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FINANCIAL REVIEW

Workspace-as-a-Service and increasing deployment of analytical data are leading the changes in real estate trends. Collaboration, flexibility in terms of space – as well as duration and technological advancement – are tenants' key requirements for the way they use space.

These changes are forcing real estate players to adopt new business models or at least new business lines involving higher complexity. They also present new challenges for financial strategies. We're working hard to adopt a business model to addresses all these challenges in a proactive way, and adjust our financial strategy to support it.

At HB Reavis, we are constantly monitoring, anticipating and analysing market trends, and adjusting the way we do business and reviewing our financial strategy to suit them. Our aim is to ensure our financial strategy is fit for purpose and allows us to maintain a healthy capital structure while ensuring the availability of both new debt and new equity to support the Group's ambitions.

Occupancy trends are changing. Increasingly, tenants are looking for greater flexibility, driven primarily by the ever-shifting dynamics of today's business models and new economy sectors. In competitive labour markets, tenants need attractive recruitment and retention packages, and that is no longer only about remuneration and monetary benefits. The actual working environment now plays an increasingly strong role in recruiting top talent.

Given this new reality, the notion of a tenant committing to long-term and inflexible lease contract (the most attractive to traditional finance providers and investors) is under challenge. As a major player in leasing markets, we're seeing a clear trend towards more occupational flexibility. This, together with the advent of another recent phenomena in how tenants use space – the co-working platform – means there's a growing need for more agile debt and equity funding.

In 2016, the Group embarked on a significant divestment program that continued throughout 2017. In 2016 we disposed of 14 properties valued at over €1bn of GDV, including assets divested on behalf of HB Reavis CE REIF.

One of these divestments, 33 Central in London, completed in 2017 and we also finalised our pull out from the logistics sector by selling our last logistics project in Lovosice. The two primary reasons for such an ambitious divestment program? Firstly, with our significant pipeline, including some of Europe's most prestigious development projects (Varso Place in Warsaw; Nivy Station & Tower in Bratislava; Agora Budapest), and given our speculative development business model; we felt we needed a substantial equity buffer.

Secondly, the favourable investment market, with significant yield compression, is driven largely by monetary stimulus. We have forecast that it will be reaching its peak in the near future and decided to take advantage of the beneficial environment and divest a substantial part of our income producing portfolio.

This does mean, however, that we've temporarily diverged from our targeted 50/50 balance sheet split between income producing assets and assets under development. In the medium-term, we will gradually build up the income producing part of our balance sheet from within our pipeline.

Through a combination of divestments and external financing operations, we accumulated cash at year-end 2017 amounting to €279m. This will help us continue our robust development program and support our growth both in an organic manner but potentially also through acquisitions should the opportunity come our way.

Furthermore, we intend to further continue this divestment program in 2018 with additional disposals of income-producing assets.

The divestment program started in 2016 has seen us substantially deleverage our balance sheet (i.e. we have disposed of most of our leveraged assets). At the start of 2017, our net-debt-leverage ratio stood at 17.4%, significantly below the 35% target and with enough headroom to deploy a diversified debt funding mix, both across markets and products.

We've achieved this through increased activity on the debt capital markets, particularly tapping Slovak and Polish bonds with five issues totalling €116.6m. It's worth mentioning that the Group managed to also issue €45m in secured bonds with an innovative, flexible (replaceable) collateral structure that mature in 10 years.

In combination with excellent access to traditional project financing, we managed to increase our net-debt-leverage ratio to 26.8%, with non-project financing representing 37% of our funding mix. We aim to continue our debt capital activities in the near term, both in our traditional CEE capital markets and also wider European debt capital markets.

In 2017, dividends paid to our shareholders reached 2.4% of NAV, however, authorised dividends amounted to 3.2% of NAV, slight breach of our financial policy (due to continued intershareholder settlement caused by unfortunate passing away of one of our two co-founders in 2016).

Our financial policy, refined in course of 2017 by measures outlined below in italic, formalises the key financial measures:

- Target Gross Debt to Total Assets at 40% (maximum 45%) and Net Debt to Total Assets at 35% (maximum 40%) with an appropriate mix of non-recourse project debt and Group-level debt
- *Initial maturity of project loan financing and issued bonds to commensurate with length of our product development cycle*
- Cash reserve target at least 5% of total Group debt, with a special reserve build-up profile to cover future debt-bullet repayments well in advance
- Dividend pay-out in line with historical levels up to 3% of NAV
- Careful risk management aimed primarily at mitigating foreign exchange fluctuations for all known and estimated non-Euro exposure 12-months forward, and interest-rate risks covering 50 – 100% of total medium to long-term debt exposure, both associated with macroeconomic or property cycles

Note: All figures in the Financial Strategy and Performance Review are based on audited IFRS accounts. All valuations in the Business Review are based on external valuations and management report before IFRS adjustments and exclude non-core properties. For a summary of IFRS adjustments, see Note 9 to the IFRS accounts.

How We Performed

€83.2m
Net profit

€96.5m
Total comprehensive income

€118.2m
EBIT

€38.7m
Net rental income

€95.2m
Revaluation gain

€1,274.4m
NAV (adjusted)

7.6%
Shareholders' return

26.8%
Net Debt Leverage Ratio

In terms of overall performance, in 2017 we delivered slightly better financial results than in 2016.

While the overall financial result was not in line with our expectations the fundamentals are strong, as are our business results.

Obviously, the main driver was a revaluation gain of €95.2m over the year, down from €174.5m in 2016. At €38.7m, Net operating income, in line with our expectations, was down modestly (2016: €46.1m) as the result of a huge disposal of matured assets we realised in 2016.

Disposals of subsidiaries increased somewhat to €25.8m (2016: €16.9m). Bottom line: we achieved a total comprehensive income of €96.5m (2016: €85.2m). To support our growth we also grew in personnel. Primarily we welcomed people to the business in the UK; but we're also adding some product design related head-office positions so that we're ready for further growth.

In terms of the operating profit, the group achieved €98.1m.

The Group balance sheet increased to almost €2.3bn. Adjusted net asset value increased by a modest 4.4% year-on-year and reached €1.27bn. In terms of the 7.6% return on shareholders' equity, we were not able to deliver at the 15% long-term target level.

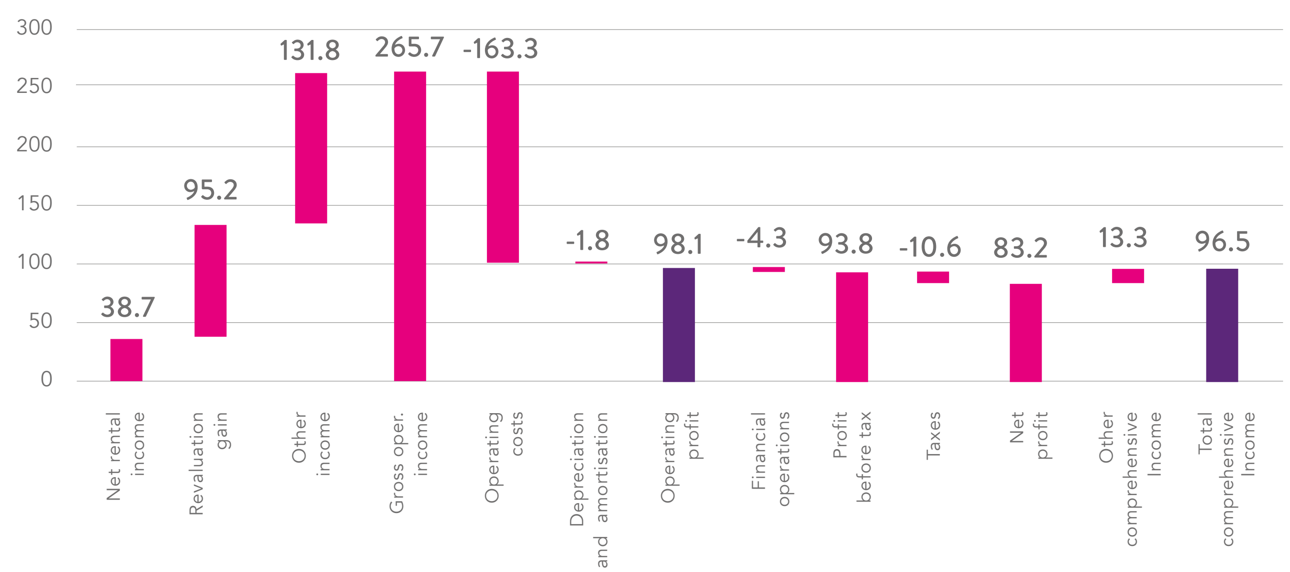
In contrast to an extraordinary previous year, our net debt leverage ratio returns much closer to targeted level of 35%. It was 26.8%, up from 17.4% in 2016.

€m	2013	2014	2015	2016	2017
Assets	1,530.1	1,806.1	2,089.3	2,112.3	2,294.8
Cash	49.9	155.3	115.4	316.4	279.1
Borrowings*	505.3	634.4	736.3	683.0	893.0
Net debt leverage ratio	**29.8%**	**26.5%**	**29.7%**	**17.4%**	**26.8%**

*Including borrowings presented in the consolidated balance sheet as liabilities directly associated with non-current assets classified as held for sale. Excluding borrowings in JV.

How We Created Value in 2017

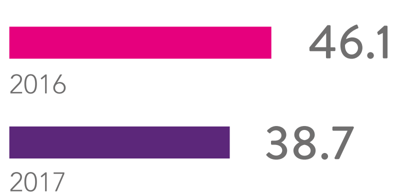
Group profit decomposition (€m)



Note: Figures based on consolidated, IFRS audited report; numbers are rounded.

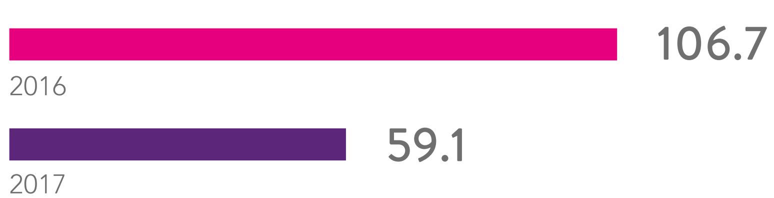
Net operating income (€m)

38.7



Revaluation gains (Net of yield shift, €m)

59.1



Investment portfolio yield

5.58%

Revaluation gain

The delays on our development pipeline meant it only brought €95.2m to our Revaluation gain on investment property (2016: €174.5m). This represents a significant year-on-year decrease of around 45%. driven especially by foreign exchange related unrealised losses.

When adjusted for yield shift, the Group achieved €59.1m (2016: €107.7m) net revaluation gain while the positive yield shift contributed €36.1 million to profits (2016: €66.8 million).

In geographical terms, the biggest contributor was Slovakia with €43.4m, followed by Poland with a gain of €24.2m and Hungary with €19.5m. The UK contributed €7.4m, Czechia just €0.7m.

The average investment property portfolio yield decreased by -59 basis points to 5.58% as we continued investments in lower-yield projects in the UK and Poland. Income producing assets, primarily driven by higher-yielding Slovak assets, were valued at 6.05% at the end of 2017.

The average valuation yield of our development properties, now more heavily weighted to UK and Polish assets, was also down by 60-basis points to 5.04%.

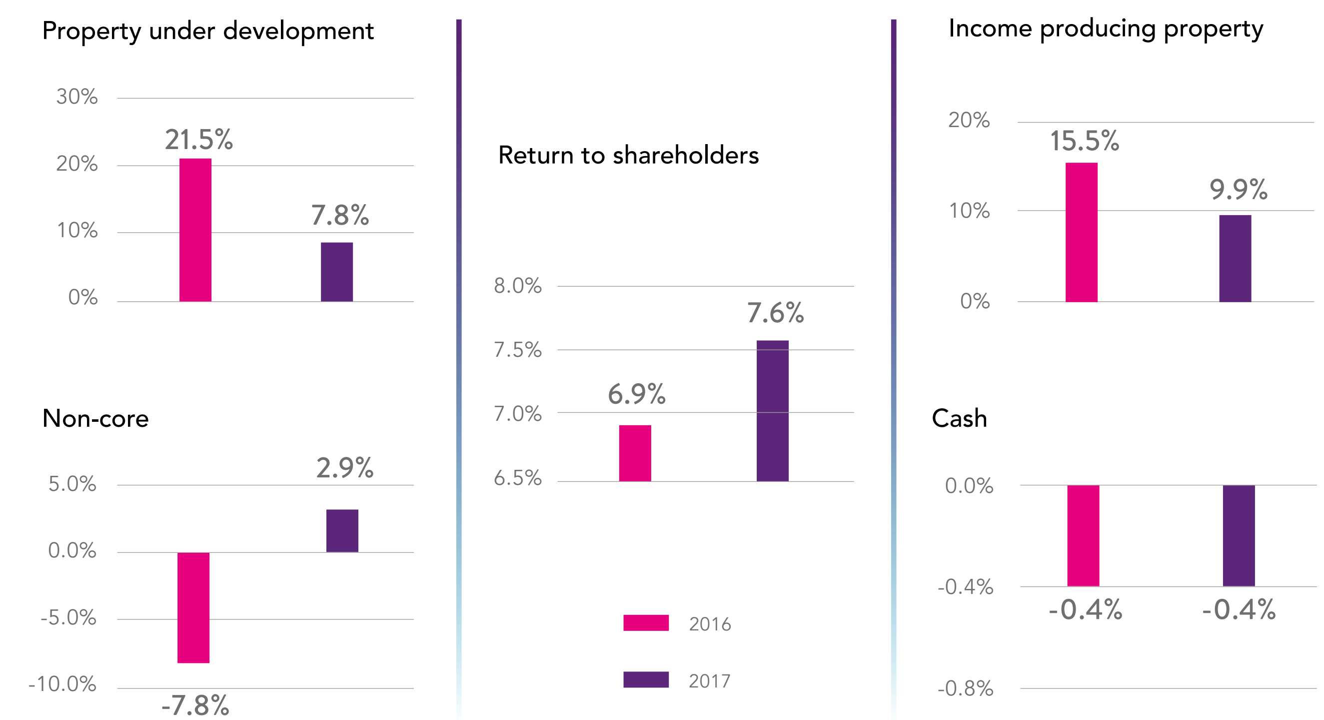
Net operating income decreased by €7.4m.

Our effort to rebalance our balance sheet aimed to pull up overall performance. This is of course accompanied with the limited capacity to generate net operating income. This is even more true when considering our robust divestment of matured assets in last two years and deconsolidation of HB Reavis CE REIF fund. In light of this, it reached €38.7m (2016: €46.1m), a 16% decrease.

As our strategy in the mid-term is to keep and manage our assets longer after they become mature, the growth potential for our net operating income could be higher in the coming years.

How business lines contributed

In terms of contributions made by our business lines to the overall return on shareholders' equity, the main drivers were both the Development portfolio with ROE of 7.8% (2016: 21.5%) and income producing property with a similar ROE of 9.9% (2016: 15.5%). ROE of our non-core portfolio lagged behind with 2.9%, as did cash at -0.4% at the end of 2017.



Note 1: Projects completed in 2017 included in Property under development.
Note 2: Segment results based on Profit before tax (excluding Translation of foreign operations to the presentation currency).
Note 3: Return to shareholders includes dividend paid out.

How we manage cash flow

In 2017, there was no significant change in the behaviour and appetite of financial institutions that finance real-estate projects.

The financing market offered reasonable conditions on loan-to-cost ratio and pricing, and the ability to deploy debt funding at earlier stages of the development phase were favourable. These conditions were the same across all our markets except for London, where Brexit prompted financial institutions to reconsider financing speculative office development.

We tried to take advantage of this positive trend to support our growing development operations. As always, we continued to manage cash flow, responsibly, prudently and according to proven guidelines:

- Managing financing and investment decisions so that the overall position of our cash reserves plus undrawn committed credit lines remain at a minimum of 5% of the total consolidated balance sheet.
- Preparing regular monthly and quarterly reviews of the consolidated cash flow forecast with a three to five-year forecast, including quarterly stress tests for different markets and macro-economic scenarios

Cash flows (€m)	**2013**	**2014**	**2015**	**2016**	**2017**
Cash beginning of period (BOP)	**48.6**	**49.9**	**155.3**	**115.4**	**316.4**
Operating cash flow	**9.0**	**20.6**	**24.3**	**30.6**	**-67.4**
Land/property acquisitions	-79.2	-56.7	-40.0	-76.0	-300.4
Construction investments	-112.6	-122.6	-215.5	-244.9	-201.5
Land/property exits	76.1	88.0	13.5	162.6	23.4
Other investments	-8.2	-10.8	-8.1	-1.4	-2.8
Investment cash flow	**-123.9**	**-102.1**	**-250.1**	**-159.7**	**-481.3**
Borrowings change	125.1	200.7	244.9	379.1	541.2
Dividends/equity contributions	-8.9	-13.8	-59.0	-49.0	-29.8
Financing cash flow	**116.2**	**186.9**	**185.9**	**330.1**	**511.4**
Cash end of period (EOP)	**49.9**	**155.3**	**115.4**	**316.4**	**279.1**
Share of cash on total assets	**3.3%**	**8.6%**	**5.5%**	**15.0%**	**12.2%**

Note: Figures based on consolidated, IFRS audited report
*Land/property exits presented net of related investment loans repaid in relation to exit

In line with our growth strategy, we significantly increased our annual investment in the construction and acquisition of new plots when we exceeded €500m in 2017.

Our investment in acquisitions during the reporting year rose to €300m. As far as investment in construction is concerned, the amount decreased to €201.5m. For the coming years, we plan to keep the amount of investment at around €400m – €500m.

Note: Year-end figures based on consolidated, IFRS audited report, for complete Cash Flow see the consolidated Financial Statement

How We Finance

The reporting year was another of strong financing activity for HB Reavis, both in project financing and debt capital markets. After 2016, when a significant part of the existing loan portfolio was refinanced, the Group financing effort focused mostly on new development loans and capital market transactions.

Despite that, cost of external debt remained almost flat at around 2.9%, while the weighted average tenor declined to 3.8 years at year-end 2017 (2016: 4.15). This slight shortening of the tenor in 2017 was down to lower divestment activity – caused in 2016 when some of the shorter tenor debt was repaid and by lower refinancing activity in 2017.

Almost €640m external debt was newly raised or refinanced through a combination of bank loans and issued bonds. On a cash basis, €564m of new (additional) debt was raised by the Group.

The Group repaid or offloaded debt amounting to over €305m. In addition to this, the Group as of end of 2017 has not fully consolidated HB Reavis CE REIF fund, and this caused a drop in borrowings by €113m. A large part of the repaid debt was raised in early 2017, so on an aggregate basis, at the end of 2017, external debt stood at €892m* against €683m* at the end of 2016. 64% of the external debt stemmed from bank loans; while the remaining 36% was in issued bonds.

Despite strong debt raising activity aimed at optimising the Group's capital structure, our overall net debt leverage ratio stood at 26.8% (2016: 17.4%), still significantly below the 35% set in the Group's financial policy.

As of the end of 2017, we maintained well diversified credit relationships with 14 (2016: 10) banking and financial institutions for projects in the UK, Slovakia, Czechia, Poland and Hungary. The increase in number of credit relationships was driven mainly by the UK, where the Group signed two new development loans.

The Group also continued its successful debt capital market operations by issuing bonds in Poland and Slovakia, further optimising our capital structure. On average, the unsecured bond issues amounted to over €115m. The Group also issued €45m secured with a flexible (replaceable) collateral structure that matures in 10 years. In addition, the Group has successfully repaid the full €33.3 million on its inaugural bond issued in 2013 in Poland.

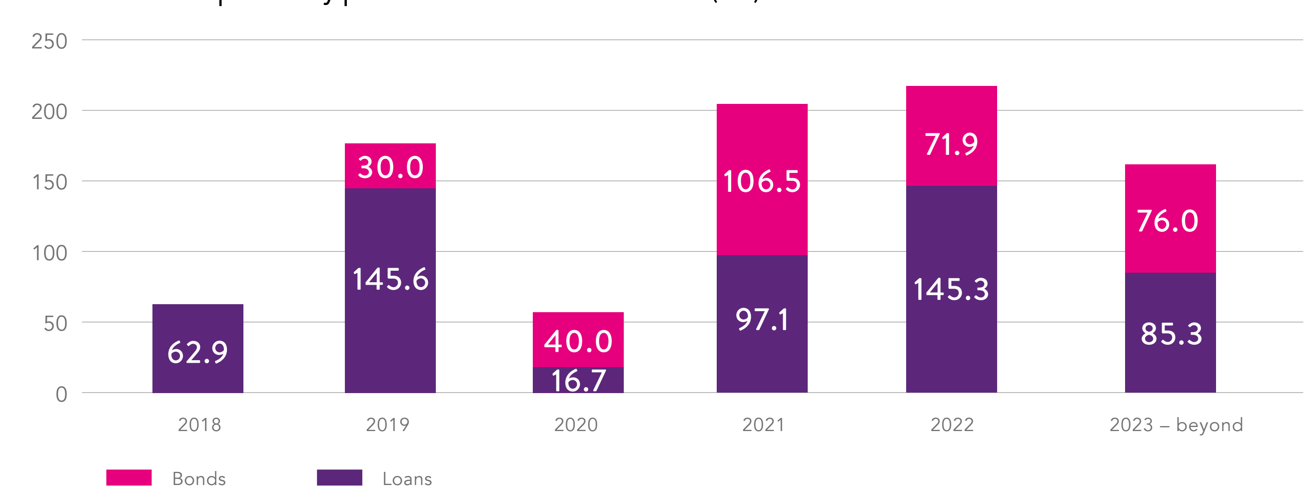
Our traditional source of external debt funding – project-linked loan financing – has long been provided by diverse banking partners. This loan financing is typically secured against a designated real-estate project with no or limited recourse to the Group.

Special project companies (SPVs) contract for bank loan facilities that are subject to lending covenants typically including maximum loan-to-value ratios and minimum debt service coverage ratios.

A large part of bank debt carries floating interest rates with a variety of hedging arrangements, agreed either in the conditions of our loan agreements or on a distinct basis reflecting the Group needs to mitigate its interest rate exposure. The Group closely monitors interest-rates and takes actions whenever necessary.

Our loan documentation always incorporates several key elements: achievable covenants and undertakings, operational flexibility and protection of shareholders' equity. Over the course of 2017, no default events were called or reported on the Group's loan portfolio.

HB Reavis Group maturity profile as of 31 December 2017 (€m)



* Excluding debt related to JV's and related parties.

How We Divest Assets

Real estate assets continue to attract investors seeking secured, long-term income. The markets continue to see yield compression reaching record levels, as the wealth of capital raised and available for real estate investments stalls due to a lack of good quality assets.

However, due to the low interest rates we consider the current yield levels healthy. We see further convergence of Central European yields towards the Western European markets, though capital values are still significantly lagging.

Overall transaction activity in European commercial real estate was again very strong, with most of the markets reaching pre-crisis levels. They proved to be resilient to global political and economic uncertainties. Indeed, despite Brexit, the UK market strengthened its position as the Europe's most attractive investment market and quickly recovered from a short-term blip.

Non-European investors reached a record 40% share on the European investment market, doubling over the last five years – with US and Asian investors being the most active.

In Central European markets, Poland and Czechia remain the top picks for institutional investors as they are close to maturity and still provide a yield premium compared to Western Europe. Investors seeking higher returns are actively looking for investment opportunities in countries like Hungary, Romania and Slovakia.

We continue with our divestment program, taking advantage of favourable macroeconomic and investment-market conditions. The reporting year was less eventful compared to the last, as some of the larger deals slipped into 2018. The Group has divested, or is in advanced discussions to divest, five income-generating assets.

In 2017, we completed the sale of 33 Central (also known as 33 King William Street) in the City of London to Wells Fargo. We acquired the site in late 2013 and, in 2016, entered into a forward agreement with Wells Fargo to sell it on the completion.

The transaction was in one of 2016's largest single office deals in the City of London, less than a month after Brexit. This was a strong endorsement of our real estate solutions' quality, as well as the resilience of our business even under seemingly-challenging market conditions.

The building will serve as Wells Fargo's London headquarters with approximately 1,200 people. The completion is an important moment for our company as the building is our first investment in London and the first of our four London projects to complete. It validates not only our business model and ability to complete the full development cycle outside of CE; but also our vision to deliver truly remarkable, design-led workspaces carefully tailored for people who work there, live nearby or visit the surrounding area.

The sale was not initially envisaged – we planned to retain and lease – but has allowed us continue investing in similar high-quality development opportunities in London and elsewhere.

In 2017 we sold our last logistics project, MLC Lovosice, to P3, ending our activities in the industrial segment. Instead, we'll continue with our long-term strategy of focusing exclusively on office and retail projects.

Additionally, we have entered into negotiations for the prospective sale of Gdanski Business Centre buildings C and D in Warsaw, and Metronom Business Centre in Prague – both with reputable investors.

Close long-term investor relationships are an important pillar of our divestment strategy. Coupled with the implementation of our transaction knowhow, and understanding of investors' needs; we've developed a reputation for quality assets and gained the confidence of institutional investors.

Constantly improving quality, we aim to become the market leader in using new technologies in our buildings and improving the user experience. This will result in better marketability and perception of our projects, not only with the investors but also the tenants and their employees.

With changing tenants' dynamics, real estate is advancing at pace towards smart cities, co-working and tenant flexibilities. To successfully realise the potential of these trends, we need to deliver at scale, and foster active asset management.

From an investment market perspective, the traditional investor's mindset needs to transform and adapt to current trends. Exceptional returns will be driven by focused transformation and some degree of risk in taking on asset management. With this in mind, we will seek alternative divestment routes, through REIT-like structures, fund management and joint ventures to maintain control over assets and enjoy the potential upside of active asset management – while maintaining an ever-closer relationship with investors.

How We Manage Risk

The Group is exposed to the risks that are part of the general commercial environment, as well as various business-specific risks. An inherent part of the Group's business management is the emphasis on their identification and monitoring.

Where possible, we deploy proactive mitigation tools to manage any risks that could have a material impact on our business. As a SWOT analysis of our business shows, the majority of weaknesses and threats are the focus of our comprehensive risk management.

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- Diversification across markets and locations
- Efficient construction procurement
- Strong office product design know-how and experienced team
- Proven ability to deliver high quality buildings in all Group markets
- Proven ability to divest property assets in all Group markets
- Strong financial track record and credibility with banks and investors

W

- Robust growth in recent years has put some pressure on some operational processes
- Less than optimal leverage of Group balance sheet

O

- Strong demand in Bratislava and Budapest
- Strong leasing activity in Warsaw and Prague
- Increased leverage through sustainable and diversified funding sources – loans and bonds
- Accelerated knowhow transfer and implementation in markets outside Central Europe
- Acceleration of leasing through higher engagement with clients
- Higher efficiency through successful implementation of new processes
- Leadership in setting office trends

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- Continuing oversupply in Warsaw office market intensifies pressure on rents
- Not enough opportunities to redeploy Group capital that would meet our Group risk-return expectations
- Uncertain environment in London market due to Brexit
- Unexpected shock in financial markets

External risks

Uncertainty in macro and microeconomic environments in Group's markets increases the risk related to property values, development returns, accessibility to external funding and saleability of assets, as well as stability of rental income.

Default of contractual partners and adverse changes in the legal environment can lead to financial losses for the Group.

Description and potential impact of risk	Mitigation
The Group's business is dependent on macroeconomic and property market conditions in each individual country and city in which we operate. Deterioration in commercial property markets leads to a decline in the value of the property portfolio, tenant default and a reduction of income from relevant properties.	• International and segment diversification provides a reasonable balance in mitigating market cycles and fluctuations, as well as concentration risks • Focus on high-quality properties in superb locations with sustainable prospects • Thorough acquisition process involving assessment of legal, tax, economic, technical and social parameters, as well as the timing of the acquisition
Events on financial markets might limit the availability of funding and influence terms of raising capital, while a lack of liquidity might reduce the saleability of assets. Movements on financial markets might influence the development of interest rates as well as currency exchange rates.	• The Group cooperates with a variety of banking partners in different markets • Diversification of funding sources split into bank financing and debt capital markets • Constant reviews of our cash-flows aimed at matching funding sources with committed capital expenditures • The risks associated with rising interest rates are limited through derivative financial instruments, especially CAPS and SWAPS • Foreign exchange rates are monitored daily and, in line with financial policy, we deploy hedging tools, including derivatives to hedge part of this risk
Underlying income could be adversely affected by a weakening of tenant demand resulting from slow economic performance in the EU and corresponding uncertainties in consumer confidence, business activity and investments.	• Focus on developing prime portfolios in sectors deemed to have resilient attributes, on strong tenant covenants • Strong relationships with tenants lead to early identification of issues • Sector and regional diversification of the property portfolio with balanced and diversified tenant mix with limited exposure towards single tenants
When a contractual partner is unable to meet obligations, financial or other, such breaches might lead to direct or indirect financial losses for HB Reavis	• Continuous monitoring and evaluation of the credit standing of contractual partners, such as tenants, suppliers or banks • Deploying protective measures, such as security deposits, bank guarantees or performance bonds
As an international company, we are exposed to a variety of legal risks. These risks vary and relate to the purchase or sale of property, to legal disputes with tenants or joint ventures and development partners or to development and construction processes	• Careful analysis of legal matters in respective environments, including the use of high-quality professional advisers • Continuous monitoring of all aspects of the planning process (including environmental areas) by experienced in-house and external experts

Internal risks

A failure in decision-making on capital commitments, assessment of new acquisitions/opportunities, management of construction and development processes and impacts of changes in organisational structure can all expose the Group to risks leading to adverse financial implications.

Description and potential impact of risk	Mitigation
Weak market analysis (i.e. failure to anticipate adverse market changes) leads to selection of unsuitable and burdensome schemes Heavy capital commitments result in insufficient Group capacity to meet them	• Sophisticated and diligent approach to acquisitions and selecting schemes resilient to market changes • Acquisitions are reviewed and financially appraised by multidisciplinary teams and approved by clearly defined authorisations • Constant budgeting and forecasting of all capital commitments, matching them with available funding sources • Flexible construction pipeline enabling the Group to deploy capital at suitable times
Failure to assess and manage risks during the development process adversely impact future income, capital performance and endanger leasing exposure, timetable and costs, and adverse planning judgements. Poor construction delivery and failures in procurement (of sub-contractors) results in quality issues and cost overruns causing customer dissatisfaction and/or financial damage	• Detailed analyses and appraisal of all developments, including risks, sensitivity and scenarios assessment is commissioned prior to any development commitment • Progress against budget and schedule is monitored throughout the development lifecycle • Before awarding supplier contracts, key contractors are assessed, including financial covenant review • Strong and sustainable relationships are maintained with key suppliers
Organisational structure needs to be adapted to international expansion, which exposes the Group to risks of inappropriate staffing in key positions. Departure or failure to attract competent experts leads to significant loss of intellectual property or inability to properly cover certain sections of the development cycle.	• Selection of high-quality professionals with competitive, performance-driven remuneration packages • Regular performance review of key positions • Succession planning designed to avoid disruption of key business areas