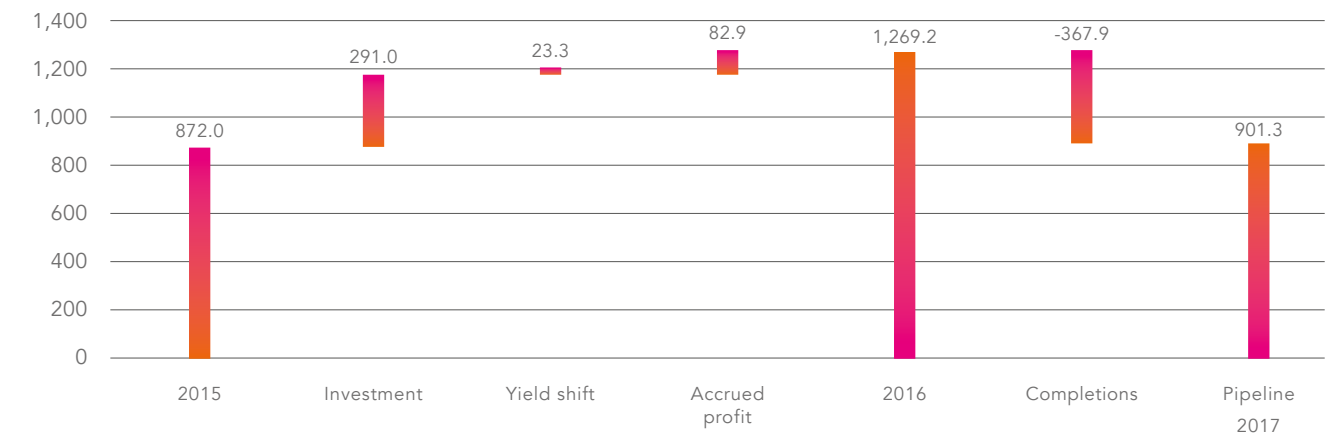


Business Review

Real estate development is a very complex business, especially if you are an integrated developer. As one of Europe's very few fully integrated developers, this means our business is just as complex. And we make life even tougher for ourselves because our mission is to bring remarkable experiences to people through our real estate solutions. We aim to set trends in office space solutions. We aspire always find space for something more than clients and communities expect from us, something that will differentiate our projects from others. We believe this is a right way to create greater value for our shareholders, partners, clients and local communities. We have long been convinced this is the only right and sustainable way to achieve projected growth and desired return to shareholders. The reporting year, 2016, was another great year in terms of achievements, and without wanting to sound over-confident, confirming we are right.

Real Estate Development

Changes in Group development property value (€m)



The Development Landscape

Generally speaking, the stable development landscape continued in 2016. Nevertheless, our respective markets were all just that little bit different. London is clearly looking for the right answer to the Brexit. We saw the market peak and remain on top for a while, before net absorption data started showing a weakening of occupier markets and growing general uncertainty. Budapest continued growing and we think there is a real chance that growth will continue; the economic fundamentals are providing a very solid base for further growth in the coming years. Bratislava also continued its positive trend, with another year of increasing take up and decreasing vacancy rates. We believe that will continue in the coming years, as well. Very low new supply in Prague pushed vacancy down very seriously, however filling the big gap between supply and demand remains challenging for developers. The primary reason is the continuing general protracted and inflexible permitting process. There were no surprises in Warsaw. New supply is at historical highs, vacancy is racing towards 15%, so despite a relatively robust take up, the tenant market continues. Overall, we increased the share of development in our total investment property to slightly above the targeted 50% share of all our real estate properties. This quicker than planned move was due to our extensive disposals program in 2016. We saw a unique opportunity - highly positive investment market sentiment - and we took it. In the reporting year, we focused on both speeding up and growing the share of developments in the permitting stage and on progressing our projects in the construction phase. Similarly, we continued to build up our robust development pipeline for the coming years. During 2016, the portfolio value of core development property increased by €21.5 million (2015: €261 million) and at year-end achieved a value of €901.3 million, up from €872 million in 2015, representing a 3.4% year-on-year increase.

Factors that contributed to this result did not change significantly during the reporting year, but rather became even more important as their weight shifted:

Product design distinguishes us in the market

Through delivery of around 730,000 m² of leasable office space, we have accumulated significant know-how during our history. Perhaps it is because we have so much experience that we understand why talking to clients, identifying their needs and wishes and incorporating these quickly into our product design process is so important. Currently, we have a dedicated product design team of 50 employees working on client experience and technical innovation in our products. In recent years, we have made significant progress in these areas:

We are trying to bring international expertise into our projects. That is why we have retained the services of highly acclaimed architectural studios such as Benoy, Fosters+Partners, Make, John Robertson and Allford, Hall, Monaghan, Morris (AHMM), for some of our recent flagship and landmark projects.

We are elevating our sustainability standards and design goals to at least BREEAM 'Excellent' and we aspire to comply with Well-being standards as soon as feasible. Each project design is tested on the potential user experience in terms of daylight quality; interactions between dedicated office space and shared spaces (primarily on the ground floor or roofs); effect of greenery and thermal control on users.

Growing leasing and marketing capabilities

As our pipeline portfolio continues to grow, we have invested the same effort and resources in building the leasing and marketing teams across the Group that will ultimately offer these projects to our clients. These teams work on consistent and efficient utilisation of Group know-how accumulated over 24 years.

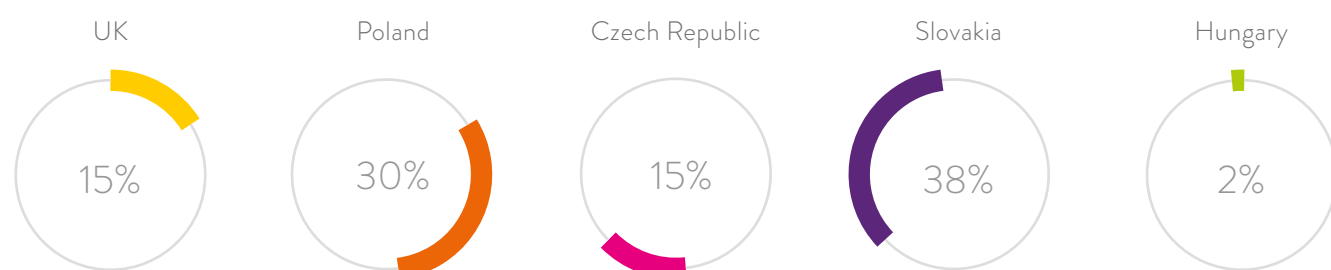
Based on a number of drivers, 2016 has to be seen as a successful year for our leasing and marketing teams:

- We continued to grow our teams to match our appetite and now have almost 60 professionals working with clients and cultivating relationships.
- We further increased focus on quality and differentiation of our projects. Clients are showing more appreciation for the complexity and quality of projects; often, discussions are about more than cost alone. As a result, clients often commit to our products even before the buildings are completed.
- This trend is clear in the way we work with clients such as Panalpina, ON Semiconductors or Pixel Federation. They all have complex needs and want more than a traditional fit-out delivery. By working closely with them, our teams were able to create tailor-made solutions for them. This is one way to exceed customer expectations.

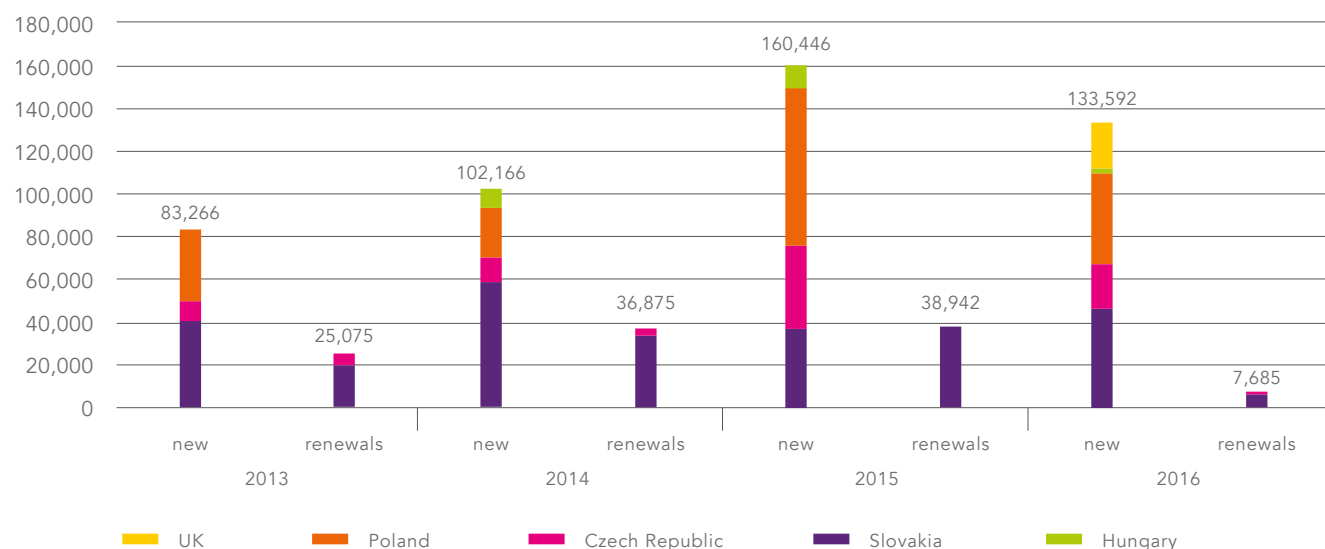
As noted, it was a good year. Our leasing teams signed contracts for about 141,000 m² of GLA, down by roughly one-third compared to 2015. However, what is truly remarkable is that almost 95% represented new leasing contracts.

If we consider how challenging the situation is in some of our markets, then this result is really remarkable. Our ability to keep our leasing performance at very high levels in recent years (we are number one in both Warsaw and Bratislava) makes us quietly confident and rather more optimistic that we will be able to achieve similar results for projects currently in our pipeline. In 2016, in line with our scheduling, we completed and delivered to the market 114,000 m² of office GLA; for 2017, we will deliver an additional 66,200 m² of GLA. In subsequent years, we plan to deliver between 110,000 and 150,000 m² of office GLA annually. That is why our leasing capability and performance continues to be a crucial factor in our potential future success.

Leasing activity by country 2016



Leasing activity



Progress in the permitting process

Permitting as a contributory factor to value creation in our development activities improved slightly, even though it once again lagged behind expectations. We achieved remarkable progress on Varso, our landmark project in Warsaw, on Twin City, Nivy Mall and Nivy Tower, our flagship project in our original home market, Slovakia. Agora in Budapest received building permits in March 2016 and so was added to our work in progress. All of these developments helped to materially increase the value of our portfolio in the reporting year.

Construction cost management

Efficient construction is a way of life at HB Reavis not least because it has the potential to differentiate us in the market. We are consistently and systematically focused on reducing costs through cooperation between our specialised procurement team and local construction management, all without compromising on the quality of the project. Our international expansion has been robust and it has taught us a lot, especially about solving the many challenges that can arise from the specifics of local markets. In the reporting year, we continued our strategic project to integrate selected supply-chain partners into our development process, from product design (also through 3D project documentation) through delivery to the construction site. Another strategic initiative is a global sourcing of our construction deliverables. We see both as crucial in enhancing our competitiveness and value creation for all stakeholders.

Development Portfolio Structure and Performance

International expansion and a primary focus on the office segment are shaping our portfolio in terms of geographical and segment structure.

Geographically, the structure of our whole development portfolio is shifting, with the UK and Poland clearly increasing in weight. At year-end 2016, the share of UK assets represented 15% of the whole portfolio; Poland 27%; Czech Republic 10%; Slovakia 35%; and Hungary 13%, all based on the expected gross development value. As far as segments are concerned, during 2016 the strategic focus on office development represents its share at 87% of our development portfolio value, while the share of retail keeps 13% based on gross development value.

Our strategic plan is to keep the HB Reavis balance sheet balanced – with the long-term share of the development portfolio in our total investment property at around 50%. However, in 2016, this aim was set aside - exceptionally and opportunistically – due to the huge impact of the disposals of mature assets (for more please see the section on 'How We Divest Assets', page 89). If non-core assets are excluded, the share of the development portfolio increased to 51% (2015: 47%).

Developments in the office segment continued to achieve robust growth, adding around €339 million and reaching a total of €1,129 million (including completed projects before transfer to property in use). In terms of creation of value net of the required investment to achieve the value growth, office properties contributed €69.2 million (net of the yield shift).

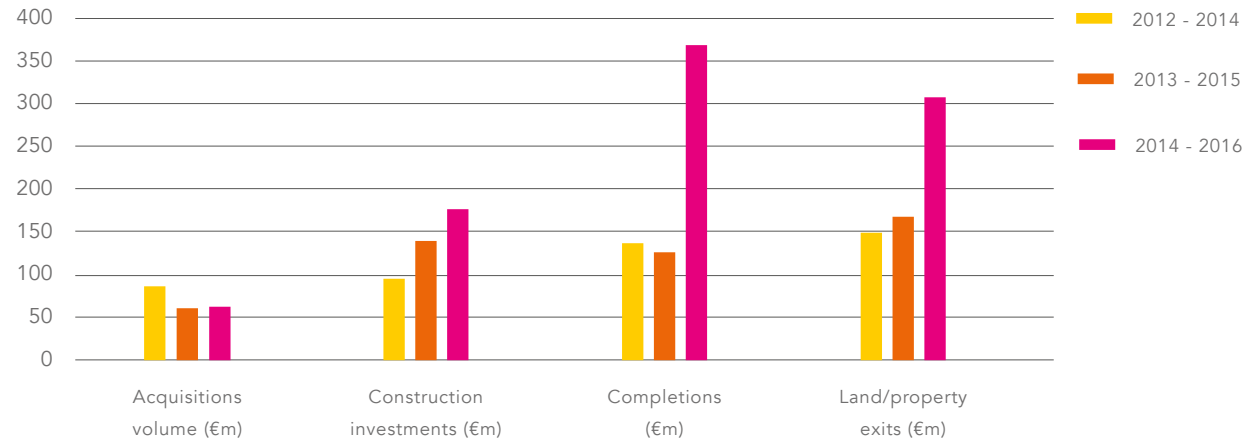


HB Reavis development total	GLA (m ²)	ERV	GDV	Value change	Investment
Office	1,006,407	214.0	3,562.0	339.0	169.8
Retail	157,270	35.2	592.3	58.2	33.7
Total development 2016	1,163,677	249.2	4,154.3	397.2	203.5
Additions to portfolio 2016	66,133	16.6	288.5	73.3	87.5
Completions 2016	130,495	26.9	423.0	148.2	102.6
Office	964,784	209.3	3,514.7	238.9	185.8
Retail	134,531	29.6	505.1	10.1	2.7
Total pipeline for 2017	1,099,315	238.9	4,019.8	249.0	188.5

Note: Figures based on external expert valuations and management report. All figures in €m, except GLA.

The continuing increase in the whole development portfolio's performance is also clear from the overview of three-year moving averages of significant indicators, such as volume of acquisitions, construction investment and property exits to further finance our expansion.

Group development activity, moving averages 2012 - 2016



Market Review 2016

Investment market

The European real estate market remained strong in 2016, in spite of political uncertainties. Moreover, Central European markets are now playing an ever-increasing role. Investment in European commercial properties was just as strong as last year; investors sought safe and stable returns in the low-interest rate environment. High demand for good quality real estate products resulted in yield compression across European markets. Although investment activity was 8% lower compared to the record levels seen in 2015, if we exclude the UK then transaction volumes increased by 7%. In spite of the short-term dip in the UK market in response to the referendum result, the UK remains the largest investment market in Europe, followed by Germany. Investors continue to see the UK market as an attractive investment target. Central Europe, with a more than 35% increase in investment activity, had the best performing markets in Europe, largely benefitting from the spill-over effect from core western markets and increased allocation. Investors are attracted by strong fundamentals and yield spreads. With the European Central Bank (ECB) maintaining quantitative easing, real estate continues to be an attractive asset class, offsetting political turbulence.

In 2016, overall transaction volumes in CE investment markets amounted to €10.7 billion, an exceptional increase of 35%, whereas Hungarian and Slovak markets

grew by 115% and 135%, respectively. Deal activity was influenced by new investors entering Central Europe – GIC acquired the P3 CE logistics platform from TPG for around €1.3 billion.

In Poland, investors of South African origin accounted for over €1.4 billion in transactions or 75% of the total retail sector deal volume. One of the major global pension funds entered the Warsaw office market through the purchase of our Gdanski Business Center A and B via Savills Investment Management. In addition, Warburg HIH and Hansa Invest also entered the Warsaw office market with acquisitions of Prime Corporate Center and Atrium 2, respectively. Noteworthy is also the acquisition of Q22 by Invesco for €273 million. Purchasing at the bottom of the rental cycle and long sustainable leases were among the key drivers.

Transaction volumes in the Czech Republic reached €3.6 billion, representing the highest ever level and a 36% increase compared to 2015. The Czech investment market benefitted from the political situation in Poland as well as investors seeking diversification from Poland. We see substantial weight of capital focused on the Czech Republic though it is largely limited by the availability of institutional products. Key transactions included Deka's acquisition of The Park for €360 million from Starwood Capital and the purchase of Florentinum

by CEFC for over €280 million – the first major office transaction by Chinese investors in the Czech Republic.

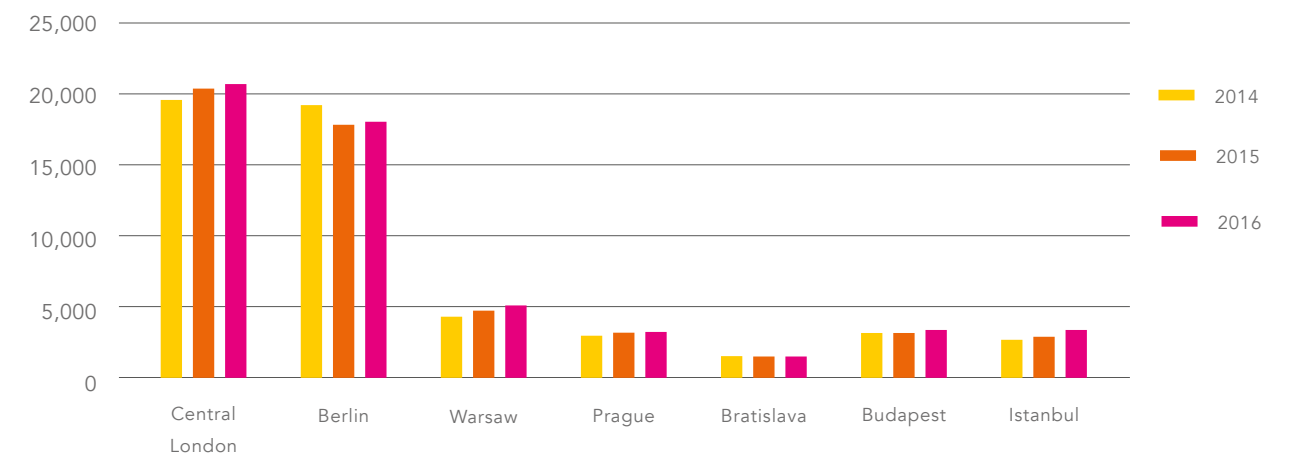
Record investment volumes were also booked in the Slovak real estate market, where the €0.8 billion level achieved in 2016 is 25% higher than the last peak in 2005. The strong performance of the Slovak market is attributed to improving liquidity and attractive opportunities compared to other CE markets which lack good quality products. Cross border transactions accounted for 85% of the total deals. As in Poland, the greatest activity was in the retail sector where Allianz Real Estate acquired Central Shopping Center in Bratislava for €175 million. New Europe Property (NEPI) acquired the Korzo Prievidza and Aupark Piestany shopping centres, both in regional cities. Investor momentum and appetite for high yielding products lead to something of a revival in the Hungarian real estate market. Although domestic investors still accounted for

the highest shares (30%), the market saw inflows of new capital, mainly from investors based in US, Germany and Austria. Noteworthy transactions include the sale of the Millennium Cite Center office to CA Immo, which was the largest single office deal on the Hungarian market.

The stock

Average growth of total office stock in our four Central European capitals speeded up slightly to 4.1%. In the office segment, new supply was 633,000 m². This represents an 18% year-on-year increase with no change in allocation to each capital. Warsaw's office stock is still the largest surpassing 5 million m² in 2016, followed by Budapest with more than 3.3 million m², Prague with 3.2 million m² (there was actually a slight decrease in stock here), and Bratislava in fourth place with more than 1.6 million m².

Total office stock (thousand m² GLA)



Note: Figures based on external expert valuations and management report.

