Europe with similar asset portfolio and risk for a period similar to the life of the warrants as indicative of future trends, which may not necessarily be the actual outcome.

## 22 INTEREST BEARING LOANS AND BORROWINGS

| | Note | 31 December 2013 € |
|---|---|---|
| **Current** | | |
| Interest bearing bank loans | 22.1 | 19,528,325 |
| Due to minority interest holders | 22.2 | 767,876 |
| | | **20,296,201** |
| **Non-Current** | | |
| Interest bearing bank loans | 22.1 | 165,429 |
| | | **20,461,630** |

### 22.1 The table below summarises the key features of the Group's bank debt facilities:

| | Maturity Date | Undrawn amount € | Interest rates | Nominal amount € | Carrying amount € |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Marfin Bank | May 2014 | - | EURIBOR+ margin | 2,963,000 | 2,963,000 |
| Unicredit Tiriac Bank | November 2014 | - | EURIBOR+ margin | 3,205,000 | 3,205,000 |
| Bancpost S.A. Facility C | November 2014 | 779,339 | ROBOR+ margin | 220,661 | 220,661 |
| Bancpost S.A. Facility A | March 2019 | 2,676,315 | EURIBOR+ margin* | 13,823,685 | 13,139,664 |
| **Non-Current** | | | | | |
| Bancpost S.A. Facility B | March 2019 | 8,000,000 | EURIBOR+ margin | - | - |
| Piraeus Bank | December 2015 | 2,866,244 | EURIBOR+ margin | 133,756 | 133,756 |
| Piraeus Bank | June 2015 | 368,327 | ROBOR +margin | 31,673 | 31,673 |
| **Total** | | **14,690,225** | | **20,377,775** | **19,693,754** |

* the facility is amortised at effective interest rate considering the upfront fee paid to secure the loan and short term deposit held with the bank.

All the Group's bank borrowings are at floating rates of interest. Interest costs may increase or decrease as a result of changes in the interest rates.

**Marfin Bank S.A.**

The Group acquired this facility of Globalworth Asset Managers S.R.L. under business acquisition during the period (Note 5.1). The original facility was obtained in May 2011 in order to acquire the apartments in the Upground Complex. This facility is secured over 23 apartments and carries no financial covenants.

**Unicredit Tiriac Bank**

The Group acquired this short term facility of Globalworth Asset Managers S.R.L. under business acquisition during the period (Note 5.1). The original facility was obtained in October 2012 for one year in order to acquire apartments in the Upground Complex and was rolled over in October 2013 for one year period. This facility is secured over 2 apartments and carries no financial covenants.

### Bancpost S.A.

The Group acquired these facilities upon the acquisition of Globalworth Asset Managers S.R.L. under business acquisition during the period (note 5.1). The facilities were originally obtained during 2013 to finance the City Offices refurbishment cost and related VAT receivable balance.

Subsequent to the acquisition, the Group withdraw €4,153,223 from facility A and C out of the total facilities value of €16,500,000 and €1,000,000 (denominated in the equivalent RON value), respectively.

As of 31 December 2013, the Group has as fully undrawn the facility B, of €8,000,000, which will be used to finance the expansion of the Group's activities.

The facilities are secured by a mortgage on the City Offices Building (currently under refurbishment), the VAT receivable balance and a pledge over the bank balance kept with the Bank for an amount of €400,148 and a moveable charge on the bank accounts as disclosed in Note 19, and carry the financial covenants of loan to value ratio of a maximum of 62% and debt service ratio of a minimum of 120%. A short term deposit is also maintained with the bank as security for the related interest expense.

### Piraeus Bank S.A.

The Group acquired these facilities upon the acquisition of Victoria Ventures S.A. under a business acquisition during the period (note 5.1). The facilities were originally obtained during 2013 to finance the construction of the Floreasca One office building and related VAT receivable balance.

Subsequent to the acquisition, the Group has withdrawn €165,429 from the facility I and facility II, out of the total facilities' values of €3,000,000 and €400,000 (denominated in the equivalent RON value), respectively. The facilities are secured over the Floreasca One Property, VAT receivable balance and bank accounts opened with the bank. The facility carries no financial loan covenants.

As of 31 December 2013, The Group has total undrawn floating rate borrowing facilities of €14,690,225 (as disclosed in table on page 89). The facilities will expire within one year and have been arranged to finance the ongoing refurbishment plan of the City Offices building, the construction of the Floreasca One office building, and to finance the proposed expansion of the Group's activities in Romania. See Note 30 for details of the borrowing arrangements entered into after the period end.

## 22.2 Amounts due to minority interest holders

The Group acquired a short term loan upon the acquisition of Victoria Ventures S.A., which is due to the minority interest holders in Victoria Ventures S.A., in total amount of €767,876. The loan is payable during the next 6 months from the period end and carries partly a fixed interest rate charge. The loan is unsecured and bears no financial covenants.

## 23 TRADE AND OTHER PAYABLES

| | Note | 2013 € |
|---|---|---|
| Property related payables | | 1,241,033 |
| Payable to suppliers for fit-out works | | 1,145,438 |
| Accounting, audit, advisory and legal fees payables | | 725,277 |
| Advances and deposits from customers | | 2,670,568 |
| Directors' remuneration payable | | 283,913 |
| Amounts due to the State budget | | 221,228 |
| Unpaid consideration for a business acquisition | 30.6 | 4,947,774 |
| Other payables | | 259,033 |
| **TOTAL** | | **11,494,264** |

As disclosed in Note 26, other payables include €250,000 payable to Ioannis Papalekas.

## 24 FINANCE LEASE LIABILITIES

The Group acquired four leasehold cars that it classifies as finance leases. The Group has option to buy the cars at the end of lease term with the payment of a notional amount. The leases are accounted for as finance leases. These leases typically have a term of 3 years.

| | 2013 | |
|---|---|---|
| | Present value € | Minimum lease payments € |
| Within 1 year | 25,527 | 27,226 |
| After 1 year but not more than 5 years | 20,831 | 21,882 |
| More than 5 years | - | - |
| Less: future interest costs | | (2,750) |
| **TOTAL** | **46,358** | **46,358** |

## 25 SEGMENTAL INFORMATION

For investment property, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the Executive Directors of the Group. The information provided is net rental income (including gross rent and property expenses) and property valuation gains/losses. 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 the office and residential segments.

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

- Office segment — acquires, develops and leases offices and manage other properties
- Residential segment — builds, acquires, develops and leases apartments

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

Segment assets for the investment property segments represent investment property (including those under construction/refurbishment) as these are the only assets reported to the executive management on a segmental basis.

Segment liabilities represent loans and borrowings, as these are the only liabilities reported to the executive management on a segmental basis.

| | 31 December 2013 | | |
|---|---|---|---|
| | **Office** | **Residential** | **Total** |
| | **€** | **€** | **€** |
| Rental income and service charge income | 233,874 | 40,015 | 273,889 |
| Property development | 2,944,567 | - | 2,944,567 |
| Property management fees | 4,891,308 | - | 4,891,308 |
| Property operating and asset management expenses | (2,675,093) | (130,357) | (2,805,450) |
| Change in fair value of investment property | 1,468,576 | (106,000) | 1,362,576 |
| **Segment results** | **6,863,232** | **(196,342)** | **6,666,890** |
| Administrative expenses | - | - | (1,856,224) |
| Acquisition costs | - | - | (107,980) |
| Bargain purchase gain on acquisition of subsidiary | 9,377,342 | - | 9,377,342 |
| Share based payments | - | - | (43,807) |
| Foreign exchange loss | - | - | (77,704) |
| Finance cost | - | - | (254,997) |
| Finance Income | - | - | 1,803 |
| **Earnings before tax** | **16,240,574** | **(196,342)** | **13,705,323** |

| | **Office** | **Residential** | **Total** |
|---|---|---|---|
| | **€** | **€** | **€** |
| Investment property | 113,610,000 | 7,724,700 | 121,334,700 |
| Advances for acquisition of investment property | 8,750,000 | - | 8,750,000 |
| Investment property held for sale | 1,875,800 | - | 1,875,800 |
| **Segment Assets** | **124,235,800** | **7,724,700** | **131,960,500** |
| Goodwill | 12,093,717 | 522,735 | 12,616,452 |
| Other long term assets | - | - | 285,906 |
| Current assets | 20,685,470 | 723 | 20,686,193 |
| **Total assets** | **157,014,987** | **8,248,158** | **165,549,051** |
| Interest bearing loans and borrowings | 14,293,630 | 6,168,000 | 20,461,630 |
| Deferred tax liability | 11,909,576 | 522,735 | 12,432,311 |
| Other long term liabilities | - | - | 49,305 |
| Current liabilities | 12,287,033 | 39,799 | 12,326,832 |
| **Total liabilities** | **38,490,239** | **6,690,735** | **45,270,078** |
| Additions to non-current assets | 1,974,328 | - | 1,974,328 |

During the period there were transactions with two customers that accounted individually for 10% or more of the Group's total revenues, as follows:

| **Major customers** | **Office** | **Residential** | **Total** |
|---|---|---|---|
| | € | € | € |
| Customer 1 | 3,434,409 | - | 3,434,409 |
| Customer 2 | 4,059,471 | - | 4,059,471 |

The Group is domiciled in Guernsey but does not generate revenue there. The Group's revenue is generated from property assets which are held by group companies domiciled in Romania. Therefore, all revenue reported above is generated in Romania.

None of the Group's non-current assets are located in Guernsey. The total of non-current assets other than goodwill (there are no employment benefit assets, deferred tax assets and rights arising under insurance contracts) are located in other countries.

## 26 TRANSACTIONS WITH RELATED PARTIES

The Group's related parties are Ioannis Papalekas and the Company's other Directors as well as all companies controlled by them or under their joint control, or under significant influence by Ioannis Papalekas.

The consolidated financial statements include all of the companies in the Group's scope of consolidation (see Note 2.3 "Scope of consolidation"). The Group's ultimate controlling party is Mr. Ioannis Papalekas who at 31 December 2013 owns 63.1% of the Company's shares. The remaining 36.9% of the shares are closely held.

The related party transactions during the period were:

| | **Sales** | | **Purchases** | |
|---|---|---|---|---|
| **Description** | **Nature of transactions** | **€** | **Nature of transactions** | **€** |
| BOB Development S.R.L. | Disposal fees, Management services and fit out works | 3,434,409 | - | - |
| BOC Real Property S.R.L. | Disposal fees, Management services and Fit out works | 4,059,471 | Lessor for operating lease | 63,339 |
| Upground Estates S.R.L. | Management services and fit out works | 202,062 | Rent and utilities | 7,679 |
| Globalworth Limited | - | - | Reimbursement of AIM listing expenses paid on behalf of the Company | 257,000 |

All of these transactions are based on market prices.

| Description | Receivables € | Payables € | Advances paid/ (received) € | Guarantees paid/ (received) € |
|---|---|---|---|---|
| BOB Development S.R.L. | 2,228,436 | - | 407,921 | - |
| BOC Real property S.R.L. | 4,145,586 | 246,343 | 369,380 | 63,237 |
| Upground Estates S.R.L. | 629,098 | 2,979 | 107 | - |
| Bakaso Holdings Limited | 280,254 | - | - | - |

**Terms and conditions of transactions with related parties**

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. The Group did not record any impairment of receivables relating to amounts owed by related parties. 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.

**Remuneration of the executive and non-executive members of the Board of Directors**

| | Salaries & Fees | | | | | Other Benefits* | ***Total remuneration |
|---|---|---|---|---|---|---|---|
| | Payment currency | | Company 2013 | Subsidiaries 2013 | Total 2013 | 2013 | 2013 |
| | EUR | GBP | EUR | EUR | EUR | EUR | EUR |
| Ioannis Papalekas | 250,000 | - | 250,000 | - | 250,000 | 18,351 | 268,351 |
| Dimitris Raptis | 408,335 | - | - | 408,335 | 408,335 | **- | 408,335 |
| Geoff Miller | - | 52,500 | 45,056 | 16,760 | 61,816 | - | 61,816 |
| Eli Alroy | 113,887 | - | 113,887 | - | 113,887 | - | 113,887 |
| John Whittle | - | 42,500 | 33,352 | 16,676 | 50,028 | - | 50,028 |
| David Kanter (resigned on 1 December 2013) | 44,172 | - | 44,172 | - | 44,172 | - | 44,172 |
| | **816,394** | **95,000** | **486,467** | **441,771** | **928,238** | **18,351** | **946,589** |

* Represents the estimated value of furnished accommodation benefit in kind provided by GAM.

** For Dimitris Raptis furnished accommodation benefit in kind is provided by Upground, which was acquired by the Group subsequent to the period end, on 20 March 2014, consequently the related costs are incurred by the Group from the acquisition date onwards.

*** The amounts indicated represent accrued amounts corresponding to the period during which the beneficiaries were members of the Board. Out of the total Director's remuneration expense for salaries and fees, of €928,238, €283,913 was payable as of 31 December 2013.

There is also €250,000 payable to Ioannis Papalekas which was acquired through the acquisition of Globalworth Asset Managers S.R.L as disclosed in Note 5.1.

In 2013, members of the Board were allocated share options warrants exercisable at par value per share subject to market performance criteria for share price (details are disclosed in Note 21).

| | Expiry date | Exercise Price | 2013 Number outstanding |
|---|---|---|---|
| | | € | |
| Ioannis Papalekas | 2023 | 7.5 | 1,045,282 |
| Ioannis Papalekas | 2023 | 10 | 1,045,282 |
| Ioannis Papalekas | 2023 | 12.5 | 1,045,282 |
| Dimitris Raptis | 2023 | 7.5 | 110,000 |
| Geoff Miller | 2023 | 7.5 | 11,000 |
| Eli Alroy | 2023 | 7.5 | 260,000 |
| John Whittle | 2023 | 7.5 | 9,000 |
| | | | **3,525,846** |

## 27 FINANCIAL RISK MANAGEMENT

### Objective and policies

The Group's activities expose it to a variety of financial risks in relation to the financial instruments it uses: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: security deposits held, trade and other receivables, cash and cash equivalents, trade and other payables, security deposits payable to tenants, finance lease liabilities and interest bearing loans payable.

The Group's financial assets are categorised as either receivables or at fair value through profit or loss in accordance with IAS 39. Cash and cash equivalents, security deposits held, trade and other receivables are categorised as other receivables.

The Group's financial liabilities are categorised as either liabilities or fair value through profit or loss in accordance with IAS 39. Security deposits payable to tenants, interest bearing loans payable, finance lease liabilities and trade and other payables are categorised as liabilities.

### 27.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risks arise from open positions in (a) foreign currencies, (b) interest-bearing assets and liabilities, and (c) Romanian real estate market risk, to the extent that these are exposed to general and specific market movements.

Management sets limits on the exposure to currency and interest rate risk that may be accepted, which are monitored on a monthly basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated, for example, changes in interest rate and changes in foreign currency rates.

### a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk, primarily with respect to the Romania RON. Foreign exchange risk arises in respect of those recognised monetary financial assets and liabilities that are not in the functional currency of the respective group entity.

The carrying amounts of the Group's monetary assets and monetary liabilities by currency denomination at the reporting date are as follows:

**2013**

| | RON | EUR | GBP | USD | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 310,022 | 9,106,630 | 87,114 | 2,086 | 9,505,852 |
| Trade and other receivables (excluding advances received from customers and prepayments) | 9,962,059 | 416,408 | - | - | 10,378,467 |
| **Total** | **10,272,081** | **9,523,038** | **87,114** | **2,086** | **19,884,319** |
| **LIABILITIES** | | | | | |
| Interest bearing loans and borrowings | 252,333 | 20,209,297 | - | - | 20,461,630 |
| Trade and other payables | 2,994,768 | 5,825,015 | 3,913 | - | 8,823,696 |
| Finance lease obligation | - | 46,358 | | - | 46,358 |
| Income tax payable | 726,059 | - | - | - | 726,059 |
| Long-term deposits | 89,510 | 19,946 | - | - | 109,456 |
| **Total** | **4,062,670** | **26,100,616** | **3,913** | **-** | **30,167,199** |

Foreign currency sensitivity analysis

The Group is exposed to foreign exchange risk in respect of the exchange rate of the RON, USD and GBP. The following table details the Group's sensitivity to a 5% appreciation and devaluation in RON, USD and GBP exchange rates against the EUR.

5% sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency exchange rates. A negative number below indicates a decrease in profit where foreign currency strengthens 5% against the EUR. For a 5% weakening of foreign currency against the EUR there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative. The change is mainly attributable to RON denominated trade and other payables and receivables outstanding at period end.

| | Appreciation/ (Devaluation) € | Profit and loss effect 2013 (net of tax) € |
|---|---|---|
| RON | (5%) | (260,795) |
| RON | 5% | 260,795 |
| GBP | (5%) | (4,160) |
| GBP | 5% | 4,160 |
| USD | (5%) | (104) |
| USD | 5% | 104 |

### b) Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time.

The Group's interest rate risk principally arises from long-term borrowings (Note 22). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not have borrowings at fixed rates and, therefore, has no significant exposure to fair value interest rate risk.

An increase or decrease in 25 basis points in the EURIBOR or ROBOR will result in an increase in losses or gains in the income statement of €37,870 (net of tax), with a corresponding impact on equity for the same amount.

### c) Romanian real estate market risk

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at estimates of market values as at 31 December 2013, the independent valuation experts used their market knowledge and professional judgment and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investment properties than would have existed in a more active market. Changes in the economic conditions of the Romanian real estate market may not be captured in its totality since valuation dates do not always coincide with financial year end date.

### 27.2 Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group's policy is to trade with recognised, creditworthy third parties.
The Group's exposure is continuously monitored and spread amongst approved counterparties. The Group's maximum exposure to credit risk by class of financial asset is as follows:

| | **2013** |
|---|---|
| | **€** |
| Trade receivables – net of provision | 7,633,461 |
| Other receivables | 438,018 |
| Due from State budget | 2,316,882 |
| Cash and cash equivalents | 9,505,852 |
| | **19,894,213** |

*Trade receivables – net of provision*
There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants, a few of which are part of multinational Groups, internationally dispersed as disclosed in Note 18. For related parties it is assessed that there is no significant risk of non-recovery.

Deposits refundable to tenants may be withheld by the Group in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

*Other receivables*
This balance relates to sundry receivables and consideration receivable for business acquisition. Management has made due consideration of the credit risk associated with these balances resulting in no impairment being made.

*Due from state budget*
This balance relates to corporate income tax paid in advance and VAT receivable from Romanian State. This is not considered a significant credit risk as the balance receivable from Government authority are secured under sovereign warranty.

*Cash and cash equivalents*
The credit risk on cash and cash equivalents is very small, since the cash and cash equivalents are held at reputable banks.

### 27.3 Liquidity risk

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the management. The Company manages liquidity risk by maintaining adequate cash reserves and planning and close monitoring of cash flows.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| | Less than 3 months | 3 months – 1 year | 1-5 years | >5 years | 2013 Total |
|---|---|---|---|---|---|
| Interest bearing loans and borrowings | 304,311 | 21,357,246 | 176,503 | - | 21,838,060 |
| Deposits from tenants | - | 28,474 | 80,982 | - | 109,456 |
| Finance lease liabilities | 7,946 | 19,280 | 21,882 | - | 49,108 |
| Trade payables (excluding advances from customers) | 271,961 | 3,603,962 | - | - | 3,875,923 |
| Income tax payable | 726,059 | - | - | - | 726,059 |
| Other payables | 4,947,773 | - | - | - | 4,947,773 |
| **Total** | **6,258,050** | **25,008,962** | **279,367** | **-** | **31,546,379** |

The tables presented above present the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay, and includes both interest and principal cash flows. As the amount of contractual undiscounted cash flows related to bank borrowings is based on variable rather than fixed interest rates, the amount disclosed is determined by reference to the conditions existing at the period end - that is, the actual spot interest rates effective as of 31 December 2013 are used for determining the related undiscounted cash flows.

### 27.4 Fair values of financial instruments

Financial instruments in the statement of financial position include trade and other receivables, cash and cash equivalents, loans from credit institutions, trade and other payables, and finance lease liabilities. The estimated fair values of these instruments do not differ significantly from their current carrying amounts, especially when they are short-term in nature or their interest rates are changing in line with the change in the current market conditions.

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.

| | Carrying amount 2013 € | Fair value 2013 € |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables (Note 18) | 10,378,467 | 10,378,467 |
| Cash and cash equivalents (Note 19) | 9,505,852 | 9,505,852 |
| | | |
| **Financial liabilities** | | |
| Interest bearing loans and borrowings (Note 22) | 20,461,630 | *20,461,630 |
| Deposits from tenants | 109,456 | 109,456 |
| Finance lease obligations (Note 24) | 46,358 | 46,358 |
| Trade and other payables (Note 23) | 8,823,696 | 8,823,696 |
| Income tax payable | 726,059 | 726,059 |

*part of interest bearing loans and borrowings is based on variable rather than fixed interest rates, the amount disclosed is determined by reference to the conditions existing at the period end - that is, the actual spot interest rates effective as of 31 December 2013.

The cash and cash equivalents, trade and other receivables, trade and other payables finance lease obligations and interest bearing loans and borrowings are carried at amortised cost; due to the short term maturities of these instruments the management assessed that their carrying values are a reasonable approximation of fair value.

Trade receivables include the contractual amounts for settlement of trades and other obligations due to the Group. Trade and other payables and borrowings represent contract amounts and obligations due by the Group.

The following table analyses within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2013 but for which fair value is disclosed.

| **Assets** | **LEVEL 1** | **LEVEL 2** | **LEVEL 3** | **TOTAL** |
|---|---|---|---|---|
| | **€** | **€** | **€** | **€** |
| Trade and other receivables | 10,378,467 | - | - | 10,378,467 |
| Cash and cash equivalents | 9,505,852 | - | - | 9,505,852 |
| **TOTAL** | **19,884,319** | **-** | **-** | **19,884,319** |
| | | | | |
| **Liabilities** | | | | |
| Interest bearing borrowings | - | 20,461,630 | - | 20,461,630 |
| Trade and other payables | 8,823,696 | - | - | 8,823,696 |
| Finance lease obligations | - | 46,358 | - | 46,358 |
| Income tax payable | 726,059 | | | 726,059 |
| Long-term deposits | 109,456 | | | 109,456 |
| **TOTAL** | **9,659,211** | **20,507,988** | **-** | **30,167,199** |

## 28 CAPITAL MANAGEMENT

The Company is a closed-ended investment company and thus has a fixed capital for investment. It has no legal capital regulatory requirement.

The Group's policy is to maintain a strong equity capital base so as to maintain investor, creditor and market confidence and to sustain the continuous development of its business. The Board considers from time to time whether it may be appropriate to raise new capital by a further issue of shares.

The Group monitors capital primarily using a loan-to-value ratio, which is calculated as the amount of outstanding debt, divided by the open market value of its investment property portfolio as certified by external valuers. As at 31 December 2013 the loan-to-value ratio was 16.9%.

As of 31 December 2013, Globalworth Asset Managers S.R.L. has a long term loan facility, obtained from Bancpost S.A., for a total of €16,500,000, of which €13,823,685 was drawn as of 31 December 2013. This facility was obtained for the acquisition and redevelopment of the City Offices building, which as of 31 December 2013 was still under redevelopment (conversion from a shopping centre to an offices building). Consequently, during the period ended 31 December 2013 the offices space could not generate revenue as the redevelopment works were in progress. These works are anticipated to be completed within 2014.

This loan facility from Bancpost contains a service cover ratio covenant, which can only be met following the completion of the redevelopment works and commencement of the revenue generating activity of the City Offices building. This fact is acknowledged by the lender as depicted by the fact that no adverse notification has been made to Globalworth Asset Managers S.R.L. following its semi-annual review of compliance with loan covenants (in September and March), as provided in the loan agreement. However, as a result of IAS 1 requirements, the balance on this loan as of 31 December 2013 has been presented under short term liabilities.

## 29 COMMITMENTS AND CONTINGENCIES

### Commitments

As at 31 December 2013, 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 €4,531,880 and had committed with tenants to incur fit out works of €150,000.

As disclosed in Note 14, the Group has commitments for acquisitions of land plots and investment properties for total value of €21,172,550 as of 31 December 2013.

As at 31 December 2013 the Group has commitments for the acquisition of the entities for which reference is made in Note 30, below.

### Contingencies

Taxation

All amounts due to State authorities for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonised with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, and related regulations these may result in: confiscation of the amounts in case; additional tax liabilities being payable; fines and penalties (that are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State.

The Group believes that it has paid in due time and in full all applicable taxes, penalties and penalty interests in the applicable extent.

Transfer pricing

According to the applicable relevant Romanian tax legislation, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect the market prices that would have been set between unrelated companies acting independently (i.e. based on the “arm’s length principle”).

It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the “arm’s length principle” and therefore no distortion exists that may affect the taxable base of the Romanian tax payer. The Group could not estimate the potential impact of a transfer pricing review.

## 30 SUBSEQUENT EVENTS

### 30.1 Appointment of contractor for the development of Bucharest One

On 31 January 2014, the Group appointed BOG'ART as general contractor for the construction of the Bucharest One office tower. The contract price for the execution and completion of the works is the lump-sum of approximately €54 million plus VAT. BOG'ART is one of the largest and most reputable contractors and construction companies in Romania having been responsible for, among others, the construction of some of the city's most prominent office buildings such as Tower Center International, Charles de Gaulle Plaza, and City Gate.

### 30.2 Acquisition of Tower Center International S.R.L.

On 18 February 2014, the Group acquired 100% shares of Tower Center International S.R.L. Tower Center International S.R.L. operates in the real estate management and development business and currently owns an office building "Bucharest Tower Center" in Bucharest. The existing strategic management function and associated processes were acquired with the property and, as such, the Board consider this transaction the acquisition of a business, rather than an asset acquisition.

The purchase consideration transferred consisted of €11,666,092 cash and 2,733,220 ordinary shares of the Company, which as of 18 February 2014 had a quoted price of €5.38 per share. As a result, the purchase consideration transferred is analysed as follows:

***Purchase consideration transferred***

| | € |
|---|---|
| Shares issued, at fair value | 14,704,347 |
| Cash paid | 11,666,092 |
| **TOTAL** | **26,370,439** |

Based on a preliminary assessment (disclosed below as pro forma financial information), the Group believes that a bargain purchase gain will arise on consolidation of Tower Center International S.R.L. during the year ending 31 December 2014, following the completion of the assessment of the fair value of net assets acquired.

***Pro forma financial information***

The preliminary fair values of the identifiable assets and liabilities of Tower Center International S.R.L as at 31 December 2013 were:

| | € |
|---|---|
| ASSETS | 77,268,251 |
| LIABILITIES | 42,087,333 |
| **Total identifiable net assets at fair value** | **35,180,918** |
| Bargain purchase gain arising on acquisition | (8,536,780) |
| **Purchase consideration transferred** | **26,644,138** |

As part of the sale and purchase agreement, the purchase consideration transferred on acquisition date may change as a result of final assessment of the fair values of the identifiable assets acquired and the liabilities assumed on acquisition date the purchase consideration transferred may increase or decrease resulting in, for the Group, an additional outflows or inflow of the funds. The Group is currently in the process of assessing the fair values of the identifiable assets and liabilities of Tower Center International S.R.L. as at the date of acquisition.

### 30.3 Securing a €65 million facility with UBS

In February 2014 the Group concluded a €65 million facility with UBS, which has enabled it to complete the acquisitions of BOB, BOC and TCI.

### 30.4 Acquisition of Upground Estates S.R.L.

On 20 March 2014, the Group acquired a 100% shareholding in Upground Estates S.R.L. Upground Estates S.R.L. operates in the real estate management and development business and currently owns a fully completed and partially rented residential and retail complex in Bucharest (Upground Towers). The existing strategic management function and associated processes were acquired with the property and, as such, the Directors consider this transaction the acquisition of a business, rather than an asset acquisition.

The purchase consideration transferred consisted of €1,510,000 cash and 2,600,000 ordinary shares of the Company, which as of 20 March 2014 had a quoted price of €5.38 per share. As a result, the purchase consideration transferred is analysed as follows:

| | € |
|---|---|
| Shares issued, at fair value | 13,988,000 |
| Cash paid | 1,000,000 |
| Cash paid for assignable loans | 510,000 |
| **TOTAL** | **15,498,000** |

Based on a preliminary assessment (disclosed below as pro forma financial information), the Group believes that a bargain purchase gain will arise on consolidation of Upground Estates S.R.L. during the year ending 31 December 2014, following the completion of the assessment of the fair value of net assets acquired.

***Pro forma financial information***

The preliminary fair values of the identifiable assets and liabilities of Upground Estates S.R.L as at the date of 31 December 2013 were:

| | € |
|---|---|
| ASSETS | 103,483,643 |
| LIABILITIES | 47,113,930 |
| **Total identifiable net assets at fair value** | **56,369,713** |
| Bargain purchase gain arising on acquisition | (40,611,713) |
| **Purchase consideration transferred** | **15,758,000** |

The consideration transferred is final and there will be no payment or refunds of resources transferred based on the final assessment of the fair values of the identifiable assets acquired and liabilities assumed on acquisition date. The Group is currently in the process of assessing the final fair values of the identifiable assets and liabilities of Upground Estates S.R.L. as at the date of acquisition.

### 30.5 Acquisition of Oystermouth Holding Limited and Dunvant Holding Limited

On 21 March 2014, the Group acquired Oystermouth Holding Limited and Dunvant Holding Limited. As of 21 March 2014, Oystermouth Holding Limited and Dunvant Holding Limited had investments of 78% and 22%, respectively, in BOB Development S.R.L., BOC Real Property S.R.L., and Netron Investment S.R.L. all unlisted companies based in Romania.

The existing strategic management function and associated processes were acquired with the property and, as such, the Board consider this transaction the acquisition of a business, rather than an asset acquisition

BOB Development S.R.L. and BOC Real Property S.R.L. operate in the real estate management and development business and currently own fully completed and partially rented office buildings in Bucharest, BOB and BOC office buildings, respectively. As of 21 March 2014, Netron Investment S.R.L. was effectively a dormant company with insignificant net assets.

The purchase consideration transferred consisted of €24,654,400 cash and 1,071,795 ordinary shares of the Company, which as of 20 March 2014 had a quoted price of €5.38 per share.

As a result, the purchase consideration transferred is analysed as follows:

| | € |
|---|---|
| Shares issued, at fair value | 5,766,257 |
| Cash paid | 24,654,400 |
| **TOTAL** | **30,420,657** |

Based on a preliminary assessment (disclosed below as pro forma financial information), the Group believes that a bargain purchase gain will arise on consolidation of Oystermouth Holding Limited, Dunvant Holding Limited, BOB Development S.R.L., BOC Real Property S.R.L., and Netron Investment S.R.L. during the year ending 31 December 2014, following the completion of the assessment of the fair value of net assets acquired.

***Pro forma financial information***

The preliminary fair values of the identifiable assets and liabilities of Oystermouth Holding Limited, Dunvant Holding Limited, BOB Development S.R.L and BOC Real Property S.R.L as at 31 December 2013 were:

| | € |
|---|---|
| ASSETS | 197,973,562 |
| LIABILITIES | 150,629,064 |
| **Total identifiable net assets at fair value** | **47,344,498** |
| Bargain purchase gain arising on acquisition | (16,816,661) |
| **Purchase consideration transferred** | **30,527,837** |

The consideration transferred is final and there will be no payment or refunds of resources transferred based on the final assessment of the fair values of the identifiable assets acquired and liabilities assumed on acquisition date. The Group is currently in the process of assessing the fair values of the identifiable assets and liabilities of Oystermouth Holding Limited, Dunvant Holding Limited, BOB Development S.R.L., BOC Real Property S.R.L., and Netron Investment S.R.L. as at the date of acquisition.

### 30.6 Settlement of the outstanding purchase price consideration for the acquisition of Pieranu Enterprises Limited

On 25 March 2014, the Group settled the outstanding purchase price consideration of €4,947,774 on the acquisition of Pieranu Enterprises Limited with the issuance of 989,555 ordinary shares of no par value to the vendor.

### 30.7 Acquisition of land in Bucharest, Romania

On 25 March 2014 the Group finalised the acquisition of a piece of land in Bucharest, Romania, which forms part of a larger plot for the acquisition of which €2,000,000 (including VAT) was paid in advance during December 2013, as disclosed in Note 14.

### 30.8 Additional Fundraising

On 23 April 2014, the Company announced that it has raised €144 million. Of the funds raised, €79 million has been raised by way of an equity issue of new ordinary shares of no par value in the Company ("Ordinary Shares") at €5.90 per share. In addition, the transfer of the Company's recently signed €65 million facility from UBS to York Capital Management Global Advisors, LLC and Oak Hill Advisors (Europe), LLP has been completed. This facility will mandatorily convert (together with fees and accrued interest thereon) to Ordinary Shares by 18 December 2014 at €5.90 per share, which means that in due course the Company will have effectively raised a further €65 million by way of equity.

The funds raised (€144 million) will be partially invested for the development of projects currently owned by the Company (€23 million), for the acquisition (and development) of new real estate opportunities (€56 million) and the repayment of the €65 million facility through a mandatory conversion to Ordinary Shares, which is to be completed by 18 December 2014.

As a result of the raise, 13,344,919 new Ordinary Shares have been issued pursuant to the €79 million equity fundraising, which were admitted to trading on AIM on 24 April 2014. Following admission of these Ordinary Shares, the Company's enlarged issued share capital comprises 41,645,126 Ordinary Shares with voting rights in the Company.

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# INDEPENDENT AUDITORS' REPORT

## Independent Auditor's Report to the Members of Globalworth Real Estate Investments Limited

We have audited the consolidated financial statements of Globalworth Real Estate Investments Limited and its subsidiaries (the "Group") for the period ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on Financial Statements

In our opinion the financial statements:

> give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its profit for the period to 31 December 2013;
> have been properly prepared in accordance with IFRSs as adopted by the European Union; and
> have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### Our Assessment of Risks of Material Misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy and scope; the allocation of resources in the audit; and directing the efforts of the engagement team:

i) Valuation of investment properties;
ii) Business combinations, particularly, fair value assessment of the assets transferred, liabilities incurred and the equity interests issued; goodwill, bargain purchase goodwill and contingent consideration measurement;
iii) Loan covenant non-compliance;
iv) Related party transactions may be incorrectly valued or disclosed.

## Our Application of Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of misstatements on the audit and of uncorrected misstatements, if any, on financial statements and in forming our audit opinion.

We determined materiality for the Company to be €1,200 thousand, which is approximately 1% of equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 50% of materiality, namely €600 thousand. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differenced in the financial statements did not exceed our materiality. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of €60 thousand, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An Overview of the Scope of our Audit

We adopted a risk-based approach in determining our audit strategy. This approach focuses audit effort towards higher risk areas, such as management judgements and estimates and on locations that are considered significant based upon size, complexity and risk. Our group audit scope focused on three key locations in Romania. They were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Together with the group functions, which are also subject to audit, these locations represent the principal business units of the group and account for 89% of the group's total assets. All locations within the scope were subject to audit procedures and the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the group's business operations at those locations. For the remaining locations, we performed other procedures to ensure there were no significant risks of material misstatements in the group financial statements.

In assessing the risk of material misstatement to the financial statements, our audit scope focused on the completeness and accuracy of the disclosures in the financial statements. Our response to the risk of material misstatement identified above included the following procedures:

i) We addressed the risk of valuation of the group's investment properties by:

- Agreeing the values to third party valuation reports to assess the appropriateness and suitability of the reported values;
- Engaging our own internal valuation experts to challenge the valuation of all properties by assessing the reasonableness of the valuation methodologies used and the key inputs and assumptions by reference to published market data and comparable transaction evidence; and
- Assessing the independence and qualifications of the 3rd party valuation experts and internal valuation experts.

ii) We addressed the risk of inappropriate accounting for the acquisitions made in the period by:

- Reading acquisition documents and assessing whether the accounting implications have been properly assessed by management;
- Challenging the assumptions used by management in arriving at the fair value of the assets and liabilities acquired , including review of the methodology applied, and other critical judgments or estimates made in relation to the acquisitions, business combination classification, goodwill and bargain purchase goodwill.

iii) We addressed the risk of loan covenant non-compliance by reperforming the loan covenant calculations by reference to the terms of the loan agreements and agreeing to third party confirmations.

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iv) We addressed the risks of incorrect related party disclosures by obtaining a summary of related party transactions, understanding the purpose of the transactions with related parties, vouching significant related party transactions to supporting documents (contractual agreements, invoices and available breakdowns), assessing the accounting and tax implications of complex related parties transaction and ensuring that the appropriate disclosures are made in the consolidated financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
> materially inconsistent with the information in the audited financial statements; or
> apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
> is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

> proper accounting records have not been kept; or
> the financial statements are not in agreement with the accounting records; or
> we have not received all the information and explanations we require for our audit.

Under the ISAs (UK and Ireland) we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Ernst & Young LLP
Guernsey
Channel Islands
8 May 2014

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