Message from Maarten J. Hulshoff

Looking back on 2016, I believe it will be remembered for a number of major milestones. A lot went very well indeed. Around €1 billion in disposals (in terms of gross development value) demonstrated the solidity and versatility of our speculative development strategy. This is how it is supposed to work – we acquire pipeline, we send that pipeline through our integrated development chain and lease our high-quality offices, primarily to our multinational clients. Then we exit. At year-end 2016, pursuing this strategy resulted in net leverage for the whole Group of around 17.4% and we started the new year in an extremely strong financial position. But 2016 wasn't all plain sailing. We had disappointments – some outside our control, others that might have been avoided. The net profit of €107.5 million in 2016 was certainly disappointing, especially in view of the €174.5 million revaluation gains. However, the single biggest negative was the 16% devaluation of sterling right after the Brexit vote, contributed to a €41.2 million FX loss on our sterling fixed and financial assets. Traditionally, our policy is not to hedge fixed assets; the same approach should not apply to financial assets.

2016 was also the year when the economic situation grew in stability and the political environment grew in uncertainty. After many years of stagnation in Europe and despite low-interest rate policies, there is positive growth all over Europe. The banks are back in business. There have been a lot of successful bond issues as corporates and investors take advantage of the low-interest rate environment. In fact, economically, Europe is looking better than it has for some time. In contrast, it is also rife with political uncertainty - Brexit and the tendency of many other European countries to think in terms of 'my country first'. Basically, there are currently many developments that are not in line with the original core values of the European Union.

While of significant concern, these developments only impact our business to some extent. Real estate is a local business. It's about spotting opportunities, acquiring plots, doing the construction and the fitting out. It becomes more of a regional activity when we are competing for multinationals' attention on the leasing market and in terms of exits and investor requirements on acceptable yield-risk reward profiles. So how does this work for HB Reavis? The Group has expanded over time from a local company working in one capital to the six capitals where we are active today as a multinational, fully integrated developer.

Originally, we focused on developing the actual bricks and mortar. Subsequently, we moved decisively into leasing, initially in the CE region. Then we expanded into a new market for us – the City of London with its very different construction and leasing dynamics. Often in CE, our office developments were focused on shared-service tenants. In London, our potential clients tend to be multinationals using the space for front-office regional HQ purposes. One example is 33 Central, our debut project in London, which will become Wells Fargo's European headquarters. We acquired the site three and half years ago when the market was just about to recover from the financial crisis and signed the forward sale agreement just after the Brexit referendum for an amount that was close to our asking price. It turned out to be a very profitable project despite FX loses due to the devaluation of sterling. Following this exit, we will be recycling the proceeds into new cornerstone developments in London.

This approach is no one-off. In Warsaw, we have built a sizeable portfolio and in 2016 exited two major projects – Konstruktorska Business Center and Gdanski Business Center A-B. Sales proceeds are being reinvested in our landmark projects, including a Foster-designed 310-meter Varso tower in the Polish capital. I think this says everything about our appetite to make project investments counter-cyclically. At times when others sit on the fence, we strike our deals. These are all office developments. In terms of retail, I was pleased to see the opening of Aupark Shopping Centre in Hradec Kralove, Czech Republic and the start of the construction of the Twin City Tower in Bratislava, which has great potential as part of the Twin City development.

We believe that negative conditions can also generate upward potential.

We certainly had a lot to celebrate in 2016. But we also had challenges as various geo-political developments in some countries had a negative impact on our business. I've already mentioned the Brexit vote and ensuing devaluation of sterling. In Poland, there were issues around transaction structuring. In Turkey, there was political instability and economic challenges. Despite these conditions, we stepped up our efforts in all these countries in line with our strategy. We believe negative conditions can also generate upward potential. As a result, we have a sizeable pipeline in all the countries where we operate. There was also a new market entry for us in 2016 when we expanded our franchise to Berlin, a capital city that attracts a lot of start-up activities. And which seems destined to become Germany's innovative high-tech hub. We had first considered market entry through acquisition. However, over time we decided to apply our tried and tested approach by allocating our own top talent to this new growth opportunity.

Talent is one of those concepts that keeps coming back when I think about HB Reavis. From the very beginning, there has been a clear commitment to finding, hiring and retaining the best. Over time, the Group's rapid growth has presented and still poses quite a considerable challenge for the Executive Board and the HB Reavis teams. They continue to work on, for example, aligning internal control processes so that the Group can consistently improve efficiency. This is all part of the ongoing transition to a professionally managed multinational organization.

Currently, we are also working on our People Leadership Program, clarifying our people strategy, living our shared vision to create an environment that inspires our people to work even more effectively and enjoy it. HB Reavis should be a preferred employer in the countries we operate; our team in Poland has won the first accolade: AON Hewitt's Best Employer 2016. What I personally appreciate is that the founder of HB Reavis has always been and still is very ambitious when it comes to educational and people-development projects. This has filtered down through the organization. The essence is that HB Reavis is not only about growing the business and being successful in it. It is also about looking at the other side of the balance sheet. This is clear from the hunt for talent but also the clear commitment to sustainability. How the Group works with suppliers and customers and the way we communicate internally - this is all part of corporate culture. It is about having a 360, open-minded approach to what we do, both internally and externally with all our stakeholders.

All credit to the teams in six capitals who delivered such an exciting year, combining local expertise with Group best practices to win us major awards, both European and national. I'm impressed with their capabilities, their hands-on deal and project focus, good team spirit and distinct lack of complacency, despite the fact that in many countries we are at least among the top three developers. I think that speaks volumes about the integrity of our organization and the hard-working ethic that is integral to HB Reavis. As a result, we can afford to apply our strategy of speculative office development whose projects have well-timed exits so that equity is freed up for reinvestment in our markets. I'd say we can look to the future with confidence and ambition balanced by growth and risk management and control.

On a final and sadder note, I would like to say a word about the Group's co-founder and my fellow non-executive director, Viliam Pancik who passed away in September last year at only 58. We miss his expertise, insight and commitment to the company he helped to create and express deep condolences to his family.

Maarten J. Hulshoff
Non-executive director