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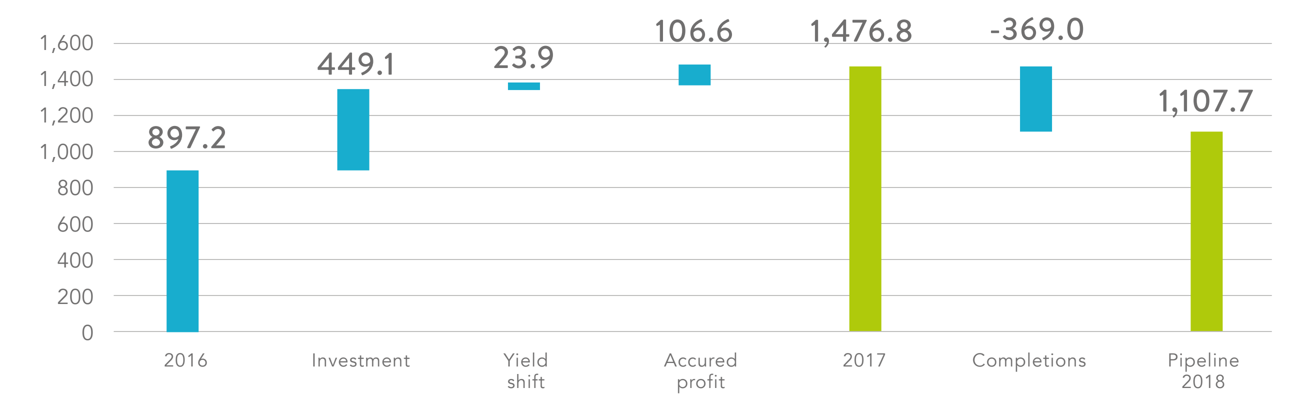
BUSINESS REVIEW

Real estate development is a very complex business. If you're an integrated developer as we are, this brings even higher complexity. 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 bring something more than clients and communities expect from us. Something that will differentiate our projects from others. We believe this is the right way to create greater value for our partners, clients and local communities, and for our shareholders to achieve their projected growth and desired return as well.

In light of this approach, 2017 was another great year in terms of achievements and confirming we're on the right path.

Changes in Group development property value, €m



* Figures based on external expert valuations and management report.

The Development Landscape

The development landscape, in general, was stable. Nevertheless, our respective markets differ slightly. Central London, in the first year after Brexit, showed slightly lower supply and slightly increased vacancies, with rent stagnating or slightly decreasing based on the location. It seems that uncertainty will continue.

Budapest continued growing as we hoped, based on economic fundamentals that should drive further growth in the coming years. The 7.5% vacancy rate is at all-time low.

Bratislava continued to grow as well. With supply at about 85,000 sq m (almost the same as in 2016), we saw growth of total stock at around 6%, with vacancies slightly down to 6.2%.

In Prague despite a four times higher supply and healthy 4% growth in total stock, we see vacancies failing down to historical levels – in two years they have fallen by half to 7.5%.

Stable development continued in Warsaw as well. With an almost 'typical' supply of around 275,000 sq m, we saw a healthy 4.4% growth in total stock accompanied with significant vacancy decreases to 11.7%.

Looking at our portfolio, the share of development in our total investment property remained at 45%, below our targeted 50%. This fact is mainly due to the temporary income generating allocation of One Waterloo for the purpose of IFRS Reporting. Due to the positive investment market, we also saw unique divestment opportunities – and took them, with an eye on building a strong cash position for the near-term.

In the reporting year, we focused especially on both speeding up and growing the share of developments in permit stage and on progressing our projects in construction phase. During 2017, the portfolio value of core development property increased by €211m (2016: €21.5 million) and at year-end achieved a value of €1.11bn, representing a 23% year-on-year increase.

The most important factors that contributed to this result were product design, leasing capabilities, progress in permits and construction cost management.

Product design matters and distinguishes us in the market

During our history, and through the delivery of almost 800,000 sq m of leasable office space, we have accumulated significant knowledge and experience. We understand why it is so important to talk to clients, identify their needs and wishes and, moreover, incorporate these into our product design process.

Currently, we have around 75 professionals in our dedicated product design team, infusing client experience and technical innovations into our products. Recently we've focused on the following areas:

1)

If we can, we bring international expertise into our projects. This is why we retained the services of highly acclaimed architectural studios such as Benoy, Foster+Partners, Make Architects, John Robertson Architects and Allford Hall Monaghan Morris architects, for some of our recent flagship and landmark projects.

2)

We are transforming ourselves from a fully integrated but 'standard' real estate developer into Workspace-as-a-Service provider. This move is a perfect umbrella for our user centric related activities such Bubbles, Origameo, HubHub, Smart Building 1.0 and Asset Management 2.0 (for more information please read strategy section at page 53.)

3)

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); and effects of greenery, fresh air and thermal control.

4)

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.

Growing leasing and marketing capabilities

As our pipeline portfolio continues to grow, we've invested significant effort and resources during recent years into building our leasing teams across the Group. Over the last two years, we've grown our marketing capability so that we can more effectively offer these projects to our clients.

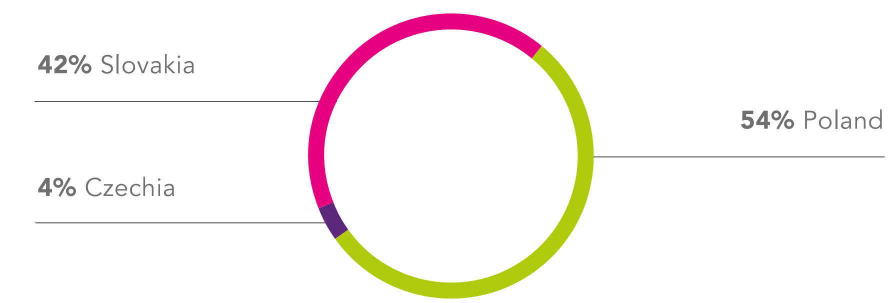
These teams consistently and efficiently use the Group's know-how accumulated over 25 years.

A number of drivers show that 2017 can be seen as successful year for our leasing and marketing teams:

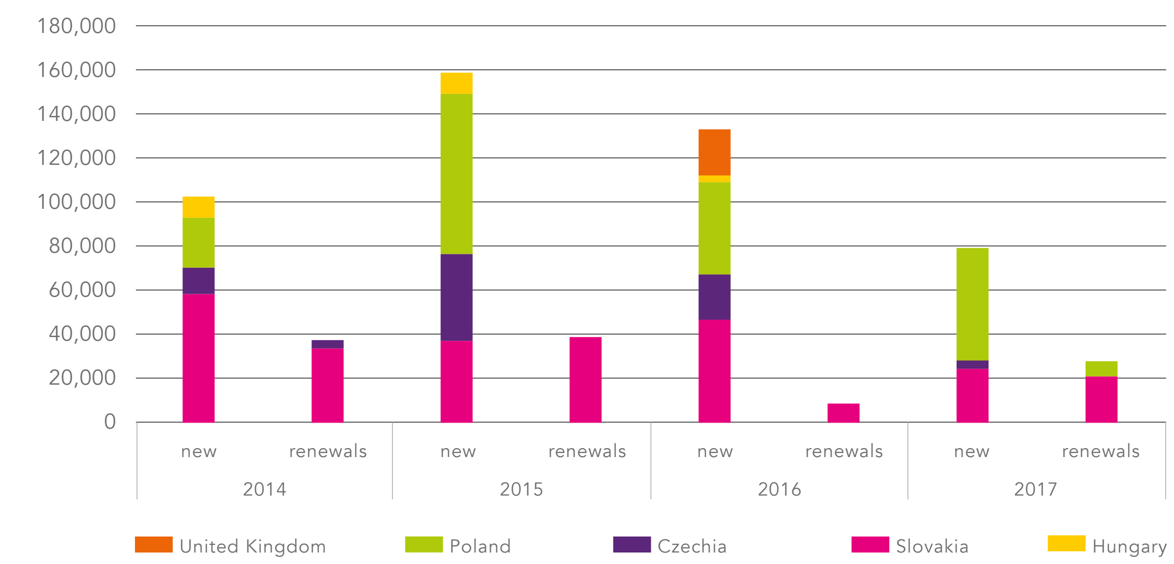
- We continue to grow our teams to match our appetite for development, and now have some 84 professionals working with our clients and cultivating relationships.
- We have increased the focus on the quality and differentiation of our projects. Clients are appreciating the complexity and quality on offer; often, discussions are about more than cost alone. As a result, clients are often committing to our products even before completion.

In terms of the numbers, it was a good year as well. Our leasing teams signed contracts for about 108,000 sq m of GLA, down by roughly 20% compared to 2016. However, the teams put a huge amount of effort into some exceptional transactions which materialised in the first months of 2018, worth almost 76,000 sq m of GLA, with clients such as: Cambridge Innovation Center, CBRE, well-known hotel network and a major international technology company.

Leasing activity by country Y 2017



Leasing activity



* Charts based on internal leasing evidence

Despite the challenging situation in some of our markets, we've kept our leasing performance at very high levels in recent years (we are number one in both Warsaw and Bratislava). This fact makes us quietly confident that we'll see similar results for projects currently in our pipeline.

In subsequent years, we expect to deliver between 80,000 and 130,000 sq m GLA office space annually. Which is why our leasing capability and performance continue to be a crucial factor in our potential future success.

Progress in permits

Permits are one of the most important contributory factors to value creation in our development activities. Last year we saw some delays in this area, but continued to improve slightly.

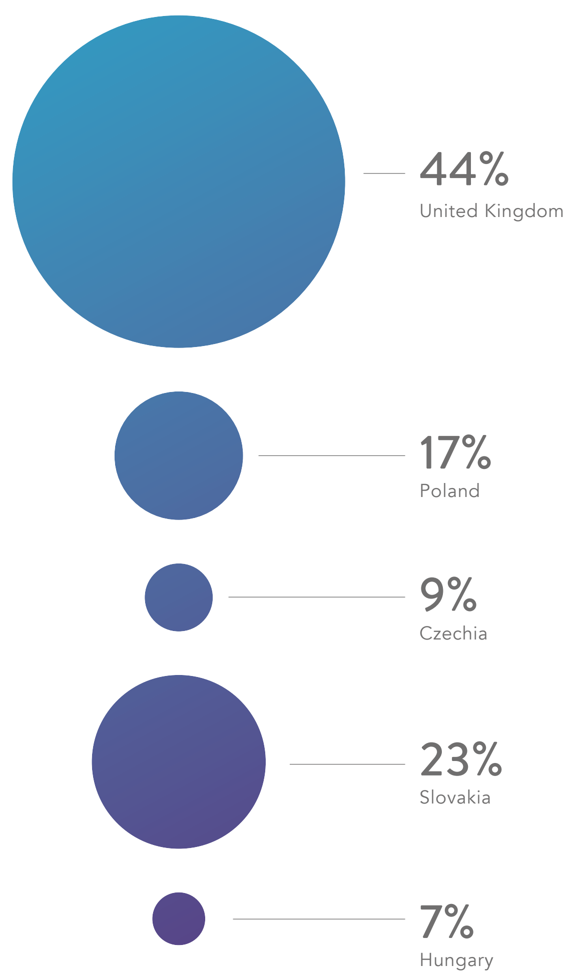
In particular, we achieved remarkable progress on our Burakowska project in Warsaw, on Nivy Station and Nivy Tower, our flagship project in Bratislava, and Agora in Budapest as well. All these developments helped to materially increase the value of our portfolio.

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 by collaborating with our specialised procurement team and local construction management, all without compromising on the quality of the project. This is bringing us some 26% cost saving in CEE and about 16% in UK, based on inputs from the independent, external construction budgets providers.

In the reporting year, we continued our strategic project to integrate selected supply-chain partners into our development process, from product design (including 3D project documentation) through to delivery on the construction site. Another strategic initiative is the global sourcing of our construction deliverables. Both are crucial to enhancing our competitiveness and value creation for all stakeholders.

Assets by country



Development portfolio structure

Geographically, the structure of our whole development portfolio is shifting, with the UK and Poland clearly increasing in weight. At year-end 2017, the share of UK assets represented 44% of the whole portfolio; Poland 17%; Czechia 9%; Slovakia 23%; and Hungary 7%, all based on the expected gross development value.

As far as segments are concerned; during 2017 our strategic focus on office development reflects its 94% share of our development portfolio value, while retail accounts for 6% based on gross development value.

Developments in the office segment continued to achieve robust growth, adding around €580m and reaching a total of €1.48bn (including completed properties before their transfer to in use). In terms of creation of value net of the required investment to achieve the value growth, office properties contributed €1.07bn (net of the yield shift).

Performance of development activities

Our strategic plan is to keep our balance sheet on an even keel – with the long-term share of the development portfolio of our total investment property at around 50%. Given the situation on the markets, we set this aim aside – utilising the huge appetite of investors into real estate.

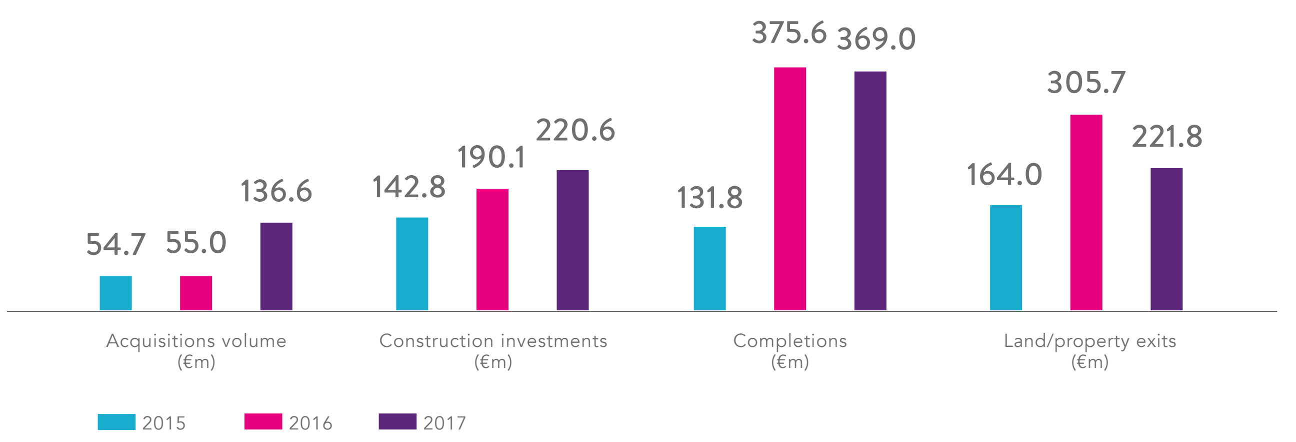
The disposals of mature assets (for more see How we divest assets, page 122) continued to have a material impact on the structure of the balance sheet. The share of our development portfolio (excluding One Waterloo and non-core assets decreased to 45% (2016: 51%).

HB Reavis Development Total	GLA sq m	ERV	GDV	Value change	Investment
Retail	105,068	22.8	403	28.1	4.2
Office	1,172,762	342.7	6,832	548.0	441.4
Total Development 2017	**1,277,830**	**365.5**	**7,235**	**576.0**	**445.6**
Additions to portfolio 2017	**31,534**	**7.4**	**71**	**3.5**	**3.5**
Completions 2017	**59,082**	**23.7**	**443**	**76.3**	**52.9**
Retail	105,068	22.8	403	28.1	4.2
Office	1,145,214	326.4	6,460	475.2	392.0
Total Pipeline for 2018	**1,250,282**	**349.2**	**6,864**	**503.3**	**396.2**

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

The development portfolio's performance and potential are also visible from 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 2013 – 2017



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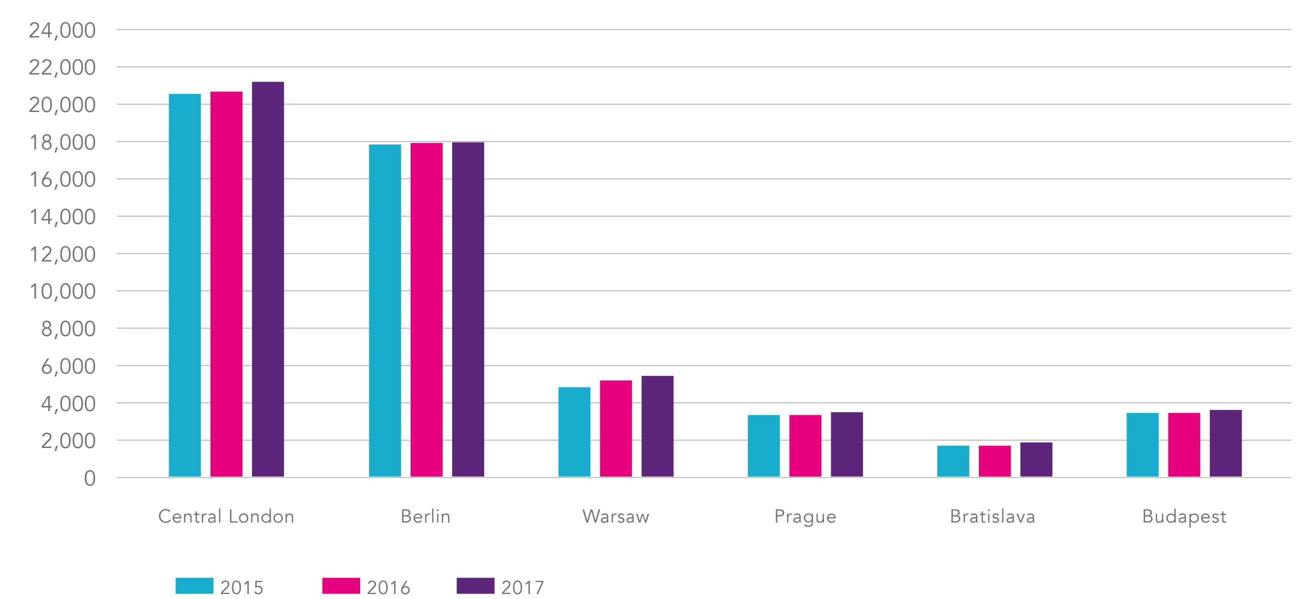
Overall market size overview

Average growth of total office stock in our four Central European capitals slowed down slightly to 3.8% (2016: 4.1%). New supply of 576,300 sq m was also a little down (2016: 633,000 sq m) – a 9% year-on-year decrease. In terms of the size of the Central European capitals in which we operate, Warsaw's office stock is still the largest reaching almost 5.3m sq m in 2017, followed by Budapest with more than 3.4m sq m, Prague with 3.3m sq m and Bratislava in fourth place with more than 1.7m sq m.

Total office stock, thousand sq m GLA



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