

ATLAS ESTATES LIMITED  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

Atlas Estates Limited  
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# ATLAS ESTATES LIMITED

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# ATLAS ESTATES LIMITED

## Introduction

Atlas Estates Limited (“Atlas” or the “Company”) is a Guernsey incorporated closed-ended investment company investing in real estate in Central and Eastern European countries (“CEE”). Atlas shares were admitted to trading on 12 February 2008 on the Warsaw Stock Exchange (WSE).

The Company and its subsidiary undertakings (the “Group”) invest mainly in real estate assets in Poland. The Group also operates in the Hungarian, Romanian and Bulgarian real estate markets.

The Company’s assets are managed by Atlas Management Company Limited (“AMC”, the Property Manager), a company focused on managing the Group’s property portfolio. AMC provides the Group with a management team with vast experience and knowledge of real estate investment and development. In particular AMC can demonstrate a good track record of investment, development and management of property in CEE markets.

# ATLAS ESTATES LIMITED

## Financial Highlights

Selected Consolidated Financial Items	Year ended	Year ended
	2019	2018
	€'000	€'000
Revenues	38,451	45,037
Gross profit	16,162	16,942
Increase in value of investment properties	5,364	7,022
Profit from operations	43,494	14,691
Profit before tax	39,450	8,863
Profit for the period	32,722	5,805
Net cash from operating activities	5,464	11,452
Net cash from investing activities	30,625	6,525
Net cash used in financing activities	(6,173)	(8,245)
Net increase in cash	30,422	9,437
Non-current assets	203,793	183,136
Current assets	66,521	41,543
Total assets	270,314	224,679
Current liabilities	(29,725)	(44,339)
Non-current liabilities	(98,046)	(88,537)
Total liabilities	(127,771)	(132,876)
Basic net assets (1)	142,543	91,803
Number of shares outstanding	46,852,014	46,852,014
Basic and diluted earnings per share (eurocents)	69.8	12.4
Basic net asset value per share (€)	3.0	2.0
Adjusted net assets (2)	142,543	124,627
Adjusted net asset value per share (€)	3.0	2.7

(1) "Basic net assets" represent net assets value as per the consolidated balance sheet

(2) "Adjusted net asset value" adjusts basic net assets value for unrecognized valuations gains and losses (net of deferred tax) on property portfolio assets not held on a fair value or revaluation model measurement basis (see page 7 and 15).

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## Chairman's Statement

Dear Shareholders,

I am pleased to report the consolidated financial results for Atlas Estates Limited ("Atlas" or "the Company") and its subsidiary undertakings ("the Group") for the year ended 31 December 2019.

In the current financial market conditions key priorities are enhancing liquidity, gaining access to capital as well as acquisition of new investment projects. All of these objectives are vital for operations as they will underpin our drive to progress the growth of the operations.

Below are our main achievements:

- In 2018 the Group completed renovation of the main lobby as well as other common spaces at *Atlas Tower* (former name *Millennium Plaza*) which attracted several new tenants and resulted in the outstanding occupancy ratio of 95% as of 31 December 2019;
- On 31 January 2019 the Group concluded preliminary sale agreement of *Nakielska Apartment Project* at the net sale price of PLN 33.5 million (equivalent of ca €7.8 million). The book value of this project amounted to €5.6 million. This transaction was completed on 13 May 2019 and full sale price was received (note 18);
- On 22 November 2018 the Group concluded preliminary sale agreement of *Atlas Estates Tower* (undeveloped real estate property located in Warsaw) at the net sale price of PLN 147 million (which was increased to PLN 148 million based on conditional sale agreement concluded in August 2019). This transaction was completed on 7 October 2019, the full sale price was received and the Group realized a gross profit of €27.6 million (note 15);
- On 27 January 2020 the Group concluded sale agreement of investment in a Romanian subsidiary at the net sale price of €7.7 million. As of 31 December 2019 the book value of this investment (classified as assets held for sale and liabilities directly associated with assets held for sale) amounted to €3.6 million. This transaction is planned to be completed by 31 December 2020 and on April 8, 2020 the Group received a €0.3 million advance in respect of the sale price (note 15).

Despite the efforts of the Company's management, on 27 February 2019, following the decision of the Metropolitan Companies' Court in Budapest ordering the compulsory strike off of the Company's subsidiary- Felikon Kft. a process of liquidation and deletion of Felikon Kft. from the companies register was commenced. No gain or loss was recognised in the consolidated financial statements for the year ended 31 December 2019 as a result of this event.

In November 2019 following an agreement with the bank which resulted in the release of all the obligations towards the bank, the Group control over a Polish subsidiary- Atlas Estates (Kokoszki) Sp. z o.o. was regained. (The Group lost the control over this subsidiary in 2014). The gain amounted to €1.2 million was recognised in the consolidated financial statements for the year ended 31 December 2019 as a result of this event.

## Reported Results

As of 31 December 2019 the Group has reported basic net assets of €142.5 million.

The increase of basic net asset value by €50.7 million from €91.8 million as at 31 December 2018 is primarily a result of a profit after tax reported by the Group in the amount of €32.7 million as well as gains reported in other comprehensive income of €8.5 million and €9.5 million revaluation (net of deferred tax) of *Hilton* land rights as a result of adoption of IFRS 16 as of 1 January 2019, as discussed on page 54.

The main factors of the €50.7 million increase in net assets are:

- €29.8 million above mentioned gross profit realized on sale of *Nakielska Apartment* and *Atlas Estates Tower Projects*,
- €9.9 million upward *Hilton* and *Golden Tulip* hotels revaluation in 2019,
- €9.5 million above mentioned revaluation (net of deferred tax) of *Hilton* land rights as a result of adoption of IFRS 16 as of 1 January 2019,
- €5.4 million fair value gains on investment properties recorded as at 31 December 2019,
- no performance fee accrued for 2019 as disclosed on page 33, whereas 2018 performance fee amounted to €4.1 million; offset by:
- €5.8 million income tax paid in 2019 mainly as a result of above significant sale transactions,
- €2.5 million annual depreciation charge on property, plant and equipment recorded in 2019.

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Profit after tax amounts to €32.7 million for 2019 as compared to profit after tax of €5.8 million for 2018. The €26.9 million increase of the noted results was mainly a joint effect of:

- above mentioned €24.0 million profit after tax on sale of *Nakielska Apartment* and *Atlas Tower Projects* realized in 2019,
- above mentioned decrease of €3.9 million in management fees due to not accruing for 2019 incentive fee (see page 33),
- movements in the foreign currency exchange differences from loss of €1.6 million in 2018 to loss of €0.2 million in 2019 mainly as a result of the slight appreciation of PLN (1%) offset by depreciation of HUF and RON in 2019, as compared to depreciation of PLN by 3% in 2018; offset by:
- a change in valuation of investment properties from an increase of €7.0 million recorded in 2018 to increase of €5.4 million recorded in 2019.

### Financing, Liquidity and Forecasts

The Group's forecasts and projections have been prepared taking into account the economic environment and its challenges and mitigating factors. These forecasts incorporate management's best estimate of future trading performance, potential sales of properties and the future financing requirements of the Group.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and to manage its loan facilities for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2019, as disclosed on page 21.

### Investing Policy

Approximately 93% of the value of Atlas' portfolio is invested in Poland. We actively target Poland, where we believe we have the best capabilities and footprint. Atlas also operates in the Hungarian, Romanian and Bulgarian real estate markets.

We may employ leverage to enhance returns on equity. Wherever possible, the Directors intend to seek financing on a non-recourse, asset by asset basis. The Company has no set limit on its overall level of gearing. However, it is anticipated that the Company shall employ a gearing ratio of up to 80% of the total value of its interest in income-generating properties within its property portfolio.

### Net Asset Value ("NAV") and Adjusted Net Asset Value ("Adjusted NAV")

As of 31 December 2019, NAV per share, as reported in the consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, increased from the level of €2.0 per share at 31 December 2018 to €3.0 per share at 31 December 2019. The adjusted NAV per share adjusts basic NAV for unrecognized valuation gains and losses (net of deferred tax) on property portfolio assets not held on a fair value or revaluation model measurement basis. The increase from increase from €2.7 as of 31 December 2018 to €3.0 as of 31 December 2019 is mainly attributable to the above described increase in net assets. As of 31 December 2019 the adjusted NAV per share is equal to basic NAV per share since the rights of perpetual usufruct connected with *Hilton* hotel in Warsaw are reflected at the fair value in the consolidated statement of the financial position (following implementation of IFRS 16 as presented on pages 52-54).

A valuation of the entire property portfolio is carried out on an annual basis by external and internal experts. The internal valuations calculated by the Property Manager concerned completed development projects in Warsaw and land asset near Gdansk (Kokoszki). The results of these internal valuations were not reflected in net assets as presented in the consolidated statement of financial position since these projects are classified as inventory and there is no need to impair these balances.

As of 31 December 2019, Jones Lang LaSalle were our independent qualified experts who have carried out the valuation of our properties located in Poland, Bulgaria and Romania, excluding Kokoszki which was subject to management internal valuations based upon recent transactions.

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## Adjusted net assets

A key indicator of performance is the adjusted net asset value of the Group. The following table sets out the impact on adjusted NAV per share of the revaluation of land assets that cannot be reflected in the reported balance sheet due to accounting standards. As of 31 December 2019 the Group did not hold any development land assets classified as inventory. Additionally following the change of IFRS land rights previously classified as land held under operating lease and held at cost are as of 31 December 2019 reflected at their fair value as property, plant and equipment.

	Book cost to Group as shown in the Balance Sheet €'000	Independent Value at 31 December 2019 €'000	Change €'000
Development land assets included in total assets at cost to the Group	-	-	-
<b>Company share of increase in valuations of development land and land held under operating lease</b>	-	-	-
Deferred tax			-
Basic net asset value per balance sheet			138,543
<b>Adjusted net asset value (see page 15)</b>			<b>138,543</b>
Number of ordinary shares in issue at 31 December 2019			46,852,014
<b>Adjusted net asset value per share as at 31 December 2019</b>			<b>€3.0</b>
Adjusted net asset value per share as at 31 December 2018			€2.7

Further analysis of the Company's NAV is contained in the Property Manager's review below.

## Corporate Governance

Atlas ensures that the Group applies a robust corporate governance structure, which is vital in the current economic conditions. This is important as there is a clear link between high quality corporate governance and Shareholder value creation. Details are presented on page 24 in Corporate governance review. A statement on Atlas compliance with the corporate governance recommendations and principles contained in Best Practice for WSE listed companies is presented on Atlas' corporate website.

## Risks and uncertainties

The Board and the Property Manager continually assess and monitor the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance are summarised in the Property Manager's Review on pages 15 and 16 below.

## Changes in Board of Directors

There were no changes in Board of Directors as disclosed in the Director's Report.

## Prospects

We hope and strive to increase our real estate portfolio as a result of attractive acquisitions.

**Mark Chasey**  
**CHAIRMAN**  
27 April 2020

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## Review of the Property Manager

In this review we present the financial and operating results for the year ended 31 December 2019. Atlas Management Company Limited ("AMC") is the Property Manager appointed by the Company to oversee the operation and management of Atlas' portfolio and advise on new investment opportunities. At 31 December 2019, the Company held a portfolio of twelve properties comprising six investment properties of which three are income yielding properties, three are held for capital appreciation, two hotels and four development properties. One hotel is subject to sale agreement (see note 15).

## Markets and Key Properties

### Poland

This is the major market of operation for the Group, with 93% (by value) of the Group's portfolio located there. The Polish economy has been one of most resilient economies in Europe with annual real GDP growth of 3.1% expected in 2020.

### Hilton Hotel, Warsaw

The *Hilton* hotel in the Wola district of Warsaw is the Group's flagship asset. The hotel is continuously performing at a satisfactory level.

### Atlas Tower (former name: Millennium Plaza), Warsaw

The *Atlas Tower* is a 39,138 sqm office and retail building centrally located in Warsaw with occupancy rate of 95% as of 31 December 2019 (89% as of 31 December 2018). The Group has recently completed a renovation project of some of the public spaces, which attracts new tenants.

### Atlas Estates Tower

The Group was planning to build a mixed use (residential and office) Atlas Estates Tower, on the neighbouring plot alongside the *Hilton* hotel, however since the scale of the development now exceeds the Group's investment abilities on 22 November 2018 the Group decided to enter into a preliminary sale agreement and dispose this property at the sale price of PLN147 million (i.e. equivalent of €34 million) to a third party. On 7 August 2019 conditional sale agreement was concluded (increasing sale price to PLN 148 million) and by 30 September 2019 PLN 14.8 million (equivalent of ca €3.5 million) was received in respect of the sales price. This transaction was completed on 7 October 2019 and full sale price was received.

### Galeria Platinum Towers

Commercial area on the ground and first floors of Platinum Towers with 1,904 sqm of gallery and 208 parking places almost fully let to tenants.

### Apartamenty przy Krasińskiego

*Apartamenty przy Krasińskiego* project is a development in the Żoliborz district of Warsaw.

The first stage of this development included 303 apartments as well as parking and amenities and retail facilities. The construction of the first stage was completed in 2013. As of 31 December 2019 all apartments were sold or presold with no retail unit available for sale.

The second stage of this successful development project released 123 apartments as well as parking and retail facilities. The construction commenced in November 2015 and was completed in August 2017. As of 31 December 2019 all apartments and retail units were sold or presold.

### Capital Art Apartments

The *Capital Art Apartments* project in Warsaw is another development in Warsaw close to the city centre. It is a four stage development with 784 apartments as well as parking and amenities, including retail facilities. As of 31 December 2019 all apartments from all stages were either sold or presold, whereas 3 retail units remain available for sale.



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## **Nakielska Apartments Project**

This is a residential development that was planned to be constructed in Wola district of Warsaw. On 13 May 2019 the Group sold this project as disclosed in note 10.

## **Romania**

The Group's portfolio contains three properties in Romania, including the *Golden Tulip* hotel and two significant land banks – Voluntari and Solaris. The Romanian real annual GDP is expected to have increased by 4.0% in 2019. The occupancy rates at the Golden Tulip increased from 70% for the year ended 31 December 2018 to 72% for the year ended 31 December 2019. The Golden Tulip hotel is subject to a sales agreement and is expected to be sold during 2020, see note 15.

## **Bulgaria**

The Group holds one income yielding property in Bulgaria, the Atlas House, which is a ca. 3,500 sqm office building in Sofia.

## **Hungary**

In Hungary, as of 31 December 2018 the Group owned one income yielding property, Ikarus Business Park, located in Budapest held by the Company's subsidiary Felikon Kft. On February 2019 this entity commenced a process of liquidation as described in note 31.

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## Financial Review

The on-going analysis of the economics of the region and the key measures of the sectors in which the Group operates are vital to ensure it does not become overexposed to, or reliant on, any one particular area. AMC evaluates the risks and rewards associated with a particular country, sector or asset class, in order to optimise the Company's return on investment and therefore the return that the Company is able to deliver to Shareholders over the longer term.

### Portfolio valuation

A valuation of the entire property portfolio is carried out on an annual basis as described on page 6.

### Loans

As at 31 December 2019, the Group's bank debt associated with its portfolio was €74 million (31 December 2018: €89 million). Loans, valuations and Loan to Value ratios ("LTV") for those periods in which valuations were undertaken may be analysed as follows:

	31 December 2019			31 December 2018		
	Loans € millions	Valuation € millions	LTV* Ratio %	Loans € millions	Valuation € millions	LTV* Ratio %
Investment property	24	75	32%	38	81	47%
Hotels	50	103	49%	51	94	54%
<b>Total</b>	<b>74</b>	<b>178</b>	<b>42%</b>	<b>89</b>	<b>175</b>	<b>51%</b>

\*LTV Ratio- Loan to Value Ratio

The valuations in the table above differ from the values included in the consolidated balance sheet as at 31 December 2018 due to the change in treatment of right of perpetual usufruct leases from under IAS 17 to IFRS 16 which was adopted on 1 January 2019.

LTV ratio of investment property decreased from 47% as of 31 December 2018 to 32% as of 31 December 2019 mainly due to the deconsolidation of the Company's subsidiary Felikon Kft and related derecognition of the bank loan extended to this subsidiary as well the property (amounting to €12 million each), as well as further improvement of *Atlas Tower* valuation.

LTV ratio of hotels decreased from 54% as of 31 December 2018 to 49% as of 31 December 2019 mainly due to increase in the valuation of *Hilton* and *Golden Tulip* as well as partial repayments of these loans.

### Debt financing

#### *Changes in the year ended 31 December 2019*

During 2019 the Group paid €2.8 million in respect of scheduled partial repayments of several loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Atlas Tower*, *Galeria Platinum Towers*).

Following the deconsolidation of the Company's subsidiary Felikon Kft in the first quarter 2019 the loan facility extended to this subsidiary totalling €12.2 million is derecognized as the Group's bank loan in the consolidated financial statements as of 31 December 2019.

#### *Changes in the year ended 31 December 2018*

##### *Galeria Platinum Towers project - loan facility extension*

On 25 January 2018 Properpol Sp. z o.o. (the Company's subsidiary) signed an amendment agreement with mBank S.A. to the facility agreement dated 2 September 2013 based on which the final repayment date of the facility was extended from 30 June 2018 to 30 June 2021.

##### *Amount increase of the existing Hilton loan facility*

On 7 February 2018 the Company's subsidiaries: Mantezja 3 Sp. z o.o. and HGC Gretna Investments Sp. z o.o. Sp. J., which operate *Hilton* hotel in Warsaw concluded an annex with Bank Pekao S.A. and PEKAO Bank Hipoteczny S.A. to the existing loan facility agreement dated 29 June 2015 based on which the subsidiaries were allowed to borrow additional funds in the amount of €3.5 million for financing *Hilton* expenses and other Atlas projects.

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### *Sadowa office loan facility- full repayment*

On 11 December 2018 following the sale of *Sadowa* office building the loan extended to this project and amounting to €3.6 million was fully repaid.

### *Other loans- partial repayments*

During 2018 the Group paid €3.2 million in respect of scheduled partial repayments of other loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Atlas Tower* and *Sadowa* office buildings and *Galeria Platinum Towers*).

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## Review of the operational performance and key items in the Consolidated Income Statement

	Property Rental € millions	Development Properties € millions	Hotel Operations € millions	Other € millions	Year ended 31 December 2019 € millions	Year ended 31 December 2018 € millions
Revenue	9.0	9.5	20.0	-	38.5	45.0
Cost of operations	(3.6)	(6.3)	(12.4)	-	(22.3)	(28.0)
<b>Gross profit/ (loss)</b>	5.4	3.2	7.6	-	16.2	17.0
Administrative expenses	(0.5)	(0.4)	(2.7)	(4.6)	(7.2)	(11.3)
<b>Gross profit / (loss) less administrative expenses</b>	4.9	2.8	4.9	(4.6)	9.0	5.7
Gross profit/ (loss) %	61%	34%	38%	0%	42%	38%
Gross profit/ (loss) less administrative expenses %	55%	29%	25%	0%	23%	13%

The financial analysis of the consolidated income statement set out in the table reflects the monitoring of operational performance by segment as used by management.

### Revenues and cost of operations

Total Group revenues for year ended 31 December 2019 were €38.5 million compared to €45.0 million for the year ended 31 December 2018. The Group's principal revenue streams are from its hotel operations, property rental and from the sale of the residential apartments that the Group develops. As the Group maintains a diversified portfolio of real estate investments, seasonality or cyclicity of yielded income or results is also highly diversified.

Cost of operations were €22.3 million in 2019 compared to €28.0 million in 2018.

### Development Properties

	Year ended 31 December 2019 € millions	Year ended 31 December 2018 € millions	Total change 2019 v 2018 € millions	Translation foreign exchange gain/ (loss) € millions	Operational change 2019 v 2018 € millions
Revenue	9.5	14.7	<b>(5.2)</b>	(0.1)	(5.1)
Cost of operations	(6.3)	(10.7)	<b>4.4</b>	0.1	4.3
Gross profit/ (loss)	3.2	4.0	<b>(0.8)</b>	-	(0.8)
Administrative expenses	(0.4)	(0.4)	-	-	-
Gross profit/ (loss) less administrative expenses	2.8	3.6	<b>(0.8)</b>	-	(0.8)
Gross profit/ (loss) %	34%	27%			
Gross profit/ (loss) less administrative expenses %	29%	24%			

Sale of residential units (i.e. apartments, retail units, parking places, storages) developed by the Group are recognised when the performance obligations have been fulfilled in line with the Group's accounting policies. The performance obligations are considered fulfilled when the customer takes control of the property units documented by the signing of the relevant notarial deed. In 2017 the Group, following a completion of *Apartamenty przy Krasińskiego stage II* project in August 2017, started signing notarial deeds and consequently recognised first sales and associated costs of this project.

As a result, as presented in the table below, in 2018 the Group managed to complete the sale of 112 apartments (in *Apartamenty przy Krasińskiego stage II*), whereas in 2019 the revenues from the sale of 5 retail units (in *Capital Art Apartments and Apartamenty przy Krasińskiego stages I and II* projects) and 2 apartments were recognized. Additionally, as described in note 18, in May 2019 the Group sold *Nakielska Apartment Projects* realizing €2.2 million gross profit on this transaction.

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## Apartment sales in Warsaw

	CAA stage I	CAA stage II	CAA stage III&IV	Apartamenty przy Krasieńskiego I	Apartamenty przy Krasieńskiego II	Concept House*
Total apartments for sale	219	300	265	303	123	160
Sales completions in 2008-2017	218	298	265	303	8	160
Sales completions in 2018	-	-	-	-	112	-
Sales completions in 2019	-	2	-	-	1	-
Total sales completions	218	300	265	303	121	160
Sales not completed as of 31 December 2019 (only preliminary agreements concluded)	1	-	-	-	2	-
Apartments available for sale as of 31 December 2019	-	-	-	-	-	-

\*Joint venture project fully sold out as at 31 December 2017

## Property Rental

	Year ended 31 December 2019 € millions	Year ended 31 December 2018 € millions	Total change 2019 v 2018 € millions	Translation foreign exchange gain/ (loss) € millions	Operational change 2019 v 2018 € millions
Revenue	9.0	10.0	(1.0)	(0.1)	(0.9)
Cost of operations	(3.6)	(4.8)	1.2	-	1.2
Gross profit	5.4	5.2	0.2	(0.1)	0.3
Administrative expenses	(0.5)	(0.7)	0.2	-	0.2
Gross profit less administrative expenses	4.9	4.5	0.4	(0.1)	0.5
Gross profit %	61%	52%			
Gross profit less administrative expenses %	55%	45%			

Following deconsolidation of Felikon in the first quarter of 2019 the revenues of the Property Rental segment decreased, however the gross margin increased due to higher rental income and gross margin realized by *Atlas Tower*.

## Hotel operations

	Year ended 31 December 2019 € millions	Year ended 31 December 2018 € millions	Total change 2019 v 2018 € millions	Translation foreign exchange gain/ (loss) € millions	Operational change 2019 v 2018 € millions
Revenue	20.0	20.3	(0.3)	(0.2)	(0.1)
Cost of operations	(12.4)	(12.5)	0.1	0.1	(0.0)
Gross profit	7.6	7.8	(0.2)	(0.1)	(0.1)
Administrative expenses	(2.7)	(3.0)	0.3	-	0.3
Gross profit less administrative expenses	4.9	4.8	0.1	(0.1)	0.2
Gross profit %	38%	38%			
Gross profit less administrative expenses %	25%	24%			

The hotel operations generated satisfactory results and remained at the similar level in 2019 and 2018.

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## Administrative expenses

Total administrative expenses decreased from €11.3 million in 2018 to €7.2 million in 2019. The most significant cost amounting to €2.5 million (2018: €6.4 million) is the annual management fee. The decrease of this fee is due to fact that in 2018 €4.1 million performance fee and €2.3 million basic fee was charged, whereas in 2019 only basic fee was charged and no performance management fee was accrued (see page 33).

## Valuation movement

In 2019 the increase of the market value of the investment properties portfolio was €5.4 million as compared to an increase of €7.0 million in 2018. The movements relate mainly to the change in value of *Atlas Tower*.

## Other operating income and expenses

Other operating income and expenses are items that do not directly relate to the day-to-day activities of the Group. Such items include: income and expenses for items that are recharged to contractors and other suppliers at cost, and other such items. The significant movements in the other operating income related to:

- in 2019:
  - €27.6 million profit on disposal of *Atlas Estates Tower* in Warsaw (see note 15)
  - €1.2 million profit on regain of control over subsidiary (see note 31)
  - €0.8 million reversal of impairment of property, plant and equipment (*Golden Tulip hotel*)
- in 2018:
  - €2.4 million profit on disposal of *Sadowa* office building in Gdańsk.

## Finance income and costs

Finance income and expenses are items that relate to the financing activities of the Group. Finance costs include mainly: interests on bank and other external borrowings (and related bank charges), interest on lease obligations, and valuation losses on interests rate derivatives. Finance income include mainly interests income as well as gain in the valuation of interests rate derivatives. There were no significant changes of finance income and expenses incurred in 2019 as compared 2018, except for an increase in interest on lease obligations due to the adoption of IFRS 16 on 1 January 2019.

## Foreign exchange

The fluctuations in exchange rates in the underlying currencies of the countries in which the Group operates and owns assets have resulted in significant foreign exchange differences.

In 2019 Polish functional currency appreciated slightly by 1% whereas Hungarian and Romanian currencies depreciated by 3% and 2% respectively as compared to 2018. The movements in value of the functional currencies have resulted in foreign exchange loss of €0.2 million in the income statement (2018: €1.6 million loss) and €1.2 million gain (2018: €2.7 million loss) in other comprehensive income for the year ended 31 December 2019.

A summary of exchange rates by country for average and closing rates against the reporting currency as applied in the financial statements is set out below.

	PLN	HUF	RON	BGN		PLN	HUF	RON	BGN
<b>Closing rates</b>					<b>Closing rates</b>				
31 December 2019	4.2585	330.52	4.7793	1.95583	31 December 2018	4.3000	321.51	4.6639	1.95583
31 December 2018	4.3000	321.51	4.6639	1.95583	31 December 2017	4.1709	310.14	4.6597	1.95583
% Change	-1%	3%	2%	0%	% Change	3%	4%	0%	0%
<b>Average rates</b>					<b>Average rates</b>				
Year 2019	4.2980	325.35	4.7773	1.95583	Year 2018	4.2623	318.87	4.6530	1.95583
Year 2018	4.2623	318.87	4.6530	1.95583	Year 2017	4.2576	309.21	4.6359	1.95583
% Change	1%	2%	3%	0%	% Change	0%	3%	0%	0%

## Net Asset Value

The Group's property assets are categorised into three classes, when accounted for in accordance with International Financial Reporting Standards as adopted by the EU. The recognition of changes in value in each category is subject to different treatment as follows:

- Yielding assets let to paying tenants, including the land on which they will be built – classed as investment properties with valuation movements being recognised in the Income Statement;

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- Property, plant and equipment (“PPE”) operated by the Group to produce income, such as the Hilton hotel or land held for development of yielding assets are disclosed as PPE – revaluation movements are taken directly to reserves, net of deferred tax via other comprehensive income; and
- Property developments, including the land on which they will be built – held as inventory, with no increase in value recognised in the financial statements unless where an increase represents the reversal of previously recognized deficit below cost.

The Company sets out below the key measures relating to Net Asset Value (NAV) per share. This includes the NAV per share per the financial statements and the adjusted NAV per share as defined at IPO and previously disclosed by the Company.

	NAV 2019 € millions	NAV per share 2019 €	NAV 2018 € millions	NAV per share 2018 €
<b>Basic NAV</b>	142.5	<b>3.0</b>	91.8	<b>2.0</b>
Development land and valuation increase	-	-	40.5	-
Deferred tax	-	-	(7.7)	-
<b>Adjusted NAV (see page 7)</b>	142.5	<b>3.0</b>	124.6	<b>2.7</b>

Notes: The number of shares in issue as at 31 December 2019 and 2018 is 46,852,014 (excluding treasury shares).

The Property Manager’s management and performance fees are based on the adjusted NAV.

For the twelve months to 31 December 2019 the combined fee payable to AMC by the Group was €2.5 million whereas for the twelve months to 31 December 2018 AMC was €6.8 million (see page 32 and 33).

### Ongoing activities

During the year ended 31 December 2019, the Company continued to identify ways by which it can generate added value through the active management of its yielding asset portfolio.

The property portfolio is constantly reviewed to ensure it remains in line with the Company’s stated strategy of creating a balanced portfolio that will provide future capital growth, the potential to enhance investment value through active and innovative asset management programmes and the ability to deliver strong development margins.

A key management objective is to monitor operations of hotel activity, enhance occupancy of income yielding assets, as well as remodel valuable assets in order to attract new tenants.

### **Financial management, operational management and material risks**

In continuing to fulfil its obligations to its Shareholders and the markets, together with maintaining its policy of maximum disclosure and timely reporting, the Group is continually improving and developing its financial management and operational infrastructure and capability. Experienced operational teams are in place in each country, where there is significant activity, otherwise a central operational team and investment committee monitor and control investments and major operational matters. As such, the management team continually reviews its operating structures to optimise the efficiency and effectiveness of its network, which is particularly important given the current environment.

We continue to enhance our internal control, reporting procedures and IT systems in order to generate appropriate and timely management information for the ongoing assessment of the Group’s performance. We operate a financial reporting system, which provides the Group with the required reporting framework, financial management and internal control.

#### *Global economic conditions*

The Board and the Property Manager closely monitor the effects that the current global economic conditions have on the business and will continue to take steps to mitigate, as far as possible, any adverse impact that may affect the business.

The Group derives its revenue from activities carried out mainly in the Polish market with Romania and Hungary also contributing, however at a much lower level. The Group’s financial results are therefore contingent on factors such as the stability of the political systems at the given moment and the macroeconomic data related mainly to the condition of the Polish but also Romanian and Hungarian economies, in particular the level of GDP growth, investment spending, levels of household income, interest rates, foreign exchange rates and inflation rate. Any deterioration to the macroeconomic conditions in these countries may expose the Group’s business to risk, thus affecting its future financial results and prospects for development.

# ATLAS ESTATES LIMITED

## *Impact of COVID-19 coronavirus on the Group's operations*

According to the recommendation issued by The European Securities and Markets Authority, the Company informs that as at the date of submitting this report it has not completed qualitative and quantitative analysis in the extent to which COVID-19 coronavirus may have an impact on its future financial position and performance in future financial results. This impact will depend on the evolution of the epidemiological situation in the countries, where the Group operates and actions taken by state authorities.

As of today, there has been an impact on the business of hotel services. In relation with the decisions taken by Polish Government since 2 April 2020 Hilton hotel in Warsaw is temporarily closed. Also Golden Tulip hotel in Bucharest is temporarily closed.

The Company will be able to assess impact of the current situation on the results of the Group in few weeks, when the course and development of the epidemic will be known, and preventive measures and measures taken to stop it will be known. In the second quarter 2019 revenues from the hotel activity accounted for 13% of the total annual revenues reported by the Group in 2019.

The Company will monitor the risks posed by the COVID-19 coronavirus in possible areas of their occurrence which are of significance to the Group, as of today the Company considers the following important issues: delays in payments received from tenants, depreciation of PLN and RON against EURO.

## *Financing and liquidity*

Management has experienced strict requirements of the lenders for financing in the CEE region which has been reflected in the covenants that are applied to facilities, such as a reduction of loan to value ratio, increasing margins and an increase in levels of required pre-sales on development projects. The management team see this as a potential risk to the ongoing development of the Company and as a result are devoting significant resource to the management of banking relationships and the monitoring of risk in this area.

Cash is managed both at local and head office levels, ensuring that rent collection is prompt, surplus cash is suitably invested or distributed to other parts of the Group, as necessary, and balances are held in the appropriate currency. Where possible, the Company will use debt facilities to finance its projects, which the Company will look to secure at appropriate times and when available, depending on the nature of the asset – yielding or development.

## *Currency and foreign exchange*

Currency and foreign exchange rates exposures are continually monitored. Foreign exchange risk is largely managed at a local level by matching the currency in which income and expenses are transacted and also the currencies of the underlying assets and liabilities.

Most of the income from the Group's investment properties is denominated in Euro and our policy is to arrange debt to fund these assets in the same currency. Where possible, the Group looks to match the currency of the flow of income and outgoings. Some expenses are still incurred in local currency and these are planned for in advance. Development of residential projects has created receipts largely denominated in local currencies and funding facilities are arranged accordingly. "Free cash" available for distribution within the Group is identified and appropriate translation mechanisms put in place.

## **Conclusions**

AMC's key strategic objective is the maximisation of value for the Company's Shareholders, which it continues to work towards. Its teams are very experienced in the active management of investment and development properties and provide the Company with local market knowledge and expertise. AMC currently focuses its efforts on searching new investment opportunities in Poland, mainly in Warsaw.

**Ziv Zviel**

**Chief Executive Officer**

Atlas Management Company Limited

27 April 2020



# ATLAS ESTATES LIMITED

## Key Property Portfolio Information

Location/Property	Description	Company's ownership
<b>Poland</b>		
Hilton Hotel	First <i>Hilton</i> Hotel in Poland – a 4 star hotel with 314 luxury rooms, large convention centre, fitness club and spa Holmes Place Premium, casino and retail outlets. Location close to the central business district in Wola area of Warsaw.	100%
Galeria Platinum Towers	Commercial area on the ground and first floors Platinum Towers with 1,904 square meters of gallery and 208 parking places almost fully let to tenants.	100%
Atlas Tower	39,138 square meters of office and retail space in the central business district of Warsaw.	100%
<b>Romania</b>		
Voluntari	86,861 square meters of land in three adjacent plots at the pre-zoning stage, in the north eastern suburbs of the city, known as Pipera.	100%
Solaris Project	32,000 square meters plot for re-zoning to mixed-use development in a central district of Bucharest.	100%
Golden Tulip Hotel	4 star 78 room hotel in central Bucharest. As of 31 December 2019 this property was classified as non-current assets held for sale as disclosed in note 15.	100%
<b>Bulgaria</b>		
The Atlas House	Office building in Sofia's city centre with 3,472 square meters of lettable area.	100%

# ATLAS ESTATES LIMITED

## Directors - Atlas Estates Limited

### **Mark Chasey**

Chairman, Non-executive  
Director

Mr Chasey graduated with a Bachelor of Commerce degree in 1979 and a Bachelor of Accountancy degree in 1981, both from the University of the Witwatersrand, South Africa. Having completed his articles with the accounting firm Pim Goldby in Johannesburg, Mr Chasey qualified as a member of the South African Institute of Chartered Accountants in 1984 and was Financial Controller at Femco Electric Motors Limited in Johannesburg from 1984 to 1988. After establishing his own liquidation business in Johannesburg in 1989, Mr Chasey joined Ernst and Young Trust Company (Jersey) Limited in 1997 and then, in 1999, went on to establish Oak Trust (Guernsey) Limited.

### **Andrew Fox**

Non-executive Director  
Chairman of Audit Committee

Mr Fox graduated with a Bachelor of Commerce degree in 1999 and a Post Graduate Diploma in Finance, Banking and Investment Management in 2000, both from the University of Natal, South Africa. Mr Fox qualified as a member of the Association of Chartered Certified Accountants in 2003 and was admitted as a Fellow in 2009. Mr Fox joined Oak Trust (Guernsey) Limited in 2001 and was appointed a Director in 2006.

### **Guy Indig**

Non-executive Director

Mr Indig graduated from Bar-Ilan University, Israel, with an LLB in 1990. In 2001 Mr Indig obtained an MBA from Tel-Aviv University. He also holds a Masters in Finance from the London Business School. Having practiced law for several years, in 2000 Mr Indig joined the Beny Steinmetz Group, a sizeable, global private equity group focused on real estate investments and natural resources. Mr Indig acted as an Investment Director in BSG's international Real Estate and Private Equity teams. Having completed a Masters in Finance degree at London Business School in 2005, Mr Indig joined the Royal Bank of Scotland and worked as a director in RBS' real estate finance division until 2008, focussing on asset-backed debt financing and investments throughout continental Europe and the UK. In 2008, Mr Indig was asked to join the Izaki Group as a Managing Director and he has since been leading the Izaki Group's European Real Estate and private equity investment activities.

## **Registered office**

Atlas Estates Limited  
3rd Floor, 1 Le Truchot  
St Peter Port  
Guernsey GY1 1WD  
Company number: 44284

# ATLAS ESTATES LIMITED

## Directors and Senior Management of the Atlas Management Company Limited, the Property Manager

**Erez Koren**  
Non-executive Director

Mr Koren is a Certified Public Accountant in Israel and is a member of the Institute of Certified Public Accountants in Israel. Mr Koren graduated with a Bachelor in Economics from Ben-Gurion University, Israel. He then finished academic accounting studies at the College of Management, Israel.

Mr Koren is serving as the Finance Director of one of IGI group real estate management company in London. Mr Koren has an extensive international experience and his previous roles included: Financial Controller of an AIM listed company in London; Financial Controller of a public traded real estate company registered in the Israeli stock exchange, having properties in Europe and Israel.

**Nicholas Babbé**  
Non-executive Director

Mr Babbé Graduated with a Bachelor of Arts degree with Honours in 2001 from the University of the West of England. He subsequently moved into the finance industry taking positions with HSBC and Investec respectfully and undertook the Society of Trusts and Estates Practitioners diploma and joined the society as a full member in 2008. Nick joined Oak Trust (Guernsey) Limited in early 2009 where he is a Trust Manager and now studying for a BSC degree in Management with Trusts and Estates with The University of Manchester and Manchester Business School.

**Ziv Zviel**  
Chief Executive Officer

Mr Zviel joined Atlas Management Company Limited in October 2010 as its Chief Financial Officer. Prior to this and from 2009 Mr Zviel served as Chief Financial Officer and Treasurer of Deltathree, a telecom company traded in the United States. From 2007 till then he served as VP of Finance of LivePerson, an Internet company publicly traded in the United States and Tel Aviv stock exchanges. Prior to that, and from 2002, Mr Zviel served in a number of roles in Magic Software, a global software company traded in the United States. Before that, and from 2000, Mr Zviel served as an audit manager in the Tel Aviv office of Ernst & Young.

Mr Zviel holds a first degree in accounting and economics and an MBA in Business Management, both from the Bar Ilan University in Israel.

On 27 March 2018 Mr Zviel was appointed as Chief Executive Officer.

\*On 13 September 2019 Mr Erez Koren was appointed following resignation of Mr Eran Rabinovitz.

\*On 12 February 2018 the Directors of Atlas were notified by AMC that due to personal circumstances Mr Reuven Havar will cease to fulfil his role as CEO of AMC with immediate effect.

# ATLAS ESTATES LIMITED

## Directors' Report

The Directors present their report and the audited financial statements for the twelve months ended 31 December 2019.

### **Results and dividends**

The results for the Group for the year are set out in the consolidated income statement on page 39 and show a profit after tax attributable to equity shareholders of €32.7 million (2018: profit after tax of €5.8 million).

The Company has not declared a dividend for 2019 (2018: €nil).

### **Activities and review of business**

The Company is domiciled in Guernsey as a closed-ended investment company under Guernsey Law.

The principal activity of the Company and the Group is property investment and development throughout Central and Eastern Europe ("CEE"), together with the management of its properties. The development of the Group's business and future prospects, including a description of material risk factors and threats and information on the degree of the Group's exposure to such risks or threats, is considered in the Chairman's Statement on pages 5 to 7 and the Review of the Property Manager on pages 8 to 16.

There were no significant changes in the Company's organisational structure in the year ended 31 December 2018. The changes that occurred in 2019 are presented in note 31 of the consolidated financial statements. A list of the operating subsidiaries of the Company subject to consolidation is included within note 31 of the consolidated financial statements.

### **Investing Policy**

The Company mainly invests in Poland in a portfolio of real estate assets across a range of property types. The Group also operates in the Romanian, Bulgarian and Hungarian real estate markets.

The Company actively targets Poland, whose economy is believed to be the most attractive amongst CEE economies.

The Company makes investments both on its own and, where appropriate, with joint venture partners in residential, industrial, retail, office and leisure properties in order to create an appropriately balanced portfolio of income-generating properties and development projects.

The Company may employ leverage to enhance returns on equity. Wherever possible, the Directors intend to seek financing on a non-recourse, asset by asset basis. The Company has no set limit on its overall level of gearing. However, it is anticipated that the Company shall employ a gearing ratio of up to 80% of the total value of its interest in income-generating properties within its property portfolio.

### **Diversification**

In order to hedge against risks, the Group maintains a diversified portfolio of real estate investments. Mainly the Group diversifies the type of investment (e.g. hotels, office, commercial, etc.).

### **Key performance Indicators**

Key performance indicators vary between the different areas of the Group's business.

The success of developing and selling residential apartments will be measured in terms of the price achieved for each apartment, the profit margin earned over construction cost and as a proportion of sales and the overall rate of return from a development. Information on sales is detailed in the Review of the Property Manager on pages 8 to 16.

For yielding assets the measure of the yield of an asset relative to its cost to the Group is of key importance. Also the overall valuation of the portfolio will drive the value to the Company and ultimately the Company's share price. Details of total return targets and increases in net asset value per share are included within the Chairman's Statement and Review of the Property Manager.

The key financial risk policies are stated within the financial statements of this report on pages 55 to 58.

# ATLAS ESTATES LIMITED

## Going concern

The Group has managed to obtain profit for the year of €32.7 million (compared to profit of €5.8 million in 2018).

The Directors consider that the outlook presents ongoing challenges in terms of the markets in which the Group operates, the impact of COVID-19 coronavirus (see page 16), the effect of fluctuating exchange rates in the functional currencies of the Group and the availability of bank financing for the Group.

As at 31 December 2019 the Group held land and building assets with a market value of €178 million, compared to external debt of €74 million (€175 million and €89 million respectively in 2018). Subject to the time lag in realising the value in these assets in order to generate cash, this “loan to value ratio” gives a strong indication of the Group’s ability to generate sufficient cash in order to meet its financial obligations as they fall due. Any land and building assets and associated debts which are ring-fenced in unique, specific, corporate vehicles, may be subject to repossession by the bank in case of a default of loan terms but will not result in additional financial liabilities for the Company or for the Group. There are also unencumbered assets, which could potentially be leveraged to raise additional finance.

In assessing the going concern basis of preparation of the consolidated financial statements for the year ended 31 December 2019, the Directors have taken into account the fact of ongoing working capital management and noted the following:

- Assets held for sale included in current assets are held at cost and are forecasted to realise cash revenues in excess of this carrying value in future period. The assets held for sale have a net carrying value of €3.6 million and are in the process of sale for €7.7 million;
- Within trade payables of the Group is a performance fee payable to the Property Manager (as disclosed in note 21). The payment terms of this fee are subject to consultation between the parties (see page 33), and the actual payment will be subject to available cash flows of the Group.

Although the Directors are aware that the management of the liquidity position of the Group is a high priority considering the impact of COVID-19 coronavirus, the Company underlines that the Group holds significant cash reserves and over the past years proved their abilities in managing its cash position carefully and will continue to do so.

The Group’s forecasts and projections have been prepared taking into account the economic environment and its challenges and the mitigating factors referred to above. These forecasts take into account reasonably possible changes in trading performance, potential sales of properties, favourable arrangements for the payment timetable for the AMC performance fee and the future financing of the Group. They show that the Group will have sufficient facilities for its ongoing operations.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2019.

## Company website

To provide a portal for investor information and in accordance with the requirements of WSE, the Company maintains a website accessed at <http://www.atlasestates.com>.

## Auditors

The Directors confirm that as at 27 April 2020:

- So far as they are aware, there is no material relevant information (that is, information needed by the Group’s auditors, in connection with preparing their report) of which the Group’s auditors are unaware;
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group’s auditors are aware of that information.

On 6 August 2019 during the Annual General Meeting it was resolved that the partnership BDO LLP were to be reappointed as the auditor of the financial reports of the Company for the year 2019.

The consolidated financial statements of the Group for 2018 and the financial statements of the Company for 2018 were audited by BDO LLP on the basis of an engagement letter dated 14 February 2019. The consolidated financial statements of the Group for 2019 and the financial statements of the Company for 2019 were audited by BDO LLP on the basis of an engagement letter concluded on 12 February 2020.

The total fees specified in the contract with the audit company, payable or paid for an audit and review of the financial statements and for other services are presented below:

## ATLAS ESTATES LIMITED

<b>Audit Company – fees</b>	<b>2019</b>	<b>2018</b>
	<b>€'000</b>	<b>€'000</b>
Audit of individual and consolidated annual financial statements	137	141
Review of interim individual and consolidated financial statements	42	32
Tax services	-	-
Other compliance services	-	-
<b>Total</b>	<b>179</b>	<b>173</b>

### Information about court proceedings

The Company is not aware of any proceedings instigated before a court, a competent arbitration body or a public administration authority concerning liabilities or receivables of the Company, or its subsidiaries, whose joint value constitutes at least 15% the Company's net equity.

There are no other material legal cases or disputes that are considered material to the consolidated financial information that would either require disclosure or provision within the financial information.

### Significant Agreements and Capital Commitments

In addition to the Property Management Agreement detailed in the Remuneration Report, the Group in 2019 entered into the following significant agreement:

*The sale agreement of 7 October 2019, between HPO AEP Spółka z ograniczoną odpowiedzialnością Spółka jawna (the Company's subsidiary) and GGH Atlas Tower Sp. z o.o.*

This agreement (the "Agreement") was concluded in performance of the preliminary conditional agreement concluded on 22 November 2018 and the conditional sale agreement of 7 August 2019 on the sale of right of perpetual usufruct of the undeveloped real property located in Warsaw, at 59 Grzybowska Street, designated as the plot of land No 59/10, precinct No 60104, with an area of 2,740.00 m<sup>2</sup>, for which the District Court for Warszawa-Mokotów in Warsaw, X Land and Mortgage Register Division, keeps land and mortgage register No. WA4M/00382291/2 (the "Real Property") together with related rights, including the building permit. The Agreement was concluded between the subsidiary of the Company - HPO AEP Spółka z ograniczoną odpowiedzialnością Spółka jawna (the "Seller") and GGH Atlas Tower Sp. z o.o. (the "Purchaser"). The Seller and the Purchaser are non-related parties.

The price for the sale of the of right of the perpetual usufruct to the Real Property together with related rights amounted to PLN 148 million increased by applicable VAT. The sale price was received by the Seller and the rights to the Real Property were transferred.

The Company decided to sell perpetual usufruct to the Real Property because the scale of the development exceeds the investment abilities of Atlas Estates Group.

Details of the bank financing agreements are disclosed as required in note 22 to the financial statements.

There are no other significant agreements that would result in Group's capital commitments as of 31 December 2019.

### Related party transactions

Related party transactions (also terms of the transactions with majority shareholder) are stated within note 27 of the financial statements of this report.

### Credit and loan facilities, guarantees and sureties

Key changes in credit and loan facilities are presented in Review of Property Manager Report on page 10 and 11.

## ATLAS ESTATES LIMITED

### *Guarantees and sureties – changes in 2019*

In 2019 the Company did not issue any guarantees or sureties for the benefit of its subsidiaries/ or other parties. The guarantee issued by the Company in 2018 for the benefit of the purchaser of Atlas Estates Tower in connection with preliminary sale agreement concluded by its subsidiary HPO AEP Spółka z ograniczoną odpowiedzialnością Spółka jawna expired on 7 October 2019, when the final sale agreement was signed.

The table below presents a list of guarantees, warranties and other types of security received by the Group from contracting parties as at 31 December 2019:

<u>Company</u>	<u>Contractor's name</u>	<u>Type of security</u>	<u>Currency</u>	<u>(000)</u>
Atlas Estates (Przasnyska 9) Sp. z o.o.	Kalter sp. z o.o.	Bank guarantee	PLN	1,500
Capital Art Apartments AEP Sp. z o.o. sp.j.	Unibep S.A.	Bank guarantee	PLN	2,626
Atlas Tower Sp. z o.o.	Several tenants	Bank guarantee	PLN	1,769
Atlas Tower Sp. z o.o.	Modzelewski & Rodek Sp. z o.o.	Bank guarantee	PLN	246
Properpol Sp. z o.o.	Jeronimo Martins Polska S.A.	Bank guarantee	EUR	45
Zielono AEP Sp z o.o.	Unibep S.A.	Bank guarantee	PLN	70
Mantezja 3 Sp. z o.o.	Holmes Place Poland	Corporate guarantee	PLN	5,035
Mantezja 3 Sp. z o.o.	Holmes Place Poland	Personal guarantee	EUR	200
Mantezja 3 Sp. z o.o.	Casinos Poland Sp. z.o.o.	Bank guarantee	EUR	205

### *Guarantees and sureties – changes in 2018*

In 2018 the Company did not issue any guarantees or sureties for the benefit of its subsidiaries/ or other parties except for the guarantee agreement in connection with the above described preliminary sale agreement concluded by its subsidiary HPO AEP Spółka z ograniczoną odpowiedzialnością Spółka jawna. The Company issued a guarantee for the benefit of the Purchaser based on which it provided security to return the advance payment of PLN 12.5 million by the Seller to the Purchaser in case of the non-performance of the agreement.

The table below presents a list of guarantees, warranties and other types of security received by the Group from contracting parties as at 31 December 2018:

<u>Company</u>	<u>Contractor's name</u>	<u>Type of security</u>	<u>Currency</u>	<u>(000)</u>
Atlas Estates (Przasnyska 9) Sp. z o.o.	Kalter sp. z o.o.	Bank guarantee	PLN	1,500
Capital Art Apartments AEP Sp. z o.o. sp.j.	Unibep S.A.	Bank guarantee	PLN	2,626
Atlas Tower Sp. z o.o.	Several tenants	Bank guarantee	PLN	1,554
Atlas Tower Sp. z o.o.	Modzelewski & Rodek Sp. z o.o.	Bank guarantee	PLN	246
Properpol Sp. z o.o.	Jeronimo Martins Polska S.A.	Bank guarantee	EUR	44
Zielono AEP Sp z o.o.	Unibep S.A.	Insurance guarantee	PLN	100
Mantezja 3 Sp. z o.o.	Holmes Place Poland	Corporate guarantee	PLN	5,000
Mantezja 3 Sp. z o.o.	Holmes Place Poland	Bank guarantee	EUR	400
Mantezja 3 Sp. z o.o.	Casinos Poland Sp. z.o.o.	Bank guarantee	EUR	203

On 11 December 2018 following the sale of *Sadowa* office building the Company's subsidiary Atlas Estates Sadowa Sp. z o.o. fully repaid its loan facility extended by ING Bank Śląski S.A. and as a result all securities related to this facility were released.

# ATLAS ESTATES LIMITED

## Corporate governance review

### **Indication of corporate governance rules, which the Company adheres to and the place, where the rules are publicly available**

In accordance with the WSE Rules, the Board resolved in January 2008, to the extent practicable and reasonable, to comply with the majority of the corporate governance rules defined in the Code of Best Practices for WSE Listed Companies ("Best Practice"). The current and binding text of Best Practices is available at the WSE official website concerning corporate governance in public companies: <https://www.gpw.pl/best-practice>, whereas, in 2016, the Company applied Best Practices in accordance with the version that was in effect in 2016, to which this declaration of the Board regarding compliance with Corporate Governance Rules refers to. In addition, the Company's shareholders may find "A statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practice for GPW Listed Companies 2016" at the Company's website [www.atlasestates.com](http://www.atlasestates.com), section concerning corporate governance maintained as part of the investor relations site.

### **Information on the Company non-compliance with applying Best Practices**

The Company's compliance with certain principles is mainly limited by the differences between Guernsey and Polish legal systems, procedures and accepted practices.

According to the current status of compliance with the Best Practice, the Company does not apply 2 recommendations:

III.R.1. - The recommendation is not applied due to the size of the Company.

IV.R.2. - The Company will not comply with this rule since it is not in a position to provide technical infrastructure enabling secure participation in general meeting using electronic communication means. This rule is not applied with the exception of point 3) of the rule.

According to the current status of compliance with the Best Practice, the Company does not apply 15 detailed principles:

I.Z.1.3.and II.Z.1. - There is no formal division of duties and responsibilities among members of the Board of Directors since pursuant to the Articles of Association, Atlas Group's policy and its strategic direction are determined by the full Board. On the corporate website the formal schedule of matters reserved to the Board of Directors is disclosed.

I.Z.1.19. and IV.Z.13. - Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies Articles of Association according to which the Board of Directors shall determine under what conditions the books and documents of the Company shall be open to inspection.

I.Z.1.20.- Atlas Estates Limited does not provide on-line transmissions of general meetings over the internet and does not record the general meetings. The reason for this is the fact that all the shareholders entitled to participate in the general meetings can appoint proxies to act on their behalf and vote at the general meetings according to their instructions. Therefore, in the opinion of the Company, there is no need to record and broadcast the general meetings.

II.Z.7. - The Company do not apply the Annex 1 to the "Commission Recommendation of ..." however the audit committee's terms of reference which are available on the corporate website are broadly consistent with Annex 1.

IV.Z.1. - The Articles provide that the Company's General Meeting shall be held in Guernsey or elsewhere. The determination of the location of the General Meeting is mainly driven by the need of ensuring administration assistance in accordance with the Guernsey Law. The Company's administrator is located in Guernsey and, therefore, the general meetings will be, most likely, held in Guernsey.

IV.Z.2. - Atlas Estates Limited does not provide on-line transmissions of general meetings over the Internet and does not record the general meetings. The reason for this is the fact that all the shareholders entitled to participate in the general meetings can appoint proxies to act on their behalf and vote at the general meetings according to their instructions. Therefore, in the opinion of the Company, there is no need to record and broadcast the general meetings.

IV.Z.3.- Atlas Estates Limited is incorporated under Guernsey law and there is no requirement under Guernsey law to permit media to attend general meetings. Accordingly, many Guernsey based fund administrators (corporate service providers) have adopted internal policies which do not permit the media to attend general meetings. In this regard, the internal policies of Intertrust Fund Services (Guernsey) Limited, the Company's administrator, do not permit media to attend meetings as a matter of standard practice and as Intertrust Fund



## ATLAS ESTATES LIMITED

Services (Guernsey) Limited co-ordinate the general meetings of the Company, such policy is adopted by the Company.

IV.Z.4.- Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies The Companies (Guernsey) Law. The Board of Directors (the "Board") may whenever it thinks fit and shall on the requisition in writing of one or more holders representing not less than one-tenth of the issued Share capital of the Company upon which all calls or other sums then due have been paid convene an extraordinary General Meeting. If there are not sufficient Directors capable of acting to call a general meeting, any Director may call a General Meeting. If there is no Director able to act, any two Shareholders may call a general meeting for the purpose of appointing Directors. The requisition shall be dated and shall state the object of the meeting and shall be signed by the requisitionists and deposited at the Company's registered office and may consist of several documents in like form each signed by one or more of the requisitionists. If the Board does not cause a meeting to be held within twenty-one days from the date of the requisition being so deposited the requisitionists or a majority of them in value may themselves convene the meeting. Any meeting convened by requisitionists shall be convened in the same manner (as nearly as possible) as that in which meetings are convened by the Board.

IV.Z.5.- Shareholders are not generally restricted from participating in General Meetings, but they may be restricted from voting in limited circumstances in accordance with Guernsey Law and Articles of Association. If, for example, they fail to comply with the obligation pursuant to Articles of Association to disclose the identity of any person (other than the registered shareholder) who has an interest in the shares they would be barred from voting. This may therefore mean that in certain circumstances the Company will not comply with this rule.

IV.Z.7.- The Chairman of general meeting may interrupt proceedings and adjourn the meeting, which can be reconvened at a later point. This would not be at the instruction of a shareholder but any request could be submitted to the Chairman at the meeting who would decide the action to be taken.

IV.Z.13.- Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies Articles of Association according to which the Board of Directors shall determine under what conditions the books and documents of the Company shall be open to inspection.

IV.Z.18.- Atlas Estates Limited share capital is divided into shares at nominal value of EUR0.01, which is below PLN 0.50 limit.

V.Z.2. and V.Z.6. - Pursuant to the Articles, the Company's Directors may take part in the discussion and vote in certain circumstances provided, however, that such Directors disclose their interest. Circumstances in which a director may vote notwithstanding their interest are presented in the Articles.

According to the current status of compliance with the Best Practice, the Company applies recommendations: II.R.1., II.R.2., II.R.3., II.R.4., II.R.5., II.R.6., II.R.7. however the Company added the following comment:

Recommendation concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body– the Board of Directors.

According to the current status of compliance with the Best Practice, the Company applies below listed principles however the Company added the following comments:

I.Z.1.15. - Atlas Estates Limited Group has not adopted a diversity policy with respect to the Board of Directors and its key managers, however the process of selection of members of the Board of Directors and key managers is based on such elements as appropriate education, experience and expertise, as well as, the qualifications and competencies of candidates and in no way leads to the disqualification of any candidate due to the above-mentioned elements of a diversity policy.

II.Z.2. - Each Director of Atlas Estates Limited declare all directorship positions held and the Board of Directors consider and approve this at each meeting convened.

II.Z.3., II.Z.5., II.Z.6., II.Z.9., II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, II.Z.11., III.Z.1., III.Z.2., III.Z.4., IV.Z.11., V.Z.5. - Rules concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body – the Board of Directors.

III.Z.5. - Rule concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates

## ATLAS ESTATES LIMITED

Limited as a Guernsey company has only one governing body– the Board of Directors. There is an audit committee which reports to the Board of Directors.

VI.Z.1. and VI.Z.2. - The property investments held by Atlas Group are externally managed by Atlas Management Company Group (“AMC” or “Property Manager”). AMC has been established for the sole purpose of providing the property management and ancillary services to the Company. On signing the agreement with the Property Manager, the Company looked to structure a remuneration package that combined a management fee element with performance related rewards that motivate the Property Manager and align their interests with the performance and growth of the business and the long term enhancement of shareholder value. The details concerning remuneration package are disclosed in the Company’s annual financial statements.

VI.Z.3. - The rule is applicable to Board of Directors regarding the fact that rule concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body– the Board of Directors.

VI.Z.4. - Remuneration Report is part of the Company’s annual report.

### Financial statements’ preparation process

#### DIRECTORS’ RESPONSIBILITIES

Guernsey company law requires that Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the results of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Ensure the financial statements comply with IFRS as adopted by the EU; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

#### DIVISION OF RESPONSIBILITIES AND COMPETENCES IN THE PREPARATION OF FINANCIAL INFORMATION

The Group aspires to apply high standards of corporate governance in all material areas of its business. The Board and, where delegated, the Property Manager use a comprehensive system of controls, checks and reporting requirements that they consider provide the capability to maintain these standards. The systems mentioned are being designed to meet the requirements of the Company and its business and to assess and manage the opportunities and risks that may arise.

The Group’s reporting department prepares financial statements, interim reports of the Group and the Company under the supervision of the Property Manager (CFO).

The Group’s reports are drafted by highly qualified team of employees of the controlling and reporting departments on the basis of accounting information prepared by the financial and accounting department. The preparation process is supervised by the reporting department’s mid-level management. The financial statements, before they are delivered to the independent auditor, are verified by Group Financial Reporting Manager, then by the Property Manager (CFO).

#### INTERNAL CONTROLS

The Directors assume overall responsibility for the Group’s system of internal control designed to safeguard shareholders’ investments and the Group’s assets and for reviewing its effectiveness. The controls are designed to identify and manage risks faced by the Group and not to totally eliminate the risk of failure to achieve business objectives. To this end internal controls provide reasonable, but not absolute assurance against material misstatement or loss. The implementation and operation of such systems has been delegated to the Property Manager and the processes are communicated regularly to all of their staff who are made aware of the areas for which they are responsible. Such systems include strategic planning, the appointment of appropriately qualified staff, regular reporting and monitoring of performance and effective control over capital expenditure and investment.

The Group’s key internal controls are centred on a system of comprehensive reporting on all of its business activities. The Property Manager staff meets on a monthly basis to review the control systems and to assess the performance and position of the Group. A separate risk management process is operated that engages the Directors and senior management of the Company and Property Manager that is aimed at identifying areas of risk faced by the Group and assessing the likely impact on operating activities. Significant risks that are identified by this process are communicated to the Board with

## ATLAS ESTATES LIMITED

recommendations for actions to mitigate them. The Group uses independent agents to undertake any specialist analysis, investigation or action that is needed. The Property Manager reports to the Directors at least annually that they have carried out a review of the system for internal controls.

The internal financial control department operates on the basis of a clearly defined set of control procedures and a comprehensive monthly and quarterly reporting structure. Detailed revenue, cash flow and capital forecasts are prepared for each asset and updated regularly throughout the year and reviewed by the Property Manager and the Board. The Property Manager agreement sets out clearly defined guidelines for all asset transactions. These require the approval of the Board of Directors.

The Audit Committee is responsible for reviewing the effectiveness of the system of internal financial control. A review of these processes is conducted on a regular basis and any significant issues raised by this review are communicated to the Board for their consideration.

### Significant shareholders

The Board is aware of the following direct or indirect interest in 5% or more of the Company's ordinary share capital (excluding 3,470,000 treasury shares, which have no voting rights). All shares have equal voting rights.

#### 1. Direct shareholders (i.e. shareholders holding the shares for the benefit of other parties)

Significant Shareholders	Number of Shares held	Voting Rights
Euroclear Nominees Limited <EOCO1>	40,316,174	86.05
Atlas International Holdings Limited	6,461,425	13.79
<b>TOTAL</b>	<b>46,777,599</b>	<b>99.84</b>

#### 2. Beneficial shareholders (i.e. shareholders for the benefit of which the above direct shareholders held the shares) based on the information provided to the Company by these shareholders under the applicable legislation (the notifications received from shareholders in accordance with Art. 70 with connection to art. 69 of the Act of 29 July 2005 on the Public Offering, Condition Governing the introduction of Financial Instruments to Organized Trading and Public Companies)

Significant Shareholders	Number of Shares held	Voting Rights
Fragiolig Holdings Limited	37,197,437	79.39
Atlas International Holdings Limited	6,461,425	13.79
<b>TOTAL</b>	<b>43,658,862</b>	<b>93.18</b>

3. The ultimate parent company of Fragiolig Holdings Limited and Atlas International Holdings Limited is RIG Investments Sarl and the ultimate controlling party by a virtue of ownership is Mr Ron Izaki.

### Indication of the holders of any and all securities which give special control rights along with a description of these rights

The Company's share capital is divided into 46,852,014 shares which give equal rights to shareholders. Additionally the Company holds 3,470,000 treasury shares, which have no voting rights.

### Legal or statutory limitations in the exercise of voting rights

Each share gives right to one vote at the General Meeting of the Company as indicated above. Shareholders are not generally restricted from participating in General Meetings, but they may be restricted from voting in limited circumstances in accordance with the Companies (Guernsey) Law, 2008, as amended ("the Companies Law") and Articles of Association. If, for example, they fail to comply with the obligation pursuant to Articles of Association to disclose the identity of any person (other than the registered shareholder) who has an interest in the shares they would be barred from voting (disclosed by the Company as non-compliance with WSE Best Practice rule IV.Z.5 on page 25)

# ATLAS ESTATES LIMITED

## Limitations in the transfer of the ownership rights of the Company's securities

The Articles of Association provide certain limitations with regard to the transfer of the ownership rights to the Company's shares as stated in article 13 of these Articles. The Directors shall have power to implement such arrangements as they may, in their absolute discretion, think fit in order for any class of shares to be admitted to settlement by means of The National Depository for Securities' system.

The Board may, in its absolute discretion and without giving a reason, refuse to register a transfer of any share which is not fully paid or on which the Company has a lien, provided, in the case of a listed share that this would not prevent dealings in the share from taking place on an open and proper basis. In addition, the Directors may refuse to register a transfer in respect of certificated shares if:

- (i) it is not fully paid up;
- (ii) it is in respect of more than one class of shares;
- (iii) it is not delivered for registration to the Company's registered office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

The Board may comment in its absolute discretion and, without giving a reason, refuse to register any allotment or transfer of shares in favour of more than four joint transferees or a child, bankrupt or person of unsound mind.

If the Board refuses to register the transfer of a share they shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee. The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any one year) as the Board may decide and either generally or in respect of a particular class of share provided that the Board may not suspend the registration of transfers of any participating security without the consent of the operator of the relevant system.

## Terms for the appointment and removal of Directors and the description of their powers

Terms of appointment and removal of Directors are presented in the Company's Articles of Association in articles 23, 24 and 30. The current version of the Company's articles of Association is available at the Company website:

<http://www.atlasestates.pl/en/investor-relations/corporate-governance>

## POWERS OF THE BOARD OF DIRECTORS

The Management Board exercises all powers in accordance with Guernsey Law and, the Company's Articles of Association (especially articles 27 and 28).

## AUTHORISATION OF THE BOARD OF DIRECTORS TO MAKE DECISIONS CONCERNING THE ISSUE OF THE COMPANY'S SHARES

According to the Articles of Association (article 3) the unissued shares within the scope of the authorised capital (pursuant to a resolution of the General Meeting) are at the disposal of the Board, which has the unconditional authority to allot, grant options or warrants over, offer or otherwise deal with or dispose of them or rights to subscribe for or convert any security into shares to such persons on such terms and conditions and at such times as the Board determines but so that no share shall be allotted at a discount.

## AUTHORISATION OF THE BOARD OF DIRECTORS TO MAKE DECISIONS CONCERNING THE REDEMPTION OF THE COMPANY'S SHARES

The Board has the power to issue redeemable shares pursuant to article 3.1 of the Articles of Association and may redeem any such shares in accordance with the terms of their issue.

Furthermore, the Board is authorised, on the basis of the article 8.4 of the Articles of Association to adopt a regulations governing the redemption of those redeemable shares.

Article 3.2(b) of the Articles of Association gives the company the power to buy back shares whether they are redeemable or not.

# ATLAS ESTATES LIMITED

## Annual General Meeting

The Annual General Meeting is usually scheduled in the period June/July. Detailed timing and agenda is communicated separately in accordance with WSE regulations and the Company's Articles of Association.

The Board encourages active communication with all of the Company's shareholders. The Chief Executive Officer of the Property Manager are the main points of contact for shareholders and they endeavour to respond to enquiries on a timely basis either verbally or in writing. Provision is made on the Company's website for enquiries to be made of Directors.

As part of the communication process a series of meetings is held between the Property Manager and significant shareholders throughout the year. Directors are invited to attend these meetings and are available should shareholders request their attendance. All shareholders have at least twenty working days' notice of the Annual General Meeting, at which questions can be raised.

The rights of the shareholders are subject to Guernsey Law and the Articles of Association of the Company.

## Amendment of the Company's articles of association

The Company's articles can be altered in accordance with provisions of Part IV of the Companies Law. Any amendment of the articles of association of the Company may be done by a special resolution of the General Meeting or a written special resolution of the shareholders.

A special resolution requires a majority of no less than three-quarters of the votes recorded (including, where there is a poll, any votes cast by proxy) in order to be passed. In the case of a resolution passed at a General Meeting, notice specifying the intention to propose the resolution has to have been duly given in accordance with article 18 of the Company's articles.

Where the amendment of the Company's articles will result in the variation of the rights of a class of shares, the consent in writing of three-quarters of the nominal amount of the issued shares of that class or a special resolution of the holders of the shares of that class is required.

## Structure and membership of the Company's Board

The Board of Directors comprises the non-executive Chairman and two further non-executive Directors. In 2019 there were no changes of the Board of Directors. There is a clear separation of the role of the Directors and the Property Manager, governed by the Property Management Agreement that was entered into on 24 February 2006. The Board identifies the majority of its non-executive Directors, i.e. Mr Andrew Fox and Mr Mark Chasey as independent Directors and Mr Guy Indig as non-independent Director. The Directors provide strategic management and act as the final decision makers for all investment/divestment decisions. The executive and day to day management is provided by the Property Manager whose role and responsibilities are clearly defined in the Property Management Agreement.

The Board meets formally at least four times a year and regular contact is made between the Board and the Property Manager in the intervening periods.

A formal schedule of matters reserved specifically for the Board's decision is approved and reviewed on an ongoing basis by the Board. Such matters include, but are not limited to:

- developing Group strategy and monitoring the progress towards objectives set for management;
- reviewing the Company's capital, operating and management structures;
- setting the system of internal and financial controls and accounting policies;
- communicating the aims and objectives of the Company to shareholders; and
- ensuring that the Group has effective risk management procedures in operation at all times.

A formal schedule of matters reserved for the Board of the Property Manager is also approved and reviewed on an ongoing basis by the Board.

All members of the Board have access to the advice and services of the Company's Administrator and full and timely access to all relevant information in an appropriate form and of sufficient quality to enable them to discharge their duties and responsibilities. Guidance is provided to Directors on obtaining independent professional advice when necessary and the Company maintains a comprehensive directors' and officers' liability insurance policy.

Appointments to the Board are subject to a formal process of selection involving the Board as a whole. The Directors are appointed for indefinite terms and a third of the Board retire by rotation each year. Directors' terms of appointment provide for prior approval of the Board for the acceptance of any outside appointments. In the event of a request for approval the Director in question is asked to confirm and demonstrate that they can continue to commit sufficient time to the fulfilment of their duties.

# ATLAS ESTATES LIMITED

## Directors and Directors' share interests

The non-executive Directors who served during the year are detailed in table below. No Director had any direct interest in the share capital of the Company or any of its subsidiaries during the year or the preceding year.

<b>Non-executive Directors</b>	
Mr Andrew Fox	Appointed 16 June 2010
Mr Mark Chasey	Appointed 16 June 2010
Mr Guy Indig	Appointed 16 June 2010

Biographical details for all current Directors are set out on page 18.

The Board is of the view that non-executive appointments for a fixed term would be inappropriate for each of the non-executive Directors due to the nature of the management of the Company. The Articles of the Company do provide for the retirement by rotation of a third of the Board each year.

The Remuneration Report contains details of Directors' remuneration, terms of their appointment and those of the Property Manager and is set out on pages 32 to 33. No other Director had, during the accounting year or in the period to 27 April 2020, any material beneficial interest in any significant contract in the Group's business.

## BOARD COMMITTEES

The Audit Committee comprises the whole of the Board and is chaired by Mr Andrew Fox. It meets at least two times a year to review the interim and year-end financial statements prior to their submission to the Board and to review the appointment of the independent auditors and the scope, performance and remuneration of services provided by them. Procedures are in place for the approval of non-audit services provided by the Company's auditors. The auditors will not be awarded non-audit work unless the Company is satisfied, through enquiry, that the provision of such services would not prejudice the independence and objectivity of the auditor.

The entire Board also forms the Investment Committee in order to appraise and approve or reject investment proposals made by the Property Manager. The Investment Committee meets as and when required.

The Company has not formed a separate Remuneration or Nominations Committee as the Property Management Agreement provides for the remuneration of the Manager and the Board as a whole considers any further appointments.

<b>Attendance at meetings</b>	<b>Board of Directors Meetings</b>	<b>Audit Committee Meetings</b>
No. of meetings in the year	<b>6</b>	<b>2</b>
Mr Andrew Fox	4	1
Mr Mark Chasey	4	1
Mr Guy Indig	4	2

No Investment Committee meetings were held in the year because all discussions and decisions related to investment proposals were made during the Board meetings.

## PROPERTY MANAGER

The Property Manager has also undertaken to maintain the highest standards of corporate governance in line with the direction set by the Board. Where delegated, the Property Manager has continued to put in place a comprehensive system of controls, checks and reporting requirements that they feel provides the ability to maintain these standards.

The Property Manager has a board ("PM board") comprising of two non-executive directors. Additionally it employs Chief Executive Officer who on daily basis are engaged in the management of the Group. A formal schedule of matters reserved for the decision of the PM board, derived from the role and responsibilities set out in the Agreement has been approved and is reviewed on an ongoing basis.

The PM board collectively approves the appointment of senior management within the Property Manager, details of which are then reported to the Company.

## **ATLAS ESTATES LIMITED**

### **The Board of Directors assessment of risk control, compliance, and management systems**

The Board of Directors has a positive opinion on the Company's and Group's existing risk control, compliance and risk management systems as being appropriate for the size of the Group and the complexity of its operations. The Board has no reservations concerning the correctness of its compliance systems introduced and operating in the Group, nor regarding the risk management system which is of particular importance to the Company and the Group.

### **Assessment of the Company's compliance with disclosure obligations**

In the disclosure policy, providing investors with confidential, current, and periodic information, the Management Board takes the current requirements of the law into account. In the opinion of the Board of Directors, in 2019, the Company properly performed its disclosure obligations arising out of the provisions of the law and the Best Practices of the WSE Listed Companies.

### **The Company's policies regarding sponsoring and charitable activities**

The Company does not pursue sponsorship, charity or other similar activities.

# ATLAS ESTATES LIMITED

## Remuneration Report

The Directors present their report (the 'Report') on their remuneration, the fees payable to the Property Manager as well as details of payments to directors of subsidiary companies where the services are rendered or procured by external entities that has been prepared in a manner consistent with commonly accepted practice.

### 1) Non-executive Directors

All non-executive Directors have specific terms of appointment that include their membership of the Audit Committee and the fee payable to them for their services. Their remuneration is determined by the Board in accordance with the Articles of Association of the Company. Such fees are reviewed annually with regard to a Director's performance and those fees paid to non-executive Directors of similar companies.

Details of the terms of appointment for those who served as non-executive Directors during the year are:

<b>2) Non-executive Directors' service contracts</b>			
	<b>Appointment Date</b>	<b>Term</b>	<b>Notice Period</b>
Mr Andrew Fox	16 June 2010	Indefinite	30 days
Mr Mark Chasey	16 June 2010	Indefinite	30 days
Mr Guy Indig	16 June 2010	Indefinite	3 months

### Directors' remuneration

The total amounts for Directors' remuneration were as follows:

<b>Directors' emoluments – representing fees only</b>	<b>2019</b>
<b>Non-executive Directors</b>	<b>€</b>
Mr Andrew Fox (GBP17,500)	20,700
Mr Mark Chasey (GBP17,500)	20,700
Mr Guy Indig (GBP20,000)	23,600
<b>Total</b>	<b>65,000</b>
<b>Directors' emoluments – representing fees only</b>	<b>2018</b>
<b>Non-executive Directors</b>	<b>€</b>
Mr Andrew Fox (GBP17,500)	19,500
Mr Mark Chasey (GBP17,500)	19,500
Mr Guy Indig (GBP20,000)	22,000
<b>Total</b>	<b>61,000</b>

### 3) Property Manager fees

#### *Management fee*

In consideration of the services to be provided by AMC, AMC will receive an annual management fee of 2% of the previous year's closing adjusted NAV (less any un-invested net proceeds of the IPO or any subsequent equity capital raising). In consideration of the services provided, AMC charged a management fee amounting to €2.5 million for the year ended 31 December 2019 (2018: €2.3 million).

In addition, AMC is entitled to be reimbursed by the Company for all costs and expenses incurred by it in the performance of its obligations under the Property Management Agreement (not including its own internal operating costs).

#### *Performance fee*

On signing the Property Management Agreement, the Company and AMC agreed upon performance related fee that motivates the Property Manager and align their interests with the performance and growth of the Atlas business and the long term enhancement of shareholder value. The Property Management agreement provides for a formal process of performance evaluation that is based on the collective performance of the Property Manager rather than on standalone companies' performance. These performance criteria are based on financial measures assessed over the life of the Property Management Agreement. Procedures are in place to review the approach and resources applied by the Property Manager and its performance throughout the year.

In addition to the management fee, AMC will receive a performance fee payable if the Total Shareholder Return (means the sum of the growth in adjusted NAV per ordinary share plus an amount equal to the aggregate dividends or other distributions per ordinary share declared or paid in respect of such accounting period expressed as a percentage of the adjusted NAV per ordinary share at the end of the previous accounting period) in any year exceeds 12 per cent (adjusted to make up for any prior years where the Total Shareholder Return was negative – the "Hurdle Rate"). Once this threshold is exceeded, AMC is entitled to receive a fee equal to 25% of the amount by which the Total Shareholder Return for the relevant financial period exceeds the Hurdle Rate for such period multiplied by the previous year's closing adjusted NAV after the deduction of any dividends declared or to be declared but not yet paid in respect of that period.



## ATLAS ESTATES LIMITED

One third of any performance fee payable to AMC under the agreement may, at the option of the Company, be paid in the form of new Ordinary Shares issued to AMC at a price equal to the average closing price of the Company's shares for the 45 days prior to the date of issue of such shares.

AMC's performance fee accrual in respect of the financial year ended 31 December 2019 is nil, and would be €4.0 million if calculated on the same basis as in previous years (2018: €4.1 million).

Pursuant to the PMA, AMC is entitled to be paid a performance fee as presented above. The Board of Directors of the Company (the Board) has recently conducted a review of the PMA and in particular the means by which performance fee is calculated. Of primary concern to the Board were the following issues:

- the drafting of the clauses and definitions in the PMA as regards the calculation of performance fee are not concise and ambiguity can lead to multiple interpretations and thus differing calculations;
- the lack of a properly constructed high-water mark mechanism has led to performance fees being paid multiple times on NAV gains in the same bracket, i.e. performance fees have been paid or accrued on certain gains in NAV, but due to subsequent reductions in NAV in a following period, upon the NAV increasing again in the next period, performance fees have been paid or accrued again on the same NAV increase for which performance fees have been paid previously;
- performance fee calculations appear to be disproportionate to the intention of the PMA which is to set a 12% hurdle rate.

Having concluded its review, and taken external legal advice on the interpretation of the PMA, the Board is of the view that it does not agree with the interpretation which has been taken previously in respect of performance fee calculations and it disputes the amounts which have been paid or accrued. Past Performance Fees which have accrued, but which are yet to be paid amount to €10.8m. The amount due to AMC is subject to change that is contingent on the resolution of the dispute. No asset has been recognised in respect of any reduction of the said balance. AEL and AMC have agreed that no performance fee will be due for 2019. On the basis of the above, the Board is in a position to approve the financial statements of the Company and the consolidated financial statements of the Group for the period ending December 2019, without accruing for a performance fee for 2019 and at the same time the Board commenced discussions with AMC to discuss the above concerns and agree a mechanism which will ensure a fair and appropriate remuneration structure for both parties going forward from 2020. The value of performance fee for 2019 which has not been accrued by the Company (if historical interpretation of calculation method is applied) amounts to €4.0 million.

### *Term and Termination*

The Property Management Agreement was to run for an initial seven year term from 24 February 2006. Since the Company did not serve notice to Property Manager by 28 August 2012, the Agreement continues indefinitely after 24 February 2013. Currently the Agreement may be terminated on 12 months' notice by either party.

The agreement may be terminated at any time for reasons of material breach by either party not remedied within a 90 day period (21 days if the breach relates to non-payment of sums due to the Property Manager) or on the insolvency of either party. The Company may also terminate the Agreement in the event that any of the AMC Shareholders sells (other than to certain categories of intra-group permitted transferees) more than 49 percent of their respective shareholdings in AMC as at the date of Admission or in the event that the AMC Shareholders (or their permitted transferees) between them cease to own collectively at least 75 percent of the issued share capital of AMC. The Company also has the right to terminate the agreement in the event that it becomes tax resident in the United Kingdom for any reason. Upon termination of this Agreement, the Manager shall be entitled to receive all fees and other moneys accrued to it (and unpaid) and a performance fee.

### **4) Members of the subsidiaries' Management Boards**

The following entities serve as members of the subsidiaries' Management Board in addition to the Property Manager mentioned above:

- Euryton Trust Management B.V., Dorsha B.V. (representing Dutch subsidiaries) appointed for indefinite period with 6 weeks' notice period at the fixed fee of €80,500 (plus VAT- the fee also includes administration services provided to the subsidiaries);
- TMF Curacao N.V (representing Atlas Estates Antilles B.V.) appointed for indefinite period with 3 months' notice period at the fixed annual fee of USD1,500;
- Altea Management S.A. (representing Luxembourg subsidiaries) appointed for indefinite period with 3 months' notice period at the fixed annual fee of €6,000 (plus VAT);
- Cyproman Services Limited (representing Fernwood Limited) appointed for indefinite period with no notice period at the fixed annual fee of €1,400 (plus VAT).

**Mark Chasey**  
Chairman  
27 April 2020

**Andrew Fox**  
Director

**Guy Indig**  
Director

# ATLAS ESTATES LIMITED

## Declarations of the Board of Directors

### Declaration concerning accounting policies

The Board of Directors of Atlas Estates Limited confirms that, to the best of its knowledge, the annual consolidated financial statements together with comparative figures have been prepared in accordance with applicable accounting standards and give a true and fair view of the state of affairs and the financial result of the Group for the period.

The Directors' and Property Manger's Reports in this annual report give a true and fair view of the situation on the reporting date and of the developments during the financial year, and include a description of the major risks and uncertainties.

### Declaration concerning election of the Company's auditor for the annual audit of the consolidated financial statement

The Company's auditor has been elected according to applicable rules. The audit firm and its chartered accountants engaged in the audit of the financial statements of Atlas Estates Limited meet the objectives to present an objective and independent report in accordance with applicable rules and professional standards.

### Other obligatory declaration

Since the Company is incorporated outside European Union it is not Public Interests Entity as defined by Regulation (EU) No 537/2014 of the European Parliament and of the Council dated 16 April 2014 as well as Act of 11 May 2017 on statutory auditors, audit firms and on public oversight. As a result the Company is not obliged to comply with:

- the requirements regarding rules of the appointment, composition and functioning of the audit committees, and
- the mandatory rotation of the audit firm and statutory auditor and the mandatory period of grace as imposed by the above mentioned regulations.

**Mark Chasey**  
Chairman

**Andrew Fox**  
Director

**Guy Indig**  
Director

27 April 2020

# ATLAS ESTATES LIMITED

## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ATLAS ESTATES LIMITED

### Opinion

We have audited the financial statements of Atlas Estates Limited ("the Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019 which comprise the Consolidated Income Statement, 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 notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

# ATLAS ESTATES LIMITED

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## Valuation of the Group's hotel and investment properties

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### **Key Audit Matter**

The Group accounting policy for valuing hotel and group investment properties are set out in note 2(a). As detailed in note 14, the Group owns hotel properties which are held at fair value in the Group financial statements. In addition, as detailed in note 16, the Group owns a portfolio of investment properties which are also held at fair value.

Each valuation requires consideration of the individual nature of the property, its location, its existing and future anticipated cash flows and comparable market transactions.

The valuation of the Group's hotel properties require significant judgements to be made with regard to the future forecast trading performance of the asset and the assumptions used within the income approach valuation model used.

The valuation of the Group's investment properties requires significant judgements to be made with regard to the trading performance and/or market data and assumptions applied to either the income approach or market comparison approach taken as appropriate.

The determination of the fair value of the hotel properties and investment properties is a key area of estimation and we therefore considered this to be an area of significant audit risk and focus and hence a key audit matter.

### **How we addressed the key audit matter in the audit**

Our audit work included, but was not restricted to, the following:

- The key controls were identified as being the appointment of appropriately qualified independent experts to value the entire property portfolio and the processes by which the Group ensures that accurate data is provided to those experts.
- We assessed the competency, qualifications, independence and objectivity of the external valuers engaged by the Group and reviewed the terms of their engagements to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them. We obtained and read the experts' valuation reports and checked on an asset by asset basis that all valuations had been prepared using a methodology that was appropriate for determining the carrying value in the Group's financial statements by reference to the RICs Valuation – Global Standards.
- We tested the accuracy of the key observable valuation inputs supplied to and used by the external valuers. This primarily involved agreeing, on a sample basis:
  - the passing rental income and lease terms for investment properties to underlying supporting documents, and
  - Comparing income growth and operating margins for hotel properties to underlying forecasts.
- Senior members of our team met with the experts to further understand and challenge the valuation methodology and key assumptions. We compared the key valuation assumptions against our independently formed market and non-market expectations and challenged them where significant variances from our expectations were identified. We then considered the plausibility of the independent valuers' responses and checked these to supporting documentation where appropriate. The key valuation assumptions were the market capitalisation yields, estimated income levels or rental values, and discount rates that we reviewed by reference to market data based on the location and specific attributes of each property.

### **Key Observations**

No issues were identified in our testing.

### **Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the Group financial statement as a whole was calculated at €2,700,000 based on 1% of total assets (2018: €2,250,000 based on 1%) on the basis that the Group is an asset based property investment and development group.

Materiality for significant components was calculated as 1% of total assets of each component (2018:1%).

## ATLAS ESTATES LIMITED

We also determined that for other classes of transactions, balances or disclosures relating to the trading performance, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result, we determined that a materiality for these areas should be €323,000 (2018: €445,000), representing 5.0% of profit before exceptional items and tax (2018: 6%). This specific materiality applies to those items which may affect the Group's trading results (being the profit before tax excluding fair value movement on investment properties). Performance materiality was calculated at €242,250 (2018: €333,750) based on 75% of materiality, which was deemed appropriate with reference to our assessment of internal controls and our historic experience of limited accounting adjustments identified in the course of our previous audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €45,000 (2018: €45,500), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **An overview of the scope of our audit**

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement due to fraud.

The group operates through a number of component entities in Europe. Components in Poland, many of which are not individually significant, were considered by us to be significant in aggregate. All these components were audited by our network firm in Poland. The Group engagement team was significantly involved in the planning and direction of these audits, reviewed the work carried out by the component auditors and attended the closing meeting in Poland.

Non-significant components contributing 6.6% of total assets of the Group were subject to desktop reviews or specific procedures in relation to specific areas of the financial statements carried out by the Group engagement team.

Audit work required to respond to the assessed risks in respect of the key audit matter was performed directly by the Group engagement team.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the document containing the consolidated financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion on other matters prescribed by the regulations of the Warsaw Stock Exchange**

In our opinion, the information contained in the Directors' Report on the Group's activities complies with the requirements of the regulations of the Warsaw Stock Exchange issuers and is consistent with the information presented in the accompanying consolidated financial statements.

Based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Directors' Report on the Group's activities.

The Parent Company's Management Board and members of its Audit Committee are responsible for the preparation of a declaration on the application of corporate governance in accordance with regulations of the Warsaw Stock Exchange.

In connection with our audit of the consolidated financial statements it was our responsibility to read the declaration on the application of corporate governance, constituting a separate section of the Directors' Report on the Group's activities.

In our opinion, the declaration on the application of corporate governance contains the information specified in paragraph 70 section 6 point 5 of the Minister's of Finance Decree of 28 March 2018 on the current and periodic information provided

## ATLAS ESTATES LIMITED

by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2018 Journal of Laws, item 757 with subsequent amendments).

Information provided in paragraph 70 section 6 point 5 letters c-f, h and i of the Regulation contained in the statement on the application of corporate governance are in accordance with the applicable regulations and information contained in the annual consolidated financial statements.

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

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Parent Company; or
- the Parent Company financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

### **Responsibilities of Directors**

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Kieran Storan  
For and on behalf of BDO LLP, recognised auditor  
London, United Kingdom  
27 April 2020*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# ATLAS ESTATES LIMITED

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Year ended 31 December 2019	Year ended 31 December 2018	Note
	€'000	€'000	
Revenues	38,451	45,037	3
Cost of operations	(22,289)	(28,095)	4.1
<b>Gross profit</b>	<b>16,162</b>	<b>16,942</b>	
<i>Property manager fee</i>	(2,492)	(6,367)	
<i>Central administrative expenses</i>	(469)	(551)	
<i>Property related expenses</i>	(4,207)	(4,360)	
Administrative expenses	(7,168)	(11,278)	4.2
Other operating income <i>(including €27.6 million profit on disposal of asset held for sale in 2019 and €2.4 million profit on disposal of investment property in 2018)</i>	29,742	2,504	5
Other operating expense	(606)	(499)	6
Increase in value of investment properties	5,364	7,022	16
<b>Profit from operations</b>	<b>43,494</b>	<b>14,691</b>	
Finance income	395	100	7
Finance costs	(4,261)	(4,188)	7
Other gains/ (losses) – foreign exchange	(173)	(1,615)	7
Share of losses from equity accounted joint ventures	(5)	(125)	11
<b>Profit before taxation</b>	<b>39,450</b>	<b>8,863</b>	
Tax charge	(6,728)	(3,058)	8
<b>Profit for the period</b>	<b>32,722</b>	<b>5,805</b>	
<b>Attributable to:</b>			
Owners of the parent	32,722	5,805	
	<b>32,722</b>	<b>5,805</b>	
Profit per €0.01 ordinary share – basic (eurocents)	69.8	12.4	10
Profit per €0.01 ordinary share – diluted (eurocents)	69.8	12.4	10

All amounts relate to continuing operations.

The notes on pages 46 to 82 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Year ended 31 December 2019	Year ended 31 December 2018	Note
	€'000	€'000	
<b>PROFIT FOR THE PERIOD</b>	<b>32,722</b>	<b>5,805</b>	
<b>Other comprehensive income:</b>			
<i>Items that will not be recycled through profit or loss</i>			
Revaluation of land and buildings	9,063	4,190	14
Deferred tax on revaluation	(1,722)	(796)	8 and 24
<b>Total</b>	<b>7,341</b>	<b>3,394</b>	
<i>Items that may be recycled through profit or loss</i>			
Exchange adjustments	1,212	(2,673)	
Deferred tax on exchange adjustments	(18)	213	8 and 24
<b>Total</b>	<b>1,194</b>	<b>(2,460)</b>	
<b>Other comprehensive income for the period (net of tax)</b>	<b>8,535</b>	<b>934</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>41,257</b>	<b>6,739</b>	
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	41,257	6,739	
	<b>41,257</b>	<b>6,739</b>	

The notes on pages 46 to 82 form part of these consolidated financial statements.



# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	31 December 2019	31 December 2018	
	€'000	€'000	Note
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	19	25	12
Land under operating lease - prepayments	-	6,893	13
Total investment in equity accounted joint ventures	-	-	11
Property, plant and equipment	104,724	75,795	14
Investment property	89,396	91,625	16
Deferred tax asset	9,654	8,798	24
	<b>203,793</b>	<b>183,136</b>	
<b>Current assets</b>			
Inventories	2,688	8,958	18
Trade and other receivables	2,827	3,088	19
Cash and cash equivalents	54,513	24,443	20
	60,028	36,489	
Assets held within disposal groups classified as held for sale	6,493	5,054	15
	<b>66,521</b>	<b>41,543</b>	
<b>TOTAL ASSETS</b>	<b>270,314</b>	<b>224,679</b>	
<b>Non-current liabilities</b>			
Other payables	(12,611)	(3,224)	21
Bank loans	(69,415)	(73,965)	22
Deferred tax liabilities	(16,020)	(11,348)	24
	<b>(98,046)</b>	<b>(88,537)</b>	
<b>Current liabilities</b>			
Trade and other payables	(22,103)	(27,922)	21
Bank loans	(2,726)	(15,058)	22
Derivative financial instruments	(2,042)	(1,359)	23
	(26,871)	(44,339)	
Liabilities directly associated with non-current assets classified as held for sale	(2,854)	-	15
	<b>(29,725)</b>	<b>(44,339)</b>	
<b>TOTAL LIABILITIES</b>	<b>(127,771)</b>	<b>(132,876)</b>	
<b>NET ASSETS</b>	<b>142,543</b>	<b>91,803</b>	

The notes on pages 46 to 82 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	31 December 2019	31 December 2018	Note
	€'000	€'000	
<b>EQUITY</b>			
Share capital account	6,268	6,268	25
Revaluation reserve	40,020	22,839	
Other distributable reserve	194,817	194,817	
Translation reserve	(7,968)	(10,044)	
Accumulated loss	(90,594)	(122,077)	
<b>Issued capital and reserves attributable to owners of the parent - total equity</b>	<b>142,543</b>	<b>91,803</b>	
Basic net asset value per share	€ 3.0	€ 2.0	

The notes on pages 46 to 82 form part of these consolidated financial statements.

The financial statements on pages 39 to 82 were approved by the Board of Directors on 27 April 2020 and signed on its behalf by:

**Mark Chasey**  
Chairman

**Andrew Fox**  
Director

**Guy Indig**  
Director

27 April 2020

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital account €'000	Revaluation reserve €'000	Other distributable reserve €'000	Translation reserve €'000	Accumulated loss €'000	Total equity €'000
As at 1 January 2018	6,268	19,445	194,817	(7,584)	(127,882)	85,064
Profit for the period	-	-	-	-	5,805	5,805
Other comprehensive income/ (loss) for the year	-	3,394	-	(2,460)	-	934
<b>As at 31 December 2018</b>	<b>6,268</b>	<b>22,839</b>	<b>194,817</b>	<b>(10,044)</b>	<b>(122,077)</b>	<b>91,803</b>
Effect of adoption of IFRS 16 (see page 53)	-	9,483	-	-	-	9,483
<b>1 January 2019 as restated</b>	<b>6,268</b>	<b>32,322</b>	<b>194,817</b>	<b>(10,044)</b>	<b>(122,077)</b>	<b>101,286</b>
Profit for the period	-	-	-	-	32,722	32,722
Other comprehensive income for the year	-	7,341	-	1,194	-	8,535
Transfer	-	357	-	882	(1,239)	-
<b>As at 31 December 2019</b>	<b>6,268</b>	<b>40,020</b>	<b>194,817</b>	<b>(7,968)</b>	<b>(90,594)</b>	<b>142,543</b>

The Revaluation Reserve includes amounts relating to revaluation of buildings and the related deferred tax. Amounts carried in the revaluation reserve, in respect of land and buildings are not realised gains and are therefore not distributable reserves. Upon the sale of underlying assets these amounts will be crystallised within retained earnings.

The Other Distributable Reserve includes amounts relating to cancellation of share premium, shares bought back and cancelled or held in Treasury, and dividends paid.

The Translation Reserve includes exchange adjustments and the related deferred tax.

The notes on pages 46 to 82 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	31 December 2019 €'000	31 December 2018 €'000
<b>Profit for the year</b>		<b>32,722</b>	<b>5,805</b>
<b>Adjustments for:</b>			
Effects of foreign currency		(304)	1,494
Finance costs		4,146	3,828
Finance income		(180)	(41)
Tax charge	8	6,728	3,058
Share of losses from equity accounted joint ventures	11	5	125
Depreciation of property, plant and equipment	14, 15	2,511	2,436
Amortisation charges	12, 13	9	166
Profit on disposal of investment property	5, 16	-	(2,369)
Profit on disposal of assets and related liabilities held for sale	5, 15	(27,631)	-
Profit on regain of control over subsidiary	5, 31	(1,208)	-
Increase in value of investment properties	16	(5,364)	(7,022)
Reversal of impairment on inventory	4.1	(150)	-
Reversal of impairment on property, plant and equipment	5,14	(829)	(9)
		<b>10,455</b>	<b>7,471</b>
<b>Changes in working capital</b>			
Decrease in inventory		6,378	10,667
Decrease in trade and other receivables		334	280
Decrease in trade and other payables		(5,143)	(4,378)
Effects of foreign currency on working capital translation		530	(122)
		<b>2,099</b>	<b>6,447</b>
<b>Cash inflow from operations</b>		<b>12,554</b>	<b>13,918</b>
Tax paid		(7,090)	(2,466)
<b>Net cash from operating activities</b>		<b>5,464</b>	<b>11,452</b>
<b>Investing activities</b>			
Interest received		167	41
Purchase of investment property	16	(1,328)	(2,202)
Purchase of property, plant and equipment	14,15	(1,787)	(473)
Proceeds from disposal of investment property	16	-	9,086
Proceeds from disposal of assets and related liabilities held for sale	15	34,179	-
Cash disposed of on deconsolidation of subsidiary	31	(604)	-
Purchase of intangible assets – software	12	(2)	(2)
Loans repaid by equity accounted joint ventures		-	75
<b>Net cash from investing activities</b>		<b>30,625</b>	<b>6,525</b>

# ATLAS ESTATES LIMITED

	Note	31 December 2019 €'000	31 December 2018 €'000
<b>Financing activities*</b>			
Interest and loan arrangement fees paid		(2,867)	(3,000)
New bank loans raised	22	-	3,500
Repayments of bank loans	22	(2,838)	(6,795)
Repayments of lease liabilities		(468)	-
Repayments of loan due to majority shareholder	27d	-	(1,950)
<b>Net cash used in financing activities</b>		<b>(6,173)</b>	<b>(8,245)</b>
<b>Net increase in cash and cash equivalents in the year</b>			
		<b>29,916</b>	<b>9,732</b>
Effect of foreign exchange rates		506	(295)
<b>Net increase in cash and cash equivalents in the year</b>		<b>30,422</b>	<b>9,437</b>
<b>Cash and cash equivalents at the beginning of the year</b>			
		<b>24,443</b>	<b>15,006</b>
<b>Cash and cash equivalent at the end of the year</b>			
	<b>20</b>	<b>54,865</b>	<b>24,443</b>

\*Reconciliation between opening and closing balances in the statement of financial position for liabilities arising from financing activities:

	31 December 2018 €'000	Cash flows			Non-cash changes			31 December 2019 €'000
		Interests/ arrangement fees €'000	Repay- ments €'000	Foreign Exchange €'000	Effect of adoption of IFRS 16 €'000	Disposal/ Valuation €'000	Interests and other charges accrued €'000	
Bank loans (short-term and long-term)	89,023	(2,867)	(2,838)	144	-	(14,297)	2,976	72,141
Lease Liabilities	1,590	-	(468)	(8)	10,466	(1,352)	427	10,655
Derivative Financial Liabilities	1,359	-	-	19	-	664	-	2,042
Amounts payable to Felikon Kft (note 27e)	-	-	-	180	-	5,907	66	6,153

	31 December 2017 €'000	Cash flows			Non-cash changes			31 December 2018 €'000
		Interests/ arrangement fees €'000	New loans raised €'000	Repay- ments €'000	Foreign Exchange €'000	Bank loan discount/ Valuation €'000	Interests and other charges accrued €'000	
Bank loans (short-term and long-term)	93,502	(3,000)	3,500	(6,795)	(1,260)	-	3,076	89,023
Amounts payable to majority shareholder	1,950	-	-	(1,950)	-	-	-	-
Derivative Financial Liabilities	625	-	-	-	(18)	752	-	1,359

The notes on pages 47 to 82 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

Year ended 31 December 2019

### ***Basis of preparation***

These consolidated financial statements have been prepared in accordance with applicable Guernsey law and International Financial Reporting Standards (“IFRS”) and IFRIC interpretations adopted by the European Union. The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis as amended by the revaluation of land and buildings and investment property and derivatives accounted for as fair value through profit and loss. The principal accounting policies are set out below. These policies have been consistently applied to all the years presented, except for the adoption of IFRS 16 on 1 January 2019.

The Directors consider that the outlook presents ongoing challenges in terms of the markets in which the Group operates, the impact of COVID-19 coronavirus (page 16), the effect of fluctuating exchange rates in the functional currencies of the Group and the availability of bank financing for the Group.

As at 31 December 2019 the Group held land and building assets with a market value of €178 million, compared to external debt of €74 million (€175 million and €89 million respectively in 2018). Subject to the time lag in realising the value in these assets in order to generate cash, this “loan to value ratio” gives a strong indication of the Group’s ability to generate sufficient cash in order to meet its financial obligations as they fall due. Any land and building assets and associated debts which are ring-fenced in unique, specific, corporate vehicles, may be subject to repossession by the bank in case of a default of loan terms but will not result in additional financial liabilities for the Company or for the Group. There are also unencumbered assets, which could potentially be leveraged to raise additional finance.

In assessing the going concern basis of preparation of the consolidated financial statements for the year ended 31 December 2019, the Directors have taken into account the fact of ongoing working capital management and noted the following:

- Assets held for sale included in current assets are held at cost and are forecasted to realise cash revenues in excess of this carrying value in future period. The assets held for sale have a net carrying value of €3.6 million and are in the process of sale for €7.7 million;
- Within trade payables of the Group is a performance fee payable to the Property Manager (as disclosed in note 21). The payment terms of this fee are subject to consultation between the parties (see page 33), and the actual payment will be subject to available cash flows of the Group.

Although the Directors are aware that the management of the liquidity position of the Group is a high priority considering the impact of COVID-19 coronavirus, the Company underlines that the Group holds significant cash reserves and over the past years proved their abilities in managing its cash position carefully and will continue to do so.

The Group’s forecasts and projections have been prepared taking into account the economic environment and its challenges and the mitigating factors referred to above. These forecasts take into account reasonably possible changes in trading performance, potential sales of properties, favourable arrangements for the payment timetable for the AMC performance fee and the future financing of the Group. They show that the Group will have sufficient facilities for its ongoing operations.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2019.

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries up to 31 December 2019. Subsidiaries are those entities that are controlled by the Company. Control is achieved where the Company has the power, either directly or indirectly, to govern the financial and operating policies of an entity so as to have the ability to affect the amount of the investor’s returns and has exposure or right to variable returns from its involvement with the investee. Subsidiaries are deconsolidated where this control is lost.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used into line with those used by the Group.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

The consolidated financial information is prepared in Euro and presented in thousands of Euro (“€’000”) unless indicated otherwise.

Joint ventures are initially recognised in the consolidated statement of financial position at cost. Subsequently, joint ventures are accounted for using the equity method, where the Group’s share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group’s investment in the joint venture unless there is an obligation to make good those losses).

### ***Segmental reporting***

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of Atlas Estates Limited that makes strategic decisions.

### ***Revenue recognition***

Revenue comprises:

- (i) rental income, service charge and other recoveries from tenants and the supply of utilities to tenants of the Group’s investment and trading properties;
- (ii) hire of hotel rooms and sale of food and beverages; and
- (iii) proceeds of the sale of residential apartments developed by the Group.

Rental income includes income from managed operations such as offices and car parks. Service charges and other recoveries include income from service charges and directly recoverable expenditure and any related chargeable management fees.

Rental income is recognised on a straight line basis over the lease term. Service charges and management fees are recognised as the related costs are incurred and charged. Changes to rental income that arise from reviews to open market rental values or increases that are indexed linked on a periodic basis are recognised from the date on which the adjustment became due. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property. Lease incentives are allocated evenly over the term of the lease. Rental income and services charges are stated net of VAT and other sales related taxes.

Revenue from the hire of hotel rooms and sale of food and beverages is recognised when the service or product is delivered and is stated net of VAT and other sales related taxes.

Revenue from the sale of housing units is recognised when the performance obligations are satisfied at the point in time (i.e. when housing units is handed over to new owners with notarial deed signed).

Other revenues, including the sale of utilities and other management fee income, are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes. These revenues are recognised as the related costs are incurred.

### ***Foreign currencies***

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Euro, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies other than the entity’s functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Gains and losses arising on the settlement of monetary items and on the re-translation of monetary items are included in the income statement for the year. Those that arise on the re-translation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity or other comprehensive income. For such non-monetary items any exchange component of that gain or loss is also recognised directly in equity or other comprehensive income.

On consolidation, the assets and liabilities of the Group’s entities with non-Euro functional currency (none of which has the currency of an hyperinflationary economy) are translated at exchange rates prevailing on the

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

balance sheet date. Income and expense items are translated using the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve via other comprehensive income. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate, with foreign exchange movements being accounted for through the statement of other comprehensive income.

### **Leases**

Where the Group is the lessee:

Long term lease contracts for land – the Group is the lessee in long-term land lease contracts, which do not result in the transfer of legal title to the land to the Group. Following implementation of IFRS 16 the group changed its accounting policy for leases where the group is the lessee. The new policy and the impact of this change is described on pages 52 and 54.

Until 31 December 2018:

Operating leases – leases held by the Group where substantially all risks and rewards of ownership were retained by another party, the lessor, were deemed to be operating leases. All payments made under such leases were charged to the income statement on a straight-line basis over the life of the lease.

Finance leases – are leases where the Group held substantially all the risks and rewards of ownership. Such leases were capitalised at commencement of the lease at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment was allocated between the liability and finance charges in order that a constant rate may be achieved on the finance balance outstanding. The corresponding rental obligations were included in current and non-current liabilities, net of finance charges. Finance charges were charged to the income statement over the term of the lease so as to produce a constant periodic rate of interest on the outstanding balance. Investment properties acquired under finance leases were carried at their fair value.

Long term lease contracts for land – the Group is the lessee in long-term land lease contracts, which do not result in the transfer of legal title to the land to the Group, and which were classified as operating leases.

The expenditure relating to the purchase of rights from such contracts was initially recognised in the balance sheet at fair value of the payments made and subsequently at amortised cost. They were classified in the balance sheet as land held under operating lease – prepayments.

Where the land held under operating lease was part of an investment property, the operating lease contract for the land was treated as a finance lease in accordance with IAS 40. As a result, at the time the Group entered into the contract, the fair value of future payments under the lease contract was calculated and recognised as a liability. Following the initial recognition, in subsequent accounting periods, the total value of investment property (including the land element) was revalued to fair value and the difference was included in the income statement.

The long-term land lease contracts which are separately disclosed in the balance sheet (i.e. do not qualify as investment property) are charged to the income statement over the lease term and were subject to impairment charges if required.

Where the Group is the lessor:

Operating leases – properties that are let to tenants under operating leases are classed as investment properties in the balance sheet.

### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets, that necessarily take a substantial period of time to get ready for use or sale, are capitalised as part of the cost of those assets until they are substantially ready for use or sale.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.



# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

### **Financial assets**

The Group classifies its financial assets in the following categories: measured at amortised cost, measured at fair value through profit or loss and measured at fair value through other comprehensive income. Classification is performed on initial recognition and depends on the business model for managing of financial assets adopted by the entity and on the characteristics of the contractual cash flows from such instruments

- *Financial assets measured at fair value through profit or loss and financial assets at fair value through other comprehensive income*

As at 31 December 2019 and 2018 no financial assets at fair value through profit or loss *and* no financial assets at fair value through other comprehensive income were held by the Group.

- *Financial assets measured at amortised cost*

A financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables (note 19) and cash and cash equivalents (note 20) are classified as financial assets measured at amortised cost.

### **Financial liabilities**

#### *(a) Fair value through profit and loss*

This category comprises only out-of-the-money derivatives. They are carried in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes (although the Group does not apply hedge accounting). Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit and loss.

#### *(b) Amortised cost*

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and are then subsequently measured at amortised cost with interest being calculated using the effective interest rate method.

Trade and other payables are classified as financial liabilities measured at amortised cost.

### **Fair value measurement hierarchy**

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2)
- (c) Inputs for the asset or liability that are not based on observable market data (Level 3).

For details of the application of this fair value measurement hierarchy within these financial statements, please see notes 15, 16 and 23.

### **Intangible assets**

Intangibles represent computer software used in the Group's operations. Computer software is amortised over its useful economic life of five years.

### **Property, plant and equipment**

Buildings held for use in the supply of hotel services are stated in the balance sheet at their revalued amounts, being fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are performed on an annual basis.

Any revaluation increase arising on such assets is credited to the revaluation reserve, except if it reverses a reduction in value for the same property that was previously recognised as an expense. In such an instance the

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## STATEMENT OF ACCOUNTING POLICIES

revaluation increase is credited to the income statement to the extent that the previous reduction in value was charged. A decrease in the valuation is charged as an expense to the extent that it exceeds the balance, if any, held on the property revaluation reserve relating to a previous increase in the revaluation of that asset.

Depreciation on revalued properties is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Plant and equipment (comprising machinery, office equipment, computers) and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful economic lives, using the straight-line method, on the following bases:

Buildings	Over 50 years
Plant and equipment	3 to 10 years
Motor vehicles	5 years
Land is not depreciated.	

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation of assets used directly to generate revenue e.g. room equipment is presented as cost of operations, whereas depreciation and amortisation of assets that do not directly generate revenue e.g. depreciation of the building itself etc. is presented as administrative expense.

### ***Goodwill***

Business combinations are accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition. Goodwill is not amortised but is reviewed for impairment at each balance sheet date. The Group's policy on impairment is set out below.

### ***Impairment***

The carrying amounts of the Group's non-monetary assets, other than investment property, are reviewed at each reporting date. If any indication of impairment of the value of these assets exists, the recoverable amount of the asset is assessed. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable value of an asset is the higher of value in use and fair value less costs to sell. Fair value of the asset less costs to sell is assessed by obtaining an independent assessment of asset's market value less any costs that would be incurred to realise its value.

### ***Assets held for sale***

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

### ***Investment property***

Investment properties are those that are held either to earn rental income or for capital appreciation or both. Such properties are initially stated at cost, including any related transaction costs. After initial recognition, investment properties are carried at their fair value based on a professional valuation made on annual basis except for most significant property which is subject to professional valuation on semi-annual reporting date. At each reporting date the difference between the carrying amount of an investment property and its fair value at that date is included in the income statement as a valuation gain or loss.

### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs, interest costs of financing the development and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing and selling the inventories.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

### ***Trade receivables***

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses. To measure expected credit losses trade receivables were grouped based upon the days past due. The expected credit loss rates are based on the historical payment profiles and the corresponding historical credit losses experience. The historical rates are adjusted to reflect current and anticipated credit risk factors. On that basis, the loss allowance was determined as disclosed in note 19.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash balances, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank loans in current liabilities on the balance sheet. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### ***Restricted cash: bank deposits and customer deposits***

Restricted bank deposits consist of deposits in banks that the Group pledged to secure banking facilities for the Group; and customer deposits which for best practice are treated as restricted. These are included in cash and cash equivalents.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. As at 31 December 2019 and 2018, the Group had an interest rate swap categorised as financial liability at fair value through profit or loss.

### ***Bank borrowings***

Interest-bearing bank loans and overdrafts are recorded initially at their fair value, net of direct issue costs, then at amortised cost. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

When the Group renegotiates the terms of its existing finance arrangements it assesses whether the revised terms represents a modification of the existing arrangement or, in substance, an extinguishment and replacement with a new facility.

When the cash flows associated with the revised terms are substantially different from those under the original term the group treats the transaction as an extinguishment and replacement. In such circumstances the carrying value of the original finance is derecognised and replaced with a new liability, measured at fair value, based on future cash flows. Any transaction costs arising as a result of the renegotiation are added to the gain and loss of disposal of the debt instrument, which is recognised in the income statement.

Where the cash flows are not substantially different, any difference in the present value of the revised cash flows (calculated using the historic effective interest rate), together with any fees arising on the renegotiation are recognised through the income statement. In this case any transaction costs relating to the original facility which are being carried in the Group's balance sheet will continue to be amortised over the life of the facility.

### ***Trade payables***

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

### *Treasury shares*

The costs of purchasing Treasury shares are shown as a deduction against equity. The purchase or sale of own shares does not lead to a gain or loss being recognised in the income statement.

### *Taxation*

With effect from 1 January 2008, Guernsey's corporate tax regime has changed. From that date the exempt company and international business regimes have been abolished as a consequence of which the Company is treated as resident for tax purposes subject to 0% tax. These changes do not adversely affect the tax efficiency of the AEL group corporate structure.

Current tax arises in jurisdictions other than Guernsey. It is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted. Taxable profit differs from net profit as reported in the income statement because it is adjusted for items of income or expense that are taxable or tax deductible in other years (temporary differences) and items that are never taxable or deductible (permanent differences). Temporary differences principally arise from using different balance sheet values for assets and liabilities than their respective tax base values. Deferred tax is generally provided in respect of all these taxable temporary differences at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised only when, on the basis of all available evidence, it is probable that sufficient taxable profits will be available against which the future reversal of the underlying temporary differences can be deducted.

Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets shall reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not netted off against each other unless they relate to taxes levied by the same authority and arise in the same taxable entity or in different taxable entities that intend to recover the tax assets / settle the liabilities simultaneously on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited to equity.

### *Dividends*

Final dividend payments in respect of a financial year are recognised as a liability in the year in which the dividend payment is approved by the Company's shareholders.

Interim dividends paid are recognised in the year in which the payment is made.

### *Changes to accounting policies since the last period*

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases.

#### *Implementation of IFRS 16*

Implementation of IFRS 16 introduces a unitary model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. Based on the assessment made of the impact of the application of IFRS 16 on

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

the accounting principles applied by the Group, the Group concludes that the only agreements to which new recognition method applies, are the rights of perpetual usufruct of real estate properties.

### *The method of valuation and presentation of leasing in the Group's financial statements*

The Group decided to apply the standard using the modified retrospective approach with 1 January 2019 being initial application date. Accordingly, the Group recognizes a lease liability, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group recognizes the respective right-of-use asset at an amount equal to the sum of:

- i) the lease liability at the date of initial application,
- ii) carrying amount brought forward of land held under operating leases-prepayments, and
- iii) revaluation adjustment where the underlying asset is measured by applying the revaluation model to property, plant and equipment.

This method of application did not result in any adjustment to retained earnings on the date of initial application (1 January 2019). The Group has decided to present right-of-use assets under the same item in the consolidated statement of financial position, under which the relevant underlying assets would be presented if they were owned by the Group. The lease liabilities are presented as other liabilities in long term liabilities or liabilities directly associated with non-current assets classified as held for sale.

### *The right of perpetual usufruct of land related to Hilton hotel project:*

*Asset* - was recognized in the consolidated statement of financial position under " Property, plant and equipment".

*Liabilities* - was presented in the balance sheet as a long term under "other long term liabilities".

*Subsequently* - the Group presents the right of asset use at their revalued amount, being fair value at the date of revaluation less any subsequent accumulated depreciation (on straight line basis over the lease period) and the Group recognizes finance expense to reflect interest expense on lease liability.

### *The right of perpetual usufruct of land related to Atlas Estates Tower project:*

*Asset* - was recognized in the consolidated statement of financial position as " Non-current assets classified as held for sale ".

*Liabilities* - was presented in the consolidated statement of financial position as "Liabilities directly associated with non-current assets classified as held for sale ".

*Subsequently* - the Group recognizes finance expense to reflect interest expense on lease liability.

### *The right of perpetual usufruct of land related to Galeria Platinum Towers project:*

*Asset* - was recognized in the consolidated statement of financial position as "Investment properties".

*Liabilities* - was presented in the balance sheet as a long term under "other long term liabilities".

*Subsequently* - the Group fair values through the income statement the right of use asset at each balance sheet date and recognizes finance expense to reflect interest expense on lease liability.

	31 December	Effect of adoption of IFRS 16			1 January
	2018	Transfer	Initial recognition	Revaluation	2019
	€'000	€'000	€'000	€'000	€'000
Land held under operating lease	6,893	(6,893)	-	-	-
Property, plant and equipment	75,795	6,893	8,063	11,707	102,458
Investment property	91,625	-	1,021	-	92,646
Non-current assets classified as held for sale	5,054	-	1,382	-	6,436
<i>Impact on assets</i>		-	10,466	11,707	
Revaluation reserve	(22,839)	-	-	(9,483)	(32,322)
Deferred tax liabilities	(11,348)	-	-	(2,224)	(13,572)
Non- current other liability	(1,590)	-	(9,084)	-	(10,674)
Liabilities directly associated with non-current assets classified as held for sale	-	-	(1,382)	-	(1,382)
<i>Impact on equity &amp; liabilities</i>		-	(10,466)	(11,707)	

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## STATEMENT OF ACCOUNTING POLICIES

The movement on the right of use assets and lease liabilities in the year ended 31 December 2019 is presented below:

	1 January 2019	Depreciation charge	Revaluation/ Fair value adjustment	Disposal	Foreign exchange	31 December 2019
	€'000	€'000	€'000	€'000	€'000	€'000
Right of use asset						
Property, plant and equipment	26,663	(294)	2,708	-	53	29,130
Investment property	1,021	-	(1)	-	(1)	1,019
Non-current assets classified as held for sale	5,133	(63)	-	(5,103)	33	-

	1 January 2019	Finance expense	Payment	Disposal	Foreign exchange	31 December 2019
	€'000	€'000	€'000	€'000	€'000	€'000
Lease liability						
Non- current other liability	(10,674)	(394)	416	-	(3)	(10,655)
Liabilities directly associated with non-current assets classified as held for sale	(1,382)	(36)	51	1,352	15	-

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these are not effective for the current year. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods; those that may have a material impact on the financial statements are:

- (a) Amendments to References to the Conceptual Framework in IFRS Standards, effective 1 January 2020. This amendment has been endorsed for use in the EU.
- (b) Amendments to IFRS 3 Business Combinations – Definition of a Business, effective 1 January 2020. This amendment has not yet been endorsed for use in the EU.
- (c) Definition of Material - Amendments to IAS 1 and IAS 8, effective 1 January 2020. This amendment has been endorsed for use in the EU.
- (d) Amendments to IFRS9, IAS 37 and IFRS7: Interests rate benchmark reform effective on 1 January 2020. This amendment has been endorsed in the EU.
- (e) Amendments to IAS1: Classification of liabilities as current or non-current, effective 01 January 2022. This amendment has not yet been endorsed for use in the EU.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Financial risk management

#### 1.1 Financial assets and financial liabilities

The Group holds the following financial instruments:

	31 December 2019	31 December 2018	
	€'000	€'000	Note
<b>Financial assets</b>			
<b>Financial assets held at amortised cost</b>			
Trade and other receivables*	1,396	2,235	19
Cash and cash equivalents	54,513	24,443	20
Assets held within disposal groups classified as held for sale	451	-	15
	<b>56,360</b>	<b>26,678</b>	
<b>Financial liabilities</b>			
<b>Financial liabilities at amortized cost</b>			
Trade and other payables*	(21,644)	(16,553)	21
Borrowings	(72,141)	(89,023)	22
Lease liabilities	(10,655)	(1,590)	21
Liabilities directly associated with non-current assets classified as held for sale	(2,195)	-	15
<b>Financial liabilities at fair value through profit or loss</b>			
Derivative financial instruments	(2,042)	(1,359)	23
	<b>(108,677)</b>	<b>(108,935)</b>	

\* excluding non-financial receivables and liabilities

#### 1.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described above.

Risk management is carried out by the Property Manager under policies approved by the Board of Directors. The Property Manager identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board approves written principles for overall risk management, and is overseeing the development of policies covering specific areas such as foreign exchange risk and interest-rate risk. The Property Manager may call upon the services of a retained risk management consultant in order to assist with its risk assessment tasks.

Reports on risk management are produced periodically on an entity and territory level to the key management personnel of the Group.

##### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, Polish Zloty and Romanian Lei. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

In 2019 Polish functional currency appreciated slightly by 1% against the Euro, whereas Hungarian and Romanian currencies depreciated by 3% and 2% respectively as compared to 2018. The movements in value of the functional currencies have resulted in foreign exchange loss of €0.2 million in the income statement (2018: €1.6 million loss) and €1.2 million gain (2018: €2.7 million loss) in other comprehensive income for the year ended 31 December 2019.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the year covered by these consolidated financial statements the Group has not entered into any currency hedging transactions. Foreign exchange risk is monitored and the cost benefits of any potential currency hedging transactions are reviewed to determine their effectiveness for the Group.

The tables below summarise the Group's exposure to foreign currency risk at 31 December 2019.

The group's financial assets and liabilities held in Euros, at their carrying amounts are included in the table, categorised by the functional currency of the company that holds these instruments.

2019	PLN €'000	HUF €'000	RON €'000	Total €'000
Cash and cash equivalents	7,056	-	-	7,056
Assets held within disposal groups classified as held for sale	-	-	206	206
<b>Total financial assets</b>	<b>7,056</b>	<b>-</b>	<b>206</b>	<b>7,262</b>
Borrowings, including finance leases	(41,791)	-	-	(41,791)
Derivative financial instruments	(1,224)	-	-	(1,224)
Liabilities directly associated with non-current assets classified as held for sale	-	-	(2,064)	(2,064)
<b>Total financial liabilities</b>	<b>(43,015)</b>	<b>-</b>	<b>(2,064)</b>	<b>(45,079)</b>
<b>Net financial (liabilities) / assets</b>	<b>(35,959)</b>	<b>-</b>	<b>(1,858)</b>	<b>(37,817)</b>
<b>2018</b>	<b>PLN €'000</b>	<b>HUF €'000</b>	<b>RON €'000</b>	<b>Total €'000</b>
Cash and cash equivalents	9,265	-	238	9,503
<b>Total financial assets</b>	<b>9,265</b>	<b>-</b>	<b>238</b>	<b>9,503</b>
Trade and other payables	(9)	-	-	(9)
Borrowings, including finance leases	(43,596)	(12,406)	(2,229)	(58,231)
Derivative financial instruments	(922)	-	-	(922)
<b>Total financial liabilities</b>	<b>(44,527)</b>	<b>(12,406)</b>	<b>(2,229)</b>	<b>(59,162)</b>
<b>Net financial (liabilities) / assets</b>	<b>(35,262)</b>	<b>(12,406)</b>	<b>(1,991)</b>	<b>(49,659)</b>

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated – for example, change in interest rate and change in foreign currency rates. The Group manages foreign currency risk on an overall basis. The sensitivity analysis prepared by management for foreign currency risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

If the euro weakened/ strengthened by 10% against the Polish Zloty with all other variables held constant, post-tax profit for the year would have been €7.4 million higher/ €6.1 million lower.

If the euro weakened/ strengthened by 10% against the Romanian Lei with all other variables held constant, post-tax profit for the year would have been €0.3 million higher/ €0.3 million lower.

### (ii) Price risk

The Group is exposed to property price, property rental value, and hotel rate risks. The Group is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities.



# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings (note 22). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's cash flow and fair value interest rate risk is periodically monitored by the Property Manager. The Property Manager analyses its interest rate exposure on a dynamic basis. It takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. Various scenarios are considered including refinancing, renewal of existing positions, alternative financing and hedging. The scenarios are reviewed on a periodic basis to verify that the maximum loss potential is within the limit given by management. During the year ended 31 December 2019, the Group had four interest rate swap agreements to mitigate the cash flow and interest rate risk related to some of its borrowings (2018: four interest rate swap agreements).

Trade and other receivables and payables are interest-free and have settlement dates within one year.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

An increase/ decrease in 100 basis points in interest yields would result in an decrease/ increase in the post-tax profit for the year of €0.2 million (2018: decrease/ increase in the post-tax loss for the year of €0.1 million).

The Group has four derivative financial liabilities, being an interest rate swaps which falls into level 2 for fair value measurement (as disclosed in note 23 of the consolidated financial statements).

### (b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables (note 19). Credit risk is managed on a local and group basis and structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual and more frequent review. The Group has policies in place to ensure that where possible rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

The maximum credit risk exposure in relation to financial assets, being cash and cash equivalents and trade and other receivables is the carrying value of those assets for the year, namely €55.9 million (2018: €27.5 million).

Cash is held with the following banks which have the following rating as at 31 December 2019 and 2018:

<b>Bank</b>	<b>Rating</b>	<b>2019</b>	<b>Bank</b>	<b>Rating</b>	<b>2018</b>
Bank Pekao S.A.	BBB+	20,863	Bank Pekao S.A.	BBB+	11,397
Santander	BBB+	29,471	Santander	BBB+	5,333
ING	A	2,389	ING	A	5,623
mBank	BBB-	738	mBank	BBB	617
Barclays PLC	A	370	Barclays PLC	BBB	26
Other		1,034	Other		1,447
		<b>54,865</b>			<b>24,443</b>

Given the above, as well as the short-term nature of those investments, the credit risk associated with cash and cash equivalents is considered to be low.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Property Manager aims to maintain flexibility in funding by keeping cash and committed credit lines available.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's liquidity position is monitored on a weekly basis by management and is reviewed quarterly by the Board of Directors. A summary table with the maturity of financial assets and liabilities is presented below.

	31 December 2019	31 December 2018
	€'000	€'000
<b>Financial assets – current</b>		
Trade and other receivables – maturity within one year	2,676	2,865
Cash and cash equivalents – maturity within one year	54,865	24,443
	<b>57,541</b>	<b>27,308</b>
<b>Financial liabilities – non-current borrowings and leases</b>		
Between 1 and 2 years	(9,810)	(7,332)
Between 2 and 5 years	(33,632)	(33,773)
Over 5 years	(72,714)	(44,980)
	<b>(116,216)</b>	<b>(85,085)</b>
<b>Financial liabilities – current</b>		
Borrowings	(6,837)	(17,898)
Trade and other payables (excluding amounts presented below) – maturity within one year	(10,711)	(3,816)
Amounts due to Property Manager in respect of management and performance fee*	(10,802)	(12,737)
	<b>(28,350)</b>	<b>(34,451)</b>

\* Within trade payables of the Group is a performance fee payable to the Property Manager (as disclosed in note 21). The payment terms of this fee are subject to consultation between the parties, and the actual payment will be subject to available cash flows of the Group.

The status of loans is disclosed in note 22 as part of the bank loans note.

### 1.3 Capital risk management

The Directors consider capital to consist of the Group's debt and equity. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's longer term strategy is to maintain a gearing ratio below 80% taking into consideration current market conditions. The gearing ratio as at 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	31 December 2018
	€'000	€'000
Total bank borrowings	(74,205)	(89,023)
Less: cash and cash equivalents	54,865	24,443
<b>Net debt</b>	<b>(19,340)</b>	<b>(64,580)</b>
Total equity attributable to owners of the parent	(142,543)	(91,803)
<b>Total capital</b>	<b>(161,883)</b>	<b>(156,383)</b>
<b>Gearing ratio</b>	<b>11%</b>	<b>41%</b>

Included in cash and cash equivalents is €8.3 million (2018: €8.2 million) restricted cash relating to restricted proceeds, security, customer deposits and loan financing.

### 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 outlined below.

#### (a) Estimate of fair value of investment properties and property, plant and equipment

The Property Manager engages qualified experts to assist in its assessment of the fair values of investment properties and of property, plant and equipment. All investment property and property, plant and equipment is re-valued on an annual basis by appropriately qualified, independent valuers. The valuations are prepared in accordance with generally accepted international valuation methods and procedures. Any assumptions made by the valuer are reviewed by the Board and the Property Manager for their reasonableness (see more details in note 15 and 16). Key assumptions in the valuation process relate to yield percentages, estimated rental values, underlying cash flow projections and discount rates.

#### (b) Inventory

The Group's main activities are the development and sale of residential apartments. The process of obtaining zoning and permits may in itself take some time. This period is then added to by the time taken to construct the apartments. Throughout this time the purchase cost of the land and the construction costs are recorded within inventory. The Group continually reviews the net realisable value of its development properties against the cumulative costs that are held on its balance sheet within inventory.

To enable this review, management appoints an appropriately qualified engineer to monitor and control the costs of construction. The costs that have been incurred and are projected to be incurred are benchmarked against those available in the market to ensure that best value is received. A strict tendering process is adhered to when procuring construction services and the costs are controlled locally on a regular basis. Qualified experts undertake an independent assessment of the net realisable value of its developments.

### 3. Segmental information

Management has determined the operating segments based on the reports reviewed by the property manager's executive management that are used to make strategic decisions.

For management purposes, the Group is currently organised into three operating divisions – the ownership and management of investment property, the development and sale of residential property and the ownership and operation of hotels.

The Property Manager's executive management assesses the performance of the operating segments based on the income statement. This measurement basis includes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non – recurring event. Interest income and expenditure are also allocated to segments, as this type of activity is directly related to each property within each sector.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The segment information provided to the Property Manager's executive management for the reportable segments for the year ended 31 December 2019 is as follows:

Year ended 31 December 2019	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
Revenues	8,898	9,527	19,992	34	38,451
Cost of operations	(3,528)	(6,354)	(12,407)	-	(22,289)
<b>Gross profit</b>	<b>5,370</b>	<b>3,173</b>	<b>7,585</b>	<b>34</b>	<b>16,162</b>
Administrative expenses	(542)	(370)	(2,697)	(3,559)	(7,168)
<b>Gross profit/ (loss) less administrative expenses</b>	<b>4,828</b>	<b>2,803</b>	<b>4,888</b>	<b>(3,525)</b>	<b>8,994</b>
Other operating income	1,225	27,543	973	1	29,742
Other operating expenses	(36)	(354)	(85)	(131)	(606)
Increase in value of investment properties	5,364	-	-	-	5,364
<b>Profit/ (Loss) from operations</b>	<b>11,381</b>	<b>29,992</b>	<b>5,776</b>	<b>(3,655)</b>	<b>43,494</b>
Finance income	48	270	31	46	395
Finance cost	(1,165)	(40)	(2,984)	(72)	(4,261)
Finance costs - other gains – foreign exchange	16	(58)	(113)	(18)	(173)
Share of losses from equity accounted joint ventures	-	(5)	-	-	(5)
<b>Segment result before tax</b>	<b>10,280</b>	<b>30,159</b>	<b>2,710</b>	<b>(3,699)</b>	<b>39,450</b>
Tax (expense)/ credit	(440)	(5,441)	(830)	(17)	(6,728)
<b>Profit for the period as reported in the income statement as attributable to owners of the parent</b>					<b>32,722</b>

Year ended 31 December 2019	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
<b>Reportable segment assets</b>	101,829	31,922	125,152	-	258,903
Unallocated assets	-	-	-	11,411	11,411
<b>Total assets</b>	<b>101,829</b>	<b>31,922</b>	<b>125,152</b>	<b>11,411</b>	<b>270,314</b>
<b>Reportable segment liabilities</b>	(37,036)	(1,042)	(72,365)	-	(110,443)
Unallocated liabilities	-	-	-	(17,328)	(17,328)
<b>Total liabilities</b>	<b>(37,036)</b>	<b>(1,042)</b>	<b>(72,365)</b>	<b>(17,328)</b>	<b>(127,771)</b>

Year ended 31 December 2019	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
<b>Other segment items</b>					
Capital expenditure	1,328	1,540	228	21	3,117
Depreciation	16	50	2,438	7	2,511
Amortisation	-	-	-	9	9

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
Revenues	9,974	14,737	20,285	41	45,037
Cost of operations	(4,822)	(10,705)	(12,568)	-	(28,095)
<b>Gross profit</b>	<b>5,152</b>	<b>4,032</b>	<b>7,717</b>	<b>41</b>	<b>16,942</b>
Administrative expenses	(735)	(350)	(3,003)	(7,190)	(11,278)
<b>Gross profit/ (loss) less administrative expenses</b>	<b>4,417</b>	<b>3,682</b>	<b>4,714</b>	<b>(7,149)</b>	<b>5,664</b>
Other operating income	2,369	105	25	5	2,504
Other operating expenses	(74)	(342)	(77)	(6)	(499)
Increase in value of investment properties	7,022	-	-	-	7,022
<b>Profit/ (Loss) from operations</b>	<b>13,734</b>	<b>3,445</b>	<b>4,662</b>	<b>(7,150)</b>	<b>14,691</b>
Finance income	34	17	44	5	100
Finance cost	(1,394)	(5)	(2,783)	(6)	(4,188)
Finance costs - other gains – foreign exchange	(1,403)	53	(139)	(126)	(1,615)
Share of losses from equity accounted joint ventures	-	(125)	-	-	(125)
<b>Segment result before tax</b>	<b>10,971</b>	<b>3,385</b>	<b>1,784</b>	<b>(7,277)</b>	<b>8,863</b>
Tax (expense)/ credit	(2,208)	(728)	(145)	23	(3,058)
<b>Profit for the period as reported in the income statement as attributable to owners of the parent</b>					<b>5,805</b>

  

Year ended 31 December 2018	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
<b>Reportable segment assets</b>	107,274	17,071	97,257	-	221,602
Unallocated assets	-	-	-	3,077	3,077
<b>Total assets</b>	<b>107,274</b>	<b>17,071</b>	<b>97,257</b>	<b>3,077</b>	<b>224,679</b>
<b>Reportable segment liabilities</b>	(57,502)	(2,436)	(59,848)	-	(119,786)
Unallocated liabilities	-	-	-	(13,090)	(13,090)
<b>Total liabilities</b>	<b>(57,502)</b>	<b>(2,436)</b>	<b>(59,848)</b>	<b>(13,090)</b>	<b>(132,876)</b>

  

Year ended 31 December 2018	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
<b>Other segment items</b>					
Capital expenditure	2,202	57	398	20	2,677
Depreciation	19	-	2,403	14	2,436
Amortisation	-	44	117	5	166

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There are immaterial sales between the business segments.

Segment assets include investment property, property, plant and equipment, intangible assets, inventories, debtors and operating cash. Segment liabilities comprise operating liabilities and financing liabilities.

Unallocated assets represent cash balances, receivables and other assets held by the Company and those of selected sub-holding companies.

Unallocated liabilities include accrued costs and deferred taxation liabilities within the Company and selected sub-holding companies as at the balance sheet date.

Unallocated costs represent corporate expenses.

### Regional Analysis

The Group manages its business segments on a region wide basis. The operations in the reporting periods were based in four main countries within the Group's region of focus with mainly cash balances being held by the parent company. The four principal territories were:

1. Poland,
2. Hungary,
3. Romania, and
4. Bulgaria.

<b>Year ended 31 December 2019</b>	<b>Revenue €'000</b>	<b>Non current assets €'000</b>	<b>Capital expenditure €'000</b>	<b>Depreciation €'000</b>	<b>Amortisation €'000</b>
Poland	36,093	193,935	3,117	2,429	9
Hungary	260	-	-	1	-
Bulgaria	370	2,758	-	10	-
Romania	1,728	7,100	-	71	-
<b>Total</b>	<b>38,451</b>	<b>203,793</b>	<b>3,117</b>	<b>2,511</b>	<b>9</b>

<b>Year ended 31 December 2018</b>	<b>Revenue €'000</b>	<b>Non current assets €'000</b>	<b>Capital expenditure €'000</b>	<b>Depreciation €'000</b>	<b>Amortisation €'000</b>
Poland	41,781	152,600	2,508	2,299	166
Hungary	1,438	11,942	-	3	-
Bulgaria	322	2,779	-	10	-
Romania	1,496	15,815	169	124	-
<b>Total</b>	<b>45,037</b>	<b>183,136</b>	<b>2,677</b>	<b>2,436</b>	<b>166</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. Analysis of expenditure

#### 4.1 Cost of operations

	31 December 2019	31 December 2018
	€'000	€'000
Costs of sale of development property	(6,406)	(10,469)
Utilities, services rendered and other costs	(7,880)	(9,003)
Legal and professional expenses	(1,592)	(1,820)
Staff costs	(5,066)	(5,111)
Sales and direct advertising costs	(917)	(1,006)
Depreciation and amortisation	(578)	(686)
Reversal of impairment on inventory	150	-
<b>Cost of operations</b>	<b>(22,289)</b>	<b>(28,095)</b>

#### 4.2 Administrative expenses

	31 December 2019	31 December 2018
	€'000	€'000
Fees payable to the Group's auditor for the audit of the Company and its consolidated financial statements	(92)	(93)
Fees payable to the Group's auditor for the other services:		
- Audit of subsidiaries of the Company pursuant to legislation	(45)	(48)
- Non audit services – interim reviews	(42)	(32)
- Non audit services – taxation services	-	-
- Other compliance services	-	-
Other professional services	(188)	(190)
Incentive and management fee	(2,492)	(6,367)
Legal and other professional fees	(517)	(505)
Utilities, services rendered and other costs	(529)	(952)
Staff costs	(1,050)	(987)
Depreciation and amortisation	(1,942)	(1,916)
Other administrative expenses	(271)	(188)
<b>Administrative expenses</b>	<b>(7,168)</b>	<b>(11,278)</b>

#### 4.3 Employee benefit expenses

	31 December 2019	31 December 2018
	€'000	€'000
Wages, salaries and other employee benefit costs	6,206	6,102
Social security costs	637	644
<b>Employee benefit expenses</b>	<b>6,843</b>	<b>6,746</b>
<b>Average number of employees</b>	<b>224</b>	<b>259</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. Other operating income

	31 December 2019	31 December 2018
	€'000	€'000
Income from insurance	20	10
Write back of other payables	14	81
Reversal of impairment on property, plant and equipment	829	9
Profit on disposal of asset held for sale (note 15)	27,631	-
Profit on regain of control over subsidiary (note 31)	1,208	-
Profit on disposal of investment property (note 16)	-	2,369
Other	40	35
<b>Other operating income</b>	<b>29,742</b>	<b>2,504</b>

### 6. Other operating expenses

	31 December 2019	31 December 2018
	€'000	€'000
Penalty charges, interest and fees	(63)	(179)
Write off of other receivables	(111)	(6)
Other	(432)	(314)
<b>Other operating expenses</b>	<b>(606)</b>	<b>(499)</b>

### 7. Finance income and finance costs – net

	31 December 2019	31 December 2018
	€'000	€'000
Interest payable on bank borrowings	(2,867)	(3,000)
Interests on obligations under leases	(427)	-
Interests on amounts payable to Felikon Kft	(66)	-
Loss on interest rate derivative	(677)	(752)
Other	(224)	(436)
<b>Finance costs</b>	<b>(4,261)</b>	<b>(4,188)</b>
Gain on interest rate derivative	13	-
Other	382	100
<b>Finance income – interest income</b>	<b>395</b>	<b>100</b>
<b>Finance income/ (costs), excluding foreign exchange – net</b>	<b>(3,866)</b>	<b>(4,088)</b>
Unrealised foreign exchange gains	203	717
Unrealised foreign exchange losses	(79)	(1,876)
Realised foreign exchange gains	46	82
Realised foreign exchange losses	(343)	(538)
<b>Other gains and (losses) – foreign exchange</b>	<b>(173)</b>	<b>(1,615)</b>
<b>Finance income/ (costs), including foreign exchange – net</b>	<b>(4,039)</b>	<b>(5,703)</b>



# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. Tax expense

	31 December 2019	31 December 2018
	€'000	€'000
<b>Continuing operations</b>		
Current tax on profits for the year	(5,794)	(2,175)
Total current tax	(5,794)	(2,175)
Deferred tax	(934)	(883)
<b>Tax charge for the year</b>	<b>(6,728)</b>	<b>(3,058)</b>
	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>€'000</b>	<b>€'000</b>
Deferred tax on revaluation	(1,722)	(796)
Deferred tax on exchange movements offset in reserves	(18)	213
	<b>(1,740)</b>	<b>(583)</b>

Taxation has been calculated by applying the standard corporate tax rates ruling in each operating territory. The difference between the total current tax shown above and the amount calculated by applying the standard rates of corporation tax to the profit before tax is as follows:

	31 December 2019	31 December 2018
	€'000	€'000
<b>Profit before tax</b>	<b>35,450</b>	<b>8,863</b>
Tax on profit at average country rate 20.6% (2018: 18.4%)	<b>(7,309)</b>	<b>(1,631)</b>
Factors affecting charge:		
Permanent differences	694	(1,041)
- <i>Tax exempt transactions (regain over Kokoszki)</i>	230	-
- <i>Other permanent differences</i>	464	(1,041)
Losses for which deferred tax is not recognized in current year	(36)	(277)
Reversal of write down/ (Write down) of a deferred tax asset	(77)	(109)
<b>Tax credit for year</b>	<b>(6,728)</b>	<b>(3,058)</b>

There is an unrecognised gross deferred tax asset in relation to losses of €2.3 million (2018: €5.4 million). Expiration date of unrecognised tax losses (amounts presented at relevant tax rates) is as follows:

	31 December 2019	31 December 2018
	€'000	€'000
2019	-	629
2020	277	338
2021	283	405
2022	301	497
2023	1,306	2,976
2024	64	17
2025	37	556
	<b>2,268</b>	<b>5,418</b>

### 9. Dividends

There were no dividends declared or paid in the years ended 31 December 2019 and 31 December 2018.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Reconciliations of the profits and weighted average number of shares used in the calculations are set out below:

Year ended 31 December 2019	Profit	Weighted average number of shares	Per share amount
Continuing operations	€'000		Eurocents
<b>Basic EPS</b>			
Profit attributable to equity shareholders of the Company	32,722	46,852,014	69.8
<b>Diluted EPS</b>			
Adjusted profit	32,722	46,852,014	69.8
<b>Year ended 31 December 2018</b>	<b>Profit</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
<b>Continuing operations</b>	<b>€'000</b>		<b>Eurocents</b>
<b>Basic EPS</b>			
Profit attributable to equity shareholders of the Company	5,805	46,852,014	12.4
<b>Diluted EPS</b>			
Adjusted profit	5,805	46,852,014	12.4

### 11. Joint ventures

As detailed in note 31, the group has a 50% interest in a jointly controlled entity (based on the percentage of shares held and attributable voting right), which have been accounted for by equity method in the consolidated financial statements.

The Group's 50% share of joint venture's summarized financial information is presented below:

	31 December 2019	31 December 2018
	€'000	€'000
Non-current assets	813	806
Current assets	2	4
Current liabilities	(814)	(808)
Non-current liabilities	(1)	(2)
<b>Net assets</b>	<b>-</b>	<b>-</b>
<i>Included in the above amounts are:</i>		
Cash and cash equivalents	-	-
Income	8	134
Expenses	(13)	(259)
<b>Profit/ (Loss) after tax</b>	<b>(5)</b>	<b>(125)</b>
<i>Included in the above amounts are:</i>		
Interests expense	(13)	(13)
Income tax (expense) / income	-	6

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. Intangible assets

	Computer software
	€'000
<b>Cost</b>	
<b>At 1 January 2018</b>	846
Additions	2
Exchange adjustments	(21)
<b>At 31 December 2018</b>	<b>827</b>
Additions	2
Exchange adjustments	6
<b>At 31 December 2019</b>	<b>835</b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2018</b>	(792)
Charge for the year	(30)
Exchange adjustments	20
<b>At 31 December 2018</b>	<b>(802)</b>
Charge for the year	(9)
Exchange adjustments	(5)
<b>At 31 December 2019</b>	<b>(816)</b>
<b>Net book value at 31 December 2019</b>	<b>19</b>
Net book value at 31 December 2018	25

### 13. Land held under operating lease- prepayments

	Land held under operating lease
	€'000
<b>Cost</b>	
<b>At 1 January 2018</b>	12,966
Exchange adjustments	(389)
Transfer to assets classified as held for sale (note 15)	(4,405)
<b>At 31 December 2018</b>	<b>8,172</b>
Transfer to property, plant and equipment (note 14)	(8,172)
<b>At 31 December 2019</b>	<b>-</b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2018</b>	(1,854)
Charge for the year	(136)
Exchange adjustments	56
Transfer to assets classified as held for sale (note 15)	655
<b>At 31 December 2018</b>	<b>(1,279)</b>
Transfer to property, plant and equipment (note 14)	1,279
<b>At 31 December 2019</b>	<b>-</b>
<b>Net book value at 31 December 2019</b>	<b>-</b>
Net book value at 31 December 2018	6,893

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. Property, plant and equipment

	Land and buildings €'000	Plant and equipment €'000	Motor vehicles €'000	Total €'000
<b>Cost or valuation</b>				
At 1 January 2018	78,925	12,270	63	91,258
Additions at cost	393	80	-	473
Exchange adjustments	(2,641)	(353)	(1)	(2,995)
Revaluation	2,438	-	-	2,438
Transfer to assets classified as held for sale (note 15)	-	(1,304)	-	(1,304)
<b>At 31 December 2018</b>	<b>79,115</b>	<b>10,693</b>	<b>62</b>	<b>89,870</b>
Transfer from land held under operating lease (note 13)	8,172	-	-	8,172
Effect of adoption of IFRS 16 (see page 53)	19,770	-	-	19,770
Additions at cost	228	19	-	247
Exchange adjustments	752	89	-	841
Revaluation	8,006	-	-	8,006
Transfer to assets classified as held for sale (note 15)	(7,847)	-	-	(7,847)
<b>At 31 December 2019</b>	<b>108,196</b>	<b>10,801</b>	<b>62</b>	<b>119,059</b>
<b>Accumulated depreciation</b>				
At 1 January 2018	(5,910)	(8,294)	(61)	(14,265)
Charge for the year	(1,761)	(674)	(1)	(2,436)
Adjustment due to revaluation	1,761	-	-	1,761
Exchange adjustments	625	239	1	865
<b>At 31 December 2018</b>	<b>(5,285)</b>	<b>(8,729)</b>	<b>(61)</b>	<b>(14,075)</b>
Transfer from land held under operating lease (note 13)	(1,279)	-	-	(1,279)
Charge for the year	(1,886)	(574)	(1)	(2,461)
Adjustment due to revaluation	1,886	-	-	1,886
Exchange adjustments	(177)	(76)	-	(253)
Transfer to assets classified as held for sale (note 15)	1,847	-	-	1,847
<b>At 31 December 2019</b>	<b>(4,894)</b>	<b>(9,379)</b>	<b>(62)</b>	<b>(14,335)</b>
<b>Net book value at 31 December 2019</b>	<b>103,302</b>	<b>1,422</b>	<b>-</b>	<b>104,724</b>
Net book value at 31 December 2018	73,830	1,964	1	75,795

As of 31 December 2018 Hotels Hilton in Warsaw and Golden Tulip in Bucharest constituted the majority of the total property, plant and equipment balance. As of 31 December 2019 Golden Tulip hotel in Bucharest was classified to assets classified as held for sale (note 15).

Hotels were valued as at 31 December 2019 by Jones Lang LaSalle Sp. z o.o., Chartered Surveyors, acting in the capacity of External Valuers. All properties were valued on the basis of Market Value and the valuations were carried out in accordance with the RICS Valuation Global Standards 2017. The results of valuation:

- revaluation adjustments, net of applicable deferred taxes, have been taken to the revaluation reserve in shareholders' equity (consolidated statement of comprehensive income),
- impairment adjustments have been taken to other operating expenses/ reversal of impairment adjustments have been taken to other operating income (note 5).

Land held under operating lease-prepayment as at 31 December 2018 with an amortized cost carrying value of €6.9 million related to lease prepayment in 2006. The market value of this land as at 31 December 2019 was €21.2 million (2018: €18.6 million). On adoption of IFRS 16 land held under operating lease-prepayment at 1 January 2019 has been reclassified to Hotel Land and Buildings and revalued to market value with the increase of €11.7 million in value less deferred tax of €2.2 million recognized in the revaluation reserve.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value of both hotels is level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	31 December 2019	31 December 2018
	€'000	€'000
Opening balance (level 3 recurring fair values)	75,700	75,600
Transfer from land held under operating lease (note 13)	6,893	-
Effect of adoption of IFRS 16 (see page 53)	19,770	-
Additions at cost	228	396
Revaluation gains/ (losses) included in other comprehensive income	9,063	4,190
Profit included in other operating income	829	9
Depreciation charge for the year	(2,438)	(2,403)
Exchange adjustments	587	(2,092)
<b>Closing balance (level 3 recurring fair values)</b>	<b>110,632*</b>	<b>75,700</b>

\*including Golden Tulip hotel, presented as assets classified as held for sale in the amount of €6 million

The valuation techniques and significant unobservable inputs used in determining the fair value measurement as well as the inter-relationship between key unobservable inputs and fair value, are set out in the table below:

Valuation Techniques used	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
Income approach The valuation has been undertaken using DCF valuation methodology.	Exit Capitalisation Rate (6.5% - 8.25%) Discount Rate (9.5%- 11.35%)	The higher the exit capitalisation and discounts rates the lower the fair value.

Fair value measurements are based on highest and best use, which does not differ from their actual use.

As of 31 December 2019 the Group has pledged property, plant and equipment of €110.6 million (including property, plant and equipment classified as held for sale) (31 December 2018: €75.7 million) to secure certain banking facilities granted to subsidiaries. Borrowings for the value of €49.9million (31 December 2018: €51.1 million) are secured on these properties (note 15 and 22).

If buildings were stated on the historical cost basis, the amounts would be as follows:

	31 December 2019	31 December 2018
	€'000	€'000
Cost	72,553	78,659
Accumulated depreciation	(20,279)	(20,270)
<b>At 31 December</b>	<b>52,274</b>	<b>58,389</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. Non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale

The major classes of assets and liabilities held for sale were as follows:

	31 December 2019	31 December 2018
	€'000	€'000
<b>Assets:</b>		
Right of use of leased asset	-	3,750
Property, plant and equipment	6,000	1,304
Inventory	42	-
Cash	352	-
Trade and other receivables	99	-
<b>Non-current assets classified as held for sale</b>	<b>6,493</b>	<b>5,054</b>
<b>Liabilities:</b>		
Deferred tax liability	(659)	-
Bank loan	(2,064)	-
Trade and other payables	(131)	-
<b>Liabilities directly associated with non-current assets classified as held for sale</b>	<b>(2,854)</b>	<b>-</b>

On 22 November 2018 the Group concluded preliminary sale agreement of *Atlas Estates Tower* (undeveloped real estate property located in Warsaw) at the net sale price of PLN 147 million (which was increased to PLN 148 million based on conditional sale agreement concluded in August 2019). This transaction was completed on 7 October 2019, the full sale price was received and the Group realized a gross profit of €27.6 million (note 5).

	€'000
Proceeds from the sale (net of transaction costs)	34,179
Book value of assets and liabilities sold	(6,548)
<b>Profit on disposal of asset and liabilities held for sale (note 5)</b>	<b>27,631</b>

As of 31 December 2019 the Group classified assets and liabilities associated with the Group's investment in D.N.B. - Victoria Towers SRL (i.e. Romanian subsidiary holding Golden Tulip hotel in Bucharest) as non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale. On 27 January 2020 the Group concluded sale agreement of investment in D.N.B. - Victoria Towers SRL at the net sale price of €7.7 million. As of 31 December 2019 the book value of this investment (classified as assets held for sale and liabilities directly associated with assets held for sale) amounted to €3.6 million. This transaction is planned to be completed by 31 December 2020 and on April 8, 2020 the Group received a €0.3 million advance in respect of the sale price.

The movement on non-current assets classified as held for sale account is as shown below:

	31 December 2019	31 December 2018
	€'000	€'000
At beginning of the year	5,054	-
Right of use of land in perpetual usufruct (page 54)	1,382	-
Assets classified as held for sale during the year	6,493	5,054
Additions (capitalized expenditures)	1,540	-
Depreciation	(50)	-
Exchange movements	(26)	-
Disposal	(7,900)	-
<b>As at year end</b>	<b>6,493</b>	<b>5,054</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The movement on liabilities directly associated with non-current assets classified as held for sale account is as shown below:

	31 December 2019	31 December 2018
	€'000	€'000
At beginning of the year	-	-
Right of use of land in perpetual usufruct (page 54)	(1,382)	-
Finance expense	(36)	-
Payment	51	-
Exchange movements	15	-
Disposal during the year	1,352	-
Liabilities related to assets classified as held for sale during the year	(2,854)	-
<b>As at year end</b>	<b>(2,854)</b>	<b>-</b>

### 16. Investment property

	31 December 2019	31 December 2018
	€'000	€'000
At beginning of the year	91,625	92,187
Right of use of land in perpetual usufruct (page 54)	1,021	-
Disposal of subsidiary (note 31)	(11,611)	-
Control regain of subsidiary (note 31)	1,423	-
Disposal of property ( <i>Sadowa</i> office building)	-	(7,149)
Capitalised subsequent expenditure	1,328	2,202
Exchange movements	249	(2,635)
PV of annual perpetual usufruct fees	(3)	(2)
Fair value gains	5,364	7,022
<b>At the end of the year</b>	<b>89,396</b>	<b>91,625</b>

The fair value of the Group's investment properties located in Poland and Romania at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out at that date by Jones Lang LaSalle Sp. z o.o. external independent qualified valuer with recent experience valuing the properties in these locations.

As of 31 December 2018 the Group also owned properties located in Hungary, which were valued by Takarek Ingatlan Zrt (*former name FHB Ingatlan Zrt*) external independent qualified valuer with recent experience valuing the properties in the location held by the Group.

All properties were valued on the basis of Market Value and the valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The fair value of the investment property has not been adjusted for the purposes of financial reporting.

The fair value of investment property is categorised as a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	31 December 2019	31 December 2018
	€'000	€'000
Opening balance (level 3 recurring fair values)	91,625	92,187
Control regain of subsidiary	1,423	-
Purchases	2,349	2,202
Disposals- other	(11,614)	(7,151)
Unrealized change in fair value	5,364	7,022
Unrealized foreign exchange movements	249	(2,635)
<b>Closing balance (level 3 recurring fair values)</b>	<b>89,396</b>	<b>91,625</b>

The Market Comparison Method has been used to obtain an initial value for Romanian investment properties. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions. However, these initial valuations have been modified through changes in the assumed orderly sale period between willing participants in order to establish the fair value under current market conditions, resulting in a decrease in valuation of 50%-60% (in 2018: 55%-60%).

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The recorded valuations are based on assumed orderly sale periods of 6 months as per the prior year, rather than 18 months as per the previous valuations, and takes into account the following factors:

- limited development financing available in Romania,
- limited numbers of investors prepared to invest in Romania assets,
- developers in Romania reducing their pipeline of scheduled projects and looking to existing planned projects rather than to acquiring new projects,
- active investors taking an opportunistic approach to acquire properties under distressed situations.

There remains a risk that eventual disposal prices of these properties could differ significantly from those included in the financial statements.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of investment property, as well as the inter-relationship between key unobservable inputs and fair value, is detailed in the table below.

Valuation Techniques used	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
<p>Income approach (Total value of properties at 31 December 2019: €80.9 million)</p> <p>Fair value is determined by applying the income approach based on the estimated rental value of the property.</p>	<p>Discount Rate (7.75% - 10.25%)</p> <p>Exit Yield (7% - 10%)</p> <p>Letting voids on vacant spaces (9 months)</p> <p>Rent - individually estimated per each property/type of leasable unit (€8/m<sup>2</sup> - €36/m<sup>2</sup>)</p>	<p>The higher the exit yield and discounts rates the lower the fair value.</p> <p>The higher the office rent the higher the fair value.</p>
<p>Comparable approach (Total value of properties at 31 December 2019: €8.5 million)</p> <p>The valuation technique that uses prices and other relevant information generated by market transactions involving comparable (i.e. similar) assets, adjusted for several factors to ensure comparability of the transactions.</p>	<p>The following adjusting factors were adopted:</p> <ul style="list-style-type: none"> <li>✓ Size (5% - 10%)</li> <li>✓ Location (5%)</li> <li>✓ Negotiation discount (5%-15%)</li> </ul>	<p>The higher/ the lower the adjusting factor the higher/ the lower the fair value.</p>

There were no changes to the valuation techniques of level 3 fair value measurements in the year ended 31 December 2019.

The fair value measurement is based on the above items highest and best use, which does not significantly differ from their actual use.

The Group has pledged investment property of €75.5 million (2018: €80.7 million) to secure certain banking facilities granted to subsidiaries.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to €9.0 million (2018: €10.0 million). Direct operating expenses, including repairs and maintenance, arising from investment property that generated rental income amounted to €4.2 million (2018: €5.5 million).



# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Disposal of Sadowa office building*

On 11 December 2018 the Group disposed *Sadowa* office building:

	<b>€'000</b>
Proceeds from the sale	9,086
Book value of the property sold	(7,149)
Write off of payables (relating to future annual perpetual usufruct fees)	432
<b>Profit on disposal of <i>Sadowa</i> property (note 5)</b>	<b>2,369</b>

### 17. Operating lease receivables – where the Group is a lessor

The Group leases its investment property under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	31 December 2019	31 December 2018
	€'000	€'000
No later than one year	9,293	8,465
Later than one year and no later than 5 years	20,374	19,746
Later than 5 years	2,639	3,494
<b>Total</b>	<b>32,306</b>	<b>31,705</b>

### 18. Inventories

	31 December 2019	31 December 2018
	€'000	€'000
Land held for development	-	5,144
Construction expenditures	-	353
Completed properties	1,568	2,314
Hotel inventory	1,120	1,147
<b>As at 31 December</b>	<b>2,688</b>	<b>8,958</b>

€6.4 million (2018: €10.5 million) of inventories were released to cost of operations in the income statement during the year. In 2019 €0.1 million (2018: €nil million) was recognised in the income statement in relation to reversal of impairment on inventories and €nil million was recognised in the income statement in relation to impairment on inventories (2018: €nil million). The stock which is held at fair value less cost to sell amounts to €nil million as of 31 December 2019 (2018: €0.5 million).

For the year ended 31 December 2019 and 2018 no borrowing costs were capitalised as part of the cost of inventory.

### *Nakielska Apartments Project- sale agreement*

On 31 January 2019 the Group concluded preliminary sale agreement of Nakielska Apartment Project at the net sale price of PLN 33.5 million (equivalent of ca €7.8 million). The book value of this project amounted to €5.6 million. This transaction was completed on 13 May 2019 and full sale price was received.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. Trade and other receivables

	31 December 2019	31 December 2018
	€'000	€'000
Trade receivables	1,207	2,840
Less: Loss allowance	(302)	(1,208)
Trade receivables – net	905	1,632
Other receivables (including tax)	1,677	1,233
Prepayments and accrued income	245	223
<b>At 31 December</b>	<b>2,827</b>	<b>3,088</b>

All trade and other receivables are financial assets, with the exception of prepayments and tax receivables. The book values of trade and other receivables are considered to be approximately equal to their fair value. The carrying amounts of current trade and other receivables are denominated in the following currencies:

	31 December 2019	31 December 2018
	€'000	€'000
Euro	125	113
Polish Zloty	2,505	2,480
Hungarian Forint	71	253
Romanian Lei	109	230
Other currencies	17	12
<b>At 31 December</b>	<b>2,827</b>	<b>3,088</b>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for trade receivables. To measure expected credit losses trade receivables were grouped based upon the days past due. The expected credit loss rates are based on the historical payment profiles and the corresponding historical credit losses experience. The historical rates are adjusted to reflect current and anticipated credit risk factors. On that basis, the loss allowance was determined:

	31 December 2019	31 December 2018
	€'000	€'000
Current and overdue not more than 3 months (0%-expected loss rate)	905	1,632
Overdue more than 3 months (100%- expected loss rate)	302	1,208
<b>At 31 December</b>	<b>1,207</b>	<b>2,840</b>

The other classes within trade and other receivables do not contain impaired assets.

The maximum amount of exposure of the Group to credit risk at the balance sheet date approximates the total of net trade and other receivables.

### 20. Cash and cash equivalents

	31 December 2019	31 December 2018
	€'000	€'000
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	23,902	18,743
Short term bank deposits	30,611	5,700
<b>At 31 December</b>	<b>54,513</b>	<b>24,443</b>
Cash presented as cash held for sale (note 15)	352	-
<b>At 31 December</b>	<b>54,865</b>	<b>24,443</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Included in cash and cash equivalents is €8.3 million (2018: €8.2 million) restricted cash relating to restricted proceeds, security, customer deposits and loan financing.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Trade and other payables

	31 December 2019	31 December 2018
	€'000	€'000
<b>Current</b>		
Trade payables	(946)	(1,189)
Other tax and social security	(554)	(7,776)
Amounts due to Atlas Management Company Group in respect of management and performance fee (note 27a)	(10,802)	(12,737)
Other creditors	(190)	(131)
Amounts payable to related party (note 27b)	(240)	(240)
Accruals and deferred income	(3,182)	(4,650)
Income tax payable	(36)	(1,199)
Amounts payable to Felikon Kft (note 27e)	(6,153)	-
<b>At 31 December</b>	<b>(22,103)</b>	<b>(27,922)</b>
<b>Non-current</b>		
Leases payables (due in 1-2 years)	(20)	(2)
Leases payables (due in 3-5 years)	(62)	(7)
Leases payables (due after 5 years)	(10,573)	(1,581)
Other non-current trade and other payables (due in 1-2 years)	(581)	(564)
Other non-current trade and other payables (due in 3-5 years)	(1,088)	(949)
Other non-current trade and other payables (due after 5 years)	(285)	(121)
<b>At 31 December</b>	<b>(12,611)</b>	<b>(3,224)</b>
<b>Total trade and other payables</b>	<b>(34,714)</b>	<b>(31,146)</b>

Included in trade and other payables is deferred income related to pre-sales of apartments. As the construction has now been completed, the amounts of cash paid into escrow accounts has now been released to the subsidiary. The value of the deferred income related to development property sales at 31 December 2019 amounts to €0.4 million (2018: €1.4 million) and will be released to the income statement upon signing the notarial deeds. The value of deferred income related to hotel services as at 31 December 2019 amounts to €0.8m (2018: €0.7m) and will be released to the income statement upon delivery of those services to the guest. For both types of deferred income this is expected to be recognised in revenue within 12 months.

During the year ended 31 December 2019, revenue of €1.7million (2018: €13.5 million) was recognised that was previously accounted for as a contract liability as at the previous year end.

### 22. Bank loans

	31 December 2019	31 December 2018
	€'000	€'000
<b>Current</b>		
<i>Bank loans and overdrafts due within one year or on demand</i>		
Secured	(2,726)	(15,058)
<b>Non-current</b>		
<i>Repayable within two years</i>		
Secured	(5,671)	(2,725)
<i>Repayable within three to five years</i>		
Secured	(23,343)	(29,036)
<i>Repayable after five years</i>		
Secured	(40,401)	(42,204)
	<b>(69,415)</b>	<b>(73,965)</b>
<b>Total</b>	<b>(72,141)</b>	<b>(89,023)</b>

The bank loans are secured on various properties of the Group by way of floating charges.

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The fair value of the floating rate borrowings approximated their carrying values at the balance sheet date, as the impact of marking to market and discounting is not significant. The fair values are based on cash flows discounted using rates based on equivalent floating rates as at the end of the year.

The effective interest rates as at the balance sheet date were:

		Euro	Zloty
<b>Bank loans</b>	<b>2019</b>	<b>2.17%-4.65%</b>	<b>3.61%</b>
Bank loans	2018	1.09%-5%	3.62%

Bank loans are denominated in a number of currencies and bear interest based on a variety of interest rates. An analysis of the Group's borrowings by currency (\* including loan balance presented as liabilities held for sale in note 15):

	Euro €'000	Zloty €'000	Total €'000
<b>Bank loans and overdrafts – 31 December 2019</b>	<b>43,855*</b>	<b>30,350</b>	<b>74,205*</b>
Bank loans and overdrafts – 31 December 2018	58,231	30,792	89,023

The Group has no undrawn borrowing facilities as at 31 December 2019 and 31 December 2018.

Loan currency	Basis of interest	Loan balance		Maturity date	Collateral
		In loan currency '000	In EUR €'000		
Euro	3mth EURIBOR	17,498	17,498	June 2025	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
PLN	3mth WIBOR	129,245	30,350	June 2025	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
Euro	3mth EURIBOR	20,984	20,984	September 2022	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and security assignment;
Euro	3mth EURIBOR	3,309	3,309	June 2021	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
Euro	3mth LIBOR	2,064	2,064*	June 2026	Mortgage over the asset together with assignment or pledge of the associated bank balances and insurance rights
<b>Total</b>			<b>74,205 *</b>		

At the balance sheet date collateral was established for the following financial assets to guarantee repayment of bank liabilities:

	31 December 2019 €'000	31 December 2018 €'000
Trade receivables	882	1,051
Cash and cash equivalents	4,091	4,508
<b>Total carrying amount of financial assets for which collateral was established to guarantee repayment of bank liabilities</b>	<b>4,973</b>	<b>5,559</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Changes in the year ended 31 December 2019*

During 2019 the Group paid €2.8 million in respect of scheduled partial repayments of several loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Atlas Tower*, *Galeria Platinum Towers*).

Following the deconsolidation of the Company's subsidiary Felikon Kft in the first quarter 2019 the loan facility extended to this subsidiary totalling €12.2 million is derecognized as the Group's bank loan in the consolidated financial statements as of 31 December 2019.

### *Changes in the year ended 31 December 2018*

#### *Galeria Platinum Towers project - loan facility extension*

On 25 January 2018 Properpol Sp. z o.o. (the Company's subsidiary) signed an amendment agreement with mBank S.A. to the facility agreement dated 2 September 2013 based on which the final repayment date of the facility was extended from 30 June 2018 to 30 June 2021.

#### *Amount increase of the existing Hilton loan facility*

On 7 February 2018 the Company's subsidiaries: Mantezja 3 Sp. z o.o. and HGC Gretna Investments Sp. z o.o. Sp. J., which operate *Hilton* hotel in Warsaw concluded an annex with Bank Pekao S.A. and PEKAO Bank Hipoteczny S.A. to the existing loan facility agreement dated 29 June 2015 based on which the subsidiaries were allowed to borrow additional funds in the amount of €3.5 million for financing *Hilton* expenses and other Atlas projects.

#### *Sadowa office loan facility- full repayment*

On 11 December 2018 following the sale of *Sadowa* office building the loan extended to this project and amounting to €3.6 million was fully repaid.

#### *Other loans- partial repayments*

During 2018 the Group paid €3.2 million in respect of scheduled partial repayments of other loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Atlas Tower* and *Sadowa* office buildings and *Galeria Platinum Towers*).

### **23. Derivative financial instruments**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>€'000</b>	<b>€'000</b>
<i>Derivatives not designated as hedging instruments:</i>		
- Interest rate swap	(2,042)	(1,359)
Total financial instruments classified as held for trading	(2,042)	(1,359)
<i>Less non-current portion:</i>		
- Interest rate swap	-	-
<b>Current portion</b>	<b>(2,042)</b>	<b>(1,359)</b>

The fair value of the Group's interest rate derivatives is based on broker quotes (level 2 recurring fair values).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates applicable to each individual territory.

The movement on the deferred tax account is as shown below:

	31 December 2019	31 December 2018
	€'000	€'000
At beginning of the year	(2,550)	(1,110)
Effect of adoption of IFRS 16 (see page 53)	(2,224)	
Disposals (note 31)	429	-
Transfer to liabilities classified as held for sale (note 15)	659	-
Credited to income statement	(934)	(883)
Credited to other comprehensive income	(1,740)	(583)
Exchange differences	(6)	26
<b>At 31 December</b>	<b>(6,366)</b>	<b>(2,550)</b>

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax assets – non-current	Tax losses	Revaluation and fair value adjustments	Other	Total
	€'000	€'000	€'000	€'000
At 1 January 2018	486	7,517	2,392	10,395
Profit and loss (charge)/ credit	248	(1,147)	(499)	(1,398)
Charged to other comprehensive income	-	100	-	100
Exchange differences	(17)	(215)	(67)	(299)
<b>At 31 December 2018</b>	<b>717</b>	<b>6,255</b>	<b>1,826</b>	<b>8,798</b>
Profit and loss (charge)/ credit	282	741	(242)	781
Credited to other comprehensive income	-	(12)	-	(12)
Exchange differences	8	64	15	87
<b>At 31 December 2019</b>	<b>1,007</b>	<b>7,048</b>	<b>1,599</b>	<b>9,654</b>

Deferred tax liabilities – non-current	Accelerated tax depreciation and other	Revaluation and fair value adjustments	Total
	€'000	€'000	€'000
At 1 January 2018	(8,168)	(3,337)	(11,505)
Profit and loss (charge)/ credit	1,413	(898)	515
Credited to other comprehensive income	-	(683)	(683)
Exchange differences	234	91	325
<b>At 31 December 2018</b>	<b>(6,521)</b>	<b>(4,827)</b>	<b>(11,348)</b>
Effect of adoption of IFRS 16 (see page 53)	-	(2,224)	(2,224)
Profit and loss (charge)/ credit	(225)	(1,490)	(1,715)
Charged to other comprehensive income	-	(1,728)	(1,728)
Disposals (note 31)	257	172	429
Exchange differences	(57)	(36)	(93)
Transfer to liabilities classified as held for sale (note 15)	-	659	659
<b>At 31 December 2019</b>	<b>(6,546)</b>	<b>(9,474)</b>	<b>(16,020)</b>

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The deferred income tax credited/ (charged) to other comprehensive income during the year is as follows:

	31 December 2019	31 December 2018
	€'000	€'000
Fair value reserves in shareholders' equity		
Revaluation of property, plant and equipment	(1,722)	(796)
Exchange movements offset in reserves	(18)	213
	<b>(1,740)</b>	<b>(583)</b>

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures due to the parent company's tax status.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company; or different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### 25. Share capital account

	Number of shares	Ordinary shares - share capital account	Total
		€'000	€'000
<b>Authorised</b>			
Ordinary shares of €0.01 each	100,000,000	1,000	1,000
<b>Issued and fully paid</b>			
As at 31 December 2018 and 2019	46,852,014	6,268	6,268

During 2007, 3,470,000 ordinary shares of €0.01 each with aggregate nominal value of €34,700 were purchased and held in Treasury.

### 26. Acquisition and disposals of subsidiary undertakings and investments in joint ventures

#### 26.1 Acquisitions of non-controlling interest during the year ended 31 December 2019

No acquisitions of non-controlling interest took place during the year ended 31 December 2019, except as presented in note 31.

#### 26.2 Disposals of subsidiary undertakings and interests in joint ventures during the year ended 31 December 2019

No disposals of subsidiary undertakings and interests in joint ventures took place during the year 2019, except as presented in note 31.

#### 26.3 Acquisitions of non-controlling interest during the year ended 31 December 2018.

No acquisitions of non-controlling interest took place during the year ended 31 December 2018.

#### 26.4 Disposals of subsidiary undertakings and interests in joint ventures during the year ended 31 December 2018

No disposals of subsidiary undertakings and interests in joint ventures took place during the year 2018.

### 27. Related party transactions

(a) Key management compensation	31 December 2019	31 December 2018
	€'000	€'000
Fees for non-executive Directors	61	61

The Company has appointed AMC, a company under common control, to manage its property portfolio. In consideration of the services provided, AMC charged a management fee of €2.5 million for the year ended 31 December 2019 (2018: €2.3 million). Under the agreement, AMC is also entitled to a performance fee based on the increase in value of the properties over the year. The Company has not

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

accrued a performance fee for the year ended 31 December 2019, as disclosed on page 33 (for the year ended 31 December 2018 performance fee amounted €4.1 million).

As of 31 December 2019, €10.8 million included in current trade and other payables was due to AMC (2018: €12.7 million). In 2019 cash of €4.4 million was paid to AMC in respect of the fees (in 2018: €2.9 million).

- (b) On 22 November 2012, the Group acquired 24% interest in the voting shares of Zielono Sp. z o.o., increasing its interests to 100%. As of 31 December 2019 €240 thousand is estimated as amount payable to Coralcliff Limited - former non-controlling shareholder of Zielono Sp. z o.o. (31 December 2018: €240 thousand). No amounts were paid in 2019 (2018: €nil thousand).
- (c) In 2018 Mr Ziv Zviel, the Chief Executive Officer of AMC, signed final contract for an apartment, parking place and storage in *Apartamenty przy Krasieńskiego II* for a total value of €46 thousand (after receiving a discount of €40 thousand). The sale price was fully settled in July 2018.
- (d) In November 2016 Atlas Estates Limited ("AEL") received a loan from its majority shareholder Fragiolig Holdings Limited ("Fragiolig") amounting to €3.5 million. The loan repayment date was 30 January 2017 however it was subsequently extended to 30 May 2018. In March 2017 AEL received an additional €3.75 million and as a result the loan amount was increased to €7.25 million. In September and November 2017 AEL executed several repayments totalling €5.3 million. In May 2018 AEL repaid the last tranche totalling €1.95 million. As of 31 December 2018 the loan is fully repaid.

Moreover on 31 January 2017 AEL concluded an option agreement with Fragiolig based on which AEL granted to Fragiolig an option to acquire (through AEL's subsidiaries) whole or part of the partnership interest in the partnership in its indirect subsidiary- HPO AEP Sp. z o.o. Sp. j. with its seat in Warsaw ("HPO"). The option expired on 30 May 2018.

- (e) Following deconsolidation of the Company's subsidiary Felikon Kft (as described in note 31) the Group has a loan payable due to Felikon Kft. The loan repayment date is 31 December 2020 however it can be extended to 31 December 2025. As of 31 December 2019 the Group owes €6.2 million.

### 28. Post balance sheet events

There are no significant post balance sheet events that require disclosure except for events described in note 15 and impact of Impact of COVID-19 coronavirus on the Group's operations as disclosed on page 16.

### 29. Significant Agreements

Significant financing agreements are described in note 22. Other significant agreement is described on page 22.

### 30. Other items

#### 30.1 Information about court proceedings

The Company is not aware of any proceedings instigated before a court, a competent arbitration body or a public administration authority concerning liabilities or receivables of the Company, or its subsidiaries, whose joint value constitutes at least 15% the Company's net equity.

There are no other material legal cases or disputes that are considered material to the consolidated financial information that would either require disclosure or provision within the financial information.

#### 30.2 Financial forecasts

No financial forecasts have been published by the Company in relation to the year ended 31 December 2019 and 2020.

#### 30.3 Guarantees and sureties

This information is presented in Directors' Report on pages 22 to 23.

#### 30.4 Capital commitments

This information is presented in Directors' Report on page 22.

#### 30.5 Contingencies

The Board of Directors of the Company (the Board) has recently conducted a review of the PMA and in particular the means by which performance fee is calculated. Of primary concern to the Board were the following issues:  
- the drafting of the clauses and definitions in the PMA as regards the calculation of performance fee are not concise and ambiguity can lead to multiple interpretations and thus differing calculations;



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- the lack of a properly constructed high-water mark mechanism has led to performance fees being paid multiple times on NAV gains in the same bracket, i.e. performance fees have been paid or accrued on certain gains in NAV, but due to subsequent reductions in NAV in a following period, upon the NAV increasing again in the next period, performance fees have been paid or accrued again on the same NAV increase for which performance fees have been paid previously;
- performance fee calculations appear to be disproportionate to the intention of the PMA which is to set a 12% hurdle rate.

Having concluded its review, and taken external legal advice on the interpretation of the PMA, the Board is of the view that it does not agree with the interpretation which has been taken previously in respect of performance fee calculations and it disputes the amounts which have been paid or accrued. Past Performance Fees which have accrued, but which are yet to be paid amount to €10.8m. The amount due to AMC is subject to change that is contingent on the resolution of the dispute. No asset has been recognised in respect of any reduction of the said balance. AEL and AMC have agreed that no performance fee will be due for 2019. On the basis of the above, the Board is in a position to approve the financial statements of the Company and the consolidated financial statements of the Group for the period ending December 2019, without accruing for a performance fee for 2019 and at the same time the Board commenced discussions with AMC to discuss the above concerns and agree a mechanism which will ensure a fair and appropriate remuneration structure for both parties going forward from 2020. The value of performance fee for 2019 which has not been accrued by the Company (if historical interpretation of calculation method is applied) amounts to €4.0 million.

### 31. Principal subsidiary companies and joint ventures

The table below lists the current operating companies of the Group. In addition, the Group owns other entities which have no operating activities. In 2019 there were no changes in the Group structure except for:

- Deconsolidation of the subsidiary over which the Group control was lost:
  - a Hungarian subsidiary, Felikon Kft., which received on 27 February 2019 a decision from the Metropolitan Companies' Court in Budapest ordering the compulsory strike off of Felikon Kft. The court's decision commenced a process of liquidation and deletion of Felikon Kft. from the companies register. No gain or loss was recognised in the consolidated financial statements for the year ended 31 December 2019 as a result of this event. Additionally, the liability of €6.2m in note 27e arose as it was no longer subject to elimination post de-consolidation of Felikon from the Group.

	€'000	€'000
The fair value of any consideration received		-
The carrying amount of the deconsolidated subsidiary's assets and liabilities:		
- Investment property	11,611	
- Cash	604	
- Trade and other receivables	6,063	
- Trade and other payables	(5,616)	
- Deferred tax liability	(429)	
- Loans	(12,233)	
Nil gain or loss on the deconsolidation of Felikon Kft	-	-

- consolidation of the subsidiary over which the Group control was lost in 2014:
  - a Polish subsidiary, Atlas Estates (Kokoszki) Sp. z o.o. which was under bank enforcement proceedings since 2014. In November 2019 following an agreement and part settlement of the outstanding liabilities owed by the company to the bank, the bank released the company of all obligations towards the bank, and the Group control over this subsidiary was regained. The gain was recognised in the consolidated financial statements for the year ended 31 December 2019 as a result of this event.

	€'000	€'000
The fair value of any consideration paid		-
The carrying amount of the consolidated subsidiary's assets and liabilities:		
- Investment property	1,423	
- Trade and other receivables	328	
- Trade and other payables	(543)	
Gain on the consolidation of Atlas Estates (Kokoszki) Sp. z o.o.	1,208	-

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Country of incorporation	Name of subsidiary/ joint venture entity	Status	Percentage of nominal value of issued shares and voting rights held by the Company
Holland	Atlas Estates Cooperatief U.A.	Holding	100%
Holland	Atlas Estates Investment B.V.	Holding	100%
Holland	Atlas Projects B.V.	Holding	100%
Holland	Atlas Residential BV	Holding	100%
Holland	Atlas HPO BV	Holding	100%
Guernsey	Atlas Finance (Guernsey) Limited	Holding	100%
Curacao	Atlas Estates Antilles B.V.	Holding	100%
Cyprus	Fernwood Limited	Holding	100%
Poland	AEP Sp. z o.o.	Management	100%
Poland	AEP Sp. z o.o. 2 SKA	Holding	100%
Poland	AEP Sp. z o.o. 3 SKA	Holding	100%
Poland	Platinum Towers AEP Sp. z o.o. SKA	Development	100%
Poland	Zielono AEP Sp. z o.o. SKA	Development	100%
Poland	Properpol Sp. z o.o.	Investment	100%
Poland	Atlas Tower Sp. z o.o. (former name: Atlas Estates (Millennium) Sp. z o.o.)	Investment	100%
Poland	Atlas Estates (Sadowa) Sp. z o.o.	Investment	100%
Poland	Atlas Estates (Kokoszki) Sp. z o.o.	Investment	100%
Poland	Capital Art Apartments AEP Sp. z o.o. Sp. j.	Development	100%
Poland	HGC Gretna Investments Sp. z o.o. Sp. j.	Hotel operation	100%
Poland	Mantezja 3 Sp. z o.o.	Hotel operation	100%
Poland	HPO AEP Sp. z o.o. Sp. j.	Development	100%
Poland	Atlas Estates (Cybernetyki) Sp. z o.o.	Development	50%
Poland	Le Marin Sp. z o.o.	Development	100%
Poland	Atlas Estates (Przasnyska 9) Sp. z o.o.	Development	100%
Poland	La Brea Management Sp. z o.o.	Development	100%
Poland	CAA Finance Sp. z o.o.	Development	100%
Poland	Gretna Investments Sp. z o.o.	Holding	100%
Poland	Gretna Investments Sp. z o.o. 4 SKA	Holding	100%
Poland	Atlas Estates (Wilanów) Sp. z o.o. (former name: Negros 3Sp. z o.o.)	Holding	100%
Hungary	CI-2005 Investment Kft.	Development	100%
Hungary	Atlas Estates (Moszkva) Kft.	Investment	100%
Romania	World Real Estate SRL	Investment	100%
Romania	Atlas Solaris SRL	Development	100%
Romania	D.N.B. - Victoria Towers SRL	Hotel operation	100%
Bulgaria	Immobul EOOD	Investment	100%
Luxembourg	Gretna SCSP	Holding	100%
Luxembourg	Residential SCSP	Holding	100%
Luxembourg	Gretna Projects Sarl	Holding	100%
Luxembourg	HPO SCSP	Holding	100%
Luxembourg	Residential Projects Sarl	Holding	100%

### 32. Ultimate Parent Company and Ultimate Controlling Party

The ultimate parent company is RIG Investments Sarl and the ultimate controlling party by a virtue of ownership is Mr Ron Izaki.