solidare

real estate holding plc

168 St. Christopher Street
Valetta VLT1467 / Malta

Consolidated Financial Statements

**for the reporting period
1 January to 31 December 2017**

Content

Solidare Real Estate Holding plc, Malta

Consolidated Statement of Financial Position
as of 31 December 2017

Assets

	Notes	31 December 2017 kEUR	31 December 2016 kEUR
A. Non-current assets			
I. Property, plant and equipment	7.1	551	471
II. Intangible assets	7.2	841	1,109
III. Trade and other receivables	7.5	931	0
IV. Financial assets	7.3	126	283
V. Deferred tax assets	8.6	842	149
Total non-current assets		**3,291**	**2,012**
B. Current assets			
I. Property inventories	7.4	92,292	71,027
II. Trade and other receivables	7.5	2,789	4,050
III. Cash and cash equivalents	7.6	406	1,461
IV. Assets classified as held for sale	7.7	0	18,960
Total current assets		**95,487**	**95,498**
Total assets		**98,778**	**97,510**

Solidare Real Estate Holding plc, Malta

Consolidated Statement of Financial Position
as of 31 December 2017

Shareholders' equity and liabilities

	Notes	31 December 2017 kEUR	31 December 2016 kEUR
A. Shareholders' equity	7.8		
I. Capital stock		40,800	40,800
II. Capital reserve		6	0
III. Retained earnings		-4,354	1,392
IV. Amounts recognised directly in equity relating to currency translation adjustments		-8	5
V. Non-controlling interest		3,515	4,026
Total shareholders' equity		**39,959**	**46,223**
B. Non-current liabilities			
I. Financial liabilities	7.9	28,049	0
II. Other payables	7.11	120	0
III. Deferred tax liabilities	8.6	7,422	7,388
Total non-current liabilities		**35,591**	**7,388**
C. Current liabilities			
I. Financial liabilities	7.9	16,967	37,742
II. Trade payables	7.10	1,124	935
III. Current tax liabilities		1,122	0
IV. Other payables	7.11	691	933
V. Provisions	7.12	3,324	4,289
Total current liabilities		**23,228**	**43,899**
Total shareholders' equity and liabilities		**98,778**	**97,510**

Solidare Real Estate Holding plc, Malta

Consolidated Income Statement
for the period
1 January to 31 December 2017

	Notes	1 January to 31 December 2017 kEUR	1 January to 31 December 2016 kEUR
Continuing operations			
Rental income		700	615
Other income from asset management		765	180
Expenses related to property assets		-1,253	-674
Results from asset management	**8.1**	**212**	**121**
Income from sale of property		360	0
Other income from property development & sales		523	297
Expenses from property development & sales		-2,365	-28
Results from property development & sales	**8.2**	**-1,482**	**269**
Other not directly attributable expenses	8.3	-3,588	-1,302
Operating result		**-4,858**	**-912**
Gain from a bargain purchase	**8.4**	**0**	**2,561**
Financial expense		-1,644	-566
Financial income		28	127
Other financial expense		-120	0
Financial result	**8.5**	**-1,736**	**-439**
Result from continuing operations for the year, before income tax (EBT)		**-6,594**	**1,210**
Income taxes	8.6	-399	-1,292
Result from continuing operations for the year, net of income tax		**-6,195**	**2,502**
Discontinued operations			
Result for the year from discontinued operations	8.7	0	-120
Consolidated profit for the year		**-6,195**	**2,382**
Attributable to:			
Owners of the Company		-5,735	2,236
Non-controlling interests		-460	146
Earnings per share	8.8		
From continuing and discontinuing operations		-0.14	0.09
From continuing operations		-0.14	0.09

Solidare Real Estate Holding plc, Malta

Consolidated Statement of Comprehensive Income
for the period
1 January to 31 December 2017

	Notes	1 January to 31 December 2017 kEUR	1 January to 31 December 2016 kEUR
Consolidated profit for the year		**-6,195**	**2,382**
Items that will be reclassified subsequently to profit and loss under certain conditions			
Exchange differences on translating foreign operations		-13	6
Income tax on items that will be reclassified subsequently to profit and loss under certain conditions		0	-1
		-13	5
Items that will not be reclassified subsequently to profit and loss		0	0
Other comprehensive income for the year, net of income tax		**-13**	**5**
Total comprehensive income for the year		**-6,208**	**2,387**
Atributable to:			
Owners of the Company		-5,748	2,241
Non-controlling interests		-460	146

Solidare Real Estate Holding plc, Malta

Consolidated Statement of Changes in Shareholders' Equity for the period 1 January to 31 December 2017

	Common stock		Capital reserve	Retained Earnings	Amounts recognised directly in equity relating to currency translation adjustments	Shareholders' equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
	Shares thousands	Amount kEUR	Amount kEUR	Amount kEUR	Amount kEUR	Amount kEUR	Amount kEUR	Amount kEUR
Balance at 1 January 2016	**19,758**	**19,758**	**0**	**-18,626**	**-131**	**1,001**	**0**	**1,001**
Consolidated profit for the year				2,236		2,236	146	2,382
Other comprehensive income for the year					5	5		5
Total comprehensive income for the year			**0**	**2,236**	**5**	**2,241**	**146**	**2,387**
Capital reduction - part 1	-16,219	-16,219		16,219		0		0
Capital reduction - part 2 and transfer of shares	-1,563	-1,563		1,563	131	131		131
Issue of ordinary shares for company acquisition	38,000	38,000				38,000		38,000
Addition of non-controlling interest								0
(Minority interest) due to business combinations							3,880	3,880
Capital increase	824	824				824		824
Balance at 31 December 2016	**40,800**	**40,800**	**0**	**1,392**	**5**	**42,197**	**4,026**	**46,223**
Balance at 1 January 2017	**40,800**	**40,800**	**0**	**1,392**	**5**	**42,197**	**4,026**	**46,223**
Consolidated profit for the year				-5,735		-5,735	-460	-6,195
Other comprehensive income for the year				0	-13	-13		-13
Total comprehensive income for the year			**0**	**-5,735**	**-13**	**-5,748**	**-460**	**-6,208**
Granting of options rights for the purchase of shares			6			6		6
Addition of non-controlling interest								
(Minority interest) due to acquisition of an object							-31	-31
Disposal of non-controlling interest								
(Minority interest) due to increase of majority interest				-11		-11	-20	-31
Balance at 31 December 2017	**40,800**	**40,800**	**6**	**-4,354**	**-8**	**36,444**	**3,515**	**39,959**

Solidare Real Estate Holding plc, Malta

Consolidated Cash Flow Statement
for the period
1 January to 31 December 2017

	Notes	1 January to 31 December 2017 kEUR	1 January to 31 December 2016 kEUR
Cash flows from operating activities			
Consolidated profit for the year		-6,195	2,382
Unrealized currency translation differences		-13	-
Income tax recognised in profit and loss		-399	-1,292
Financial expense recognised in profit and loss		1,764	566
Financial income recognised in profit and loss		-28	-127
Gain from a bargain purchase		-	-2,561
Depreciation and amortisation of non-current assets		367	47
Losses from the retirement of fixed assets		96	-
Gains from fair value measurement		-120	-
Movements in working capital:			
Increase/(decrease) in inventories as well as trade and other receivables		-1,986	-27,609
Increase in trade payables, provisions and other liabilities		19	371
Cash generated from operations		**-6,495**	**-28,223**
Interest paid		-963	-385
Interest received		1	-22
Income taxes paid		-54	3
Net cash generated by operating activities		**-7,511**	**-28,627**
- thereof from discontinued operations		-	-7
Cash flows from investing activities			
Net cash outflow from the acquisition of subsidiaries less cash and cash equivalents received		-	-22
Proceeds from sale of subsidiaries less cash and cash equivalents given		-	4,730
Payments for purchase of minorities		-30	-
Payments for property, plant and equipment		-275	-206
Payments for intangible assets		-	-63
Net cash (used in)/ generated by investing activities		**-305**	**4,439**
- thereof from discontinued operations		-	-7
Cash flows from financing activities	**15.3**		
Proceeds from issuing equity instruments of the Company		-	824
Inflow from the granting of option right		6	-
Proceeds from loans received		38,463	27,691
Repayment of loans		-30,014	-2,913
Payments for the acquisition of non-controlling interests		-20	-
Payments for transaction costs		-1,674	-
Net cash used in financing activities		**6,761**	**25,602**
- thereof from discontinued operations		-	88
Net decrease/increase in cash and cash equivalents		**-1,055**	**1,414**
Cash and cash equivalents at the beginning of the year	**15.1**	1,461	47
Cash and cash equivalents at the end of the year		**406**	**1,461**

1 GENERAL INFORMATION

Solidare Real Estate Holding plc, Malta, ("the Company") is a limited liability company incorporated as Xanthus Holdings plc. as of 21 March 2011 in Malta, and refirmed in Solidare Real Estate Holding plc on 9 June 2016. The Company is the parent holding company of solidare real estate holding, Duesseldorf, Germany (herein referred to as "the Solidare-Group"). Holding GmbH, Düsseldorf. As of 31 December 2017, Suryoyo Holding GmbH, Duesseldorf, owned 88.5% of the entities shares.

The Company is registered with the Registry of Companies in Malta, registration number C 52332 with its registered office at 168 St. Christopher Street, Valetta, VLT1467, Malta.

The principle purpose of Solidare-Group is the construction and development of property in the market of micro-living. Solidare Real Estate Holding plc holds participations in property companies, which are focused on the acquisition and rental service or sale of property. Moreover, Solidare Real Estate Holding plc also has indirect participations in service companies, which are specialised to develop the property. The Solidare-Group has positioned itself that the entire value chain from a single source can be operated, including acquisition, finance, planning, construction management, removal, rebuilding, reconstruction, interior fitting, rental, facility and property management.

Besides this, Solidare Real Estate Holding plc may also – as before – acquire and hold, buy and/or sell shares, stocks, bonds or securities or other assets of/or in any other company, and to invest these funds, which support the above mentioned purpose and as deemed appropriate by the Board of Directors.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Application of new and revised IFRS

The following paragraphs describe the IFRSs published by the IASB and endorsed for application in the EU that were applied for the first time during the reporting period. Thereafter, new standards and interpretations that have been issued by the IASB as of the reporting date are described but have not been applied early, as their application is either not mandatory or endorsement by the European Commission is still pending.

Impacts of new and amended IFRSs and interpretations which were adopted by the Solidare-Group the first time in the reporting period

The following new standards and amendments to standards have been adopted by the entity for the first time for the financial year beginning on 1 January 2017:

Standard/ interpretation	Content	Applicable for FY beginning on/after	Effects
Amendments to IAS 7	Disclosure initiative (Consolidated Cash Flow Statement)	1 Jan 2017	No significant impact.
Amendments to IAS 12	Approach of deferred tax assets for unrealised losses (Income taxes)	1 Jan 2017	No significant impact.
Improvement to IFRS 2014-2016	Annual improvements to IFRS 2014-2016 – Amendments to IFRS 12	1 Jan 2017	No significant impact.

- **Amendments to IAS 1**

  The changes are intended to improve the information about the change in the company's debt. According to these amendments, an entity shall disclose information about the development of such financial liabilities and related financial assets, whose cash inflows and outflows are shown in the Consolidated Cash Flow Statement under cash flows from financing activities. A reconciliation table showing the changes of the relevant items has been included in section 15.3 of these Notes. The application of these amendments has had no material impact on the financial reporting of the Solidare-Group.

- **Amendments to IAS 12**

  The amendments to IAS 12 are aimed to clarify the accounting of deferred tax assets arising from unrealised losses on assets carried at fair value. The application of these amendments has had no material impact on the financial reporting of the Solidare-Group.

- **Improvements to IFRS 2014-2016**

  Due to the “Annual Improvements to IFRS (2014-2016)” three IFRS’s have been changed, of which only the following was applicable in 2017:

  IFRS 12 clarifies that the disclosures generally also apply to shares in subsidiaries, joint ventures or associates classified as held for sale as defined by IFRS 5; an exception to this are the disclosures according to IFRS 12.B10 – B16 (Financial information). The clarification has had no material impact on the financial reporting of the Solidare-Group.

New and amended IFRSs and interpretations to existing standards which are not yet effective and have not been adopted early by the Solidare-Group

In its consolidated financial statements as of 31 December 2017, Solidare Real Estate Holding plc, Malta, did not apply the following accounting standards or interpretations, which have already been adopted by the IASB but were not required to be applied for the financial year 2017:

Standard/ interpretation	Content	Applicable for FY beginning on/after	Effects
IFRS 9	Financial instruments: Classification and measurement	1 Jan 2018	Die Details der Auswirkungen aus IFRS 9 werden nachfolgend erläutert
IFRS 15	Revenue from contracts with customers	1 Jan 2018	Die Details der Auswirkungen aus IFRS 15 werden nachfolgend erläutert
IFRS 16	Leases	1 Jan 2019	Die Details der Auswirkungen aus IFRS 16 werden nachfolgend erläutert
IFRS 17	Insurance contracts	1 Jan 2021*	No material effects
IFRIC 22	Foreign currency transactions and advanced consideration	1 Jan 2018*	No material effects
IFRIC 23	Uncertainty over income tax treatment	1 Jan 2019*	No material effects
Amendments to IAS 28	Investment in associates and joint ventures	1 Jan 2019*	No material effects
Amendments to IAS 40	Investment Property	1 Jan 2018*	No material effects
Amendments to IFRS 2	Share-based payment transactions	1 Jan 2018*	No material effects
Amendments to IFRS 4	Insurance contracts	1 Jan 2018	No material effects
Amendments to IFRS 9	Financial instruments: Classification and measurement	1 Jan 2019*	No material effects
Amendments to IFRS 15	Revenue from contracts with customers	1 Jan 2018	No material effects
Improvements to IFRS 2015-2017	Annual improvement to IFRS 2015-2017	1 Jan 2019*	No material effects
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and is associate or joint venture	Postponed	Da das Datum des Inkrafttretens auf unbestimmte Zeit verschoben wurde, sind die Änderungen von IFRS 10 und IAS 28 derzeit nicht relevant.

* not yet endorsed

- **IFRS 9 „Financial instruments“**

  In July 2014, the IASB published IFRS 9 "Financial instruments". The mandatory application starts with the reporting periods beginning on or after 1 January 2018. The standard introduces new accounting policies for financial instruments and replaces IAS 39.

The main effects of IFRS 9 "Financial Instruments" are outlined below:

Classification and measurement

IFRS 9 includes a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of their cash flows. These criteria determine whether the instrument is to be measured in the subsequent measurement at acquisition costs or at fair value. In classifying financial investments in equity instruments, the Solidare-Group will exercise an irrevocable option and will recognise subsequent changes in the fair value in other comprehensive income for the year in the shareholders equity. Gains or losses that are recognised in other comprehensive income for the year will not be reclassified from the share-holders equity to the Consolidated Income Statement at their disposal. In principle, there are no significant impacts due to the new classification requirements.

The following table shows the quantitative impact in the context of the classification according to IFRS 9 compared to IAS 39:

Valuation category as of 31 Dec 2017 (in kEUR)	**IAS 39**	**IFRS 9**
Amortisied costs	50,809	50,809
Fair value through profit or loss	120	120

For the classification of financial liabilities, IFRS 9 mostly retains the existing requirements of IAS 39.

Impairment

Compared to IAS 39, the main difference is the newly developed model of expected credit losses (Expected-Loss-Model). The basic principle of the Expected-Loss-Model is the disclosure of the development of deterioration or improvement in the credit quality of the financial instruments. Im-pairment in the old standard only tended to occur with the occurrence of a triggering event of a counterparty (model of losses incurred). According to the new standard, already expected losses will require an impairment.

The requirement to include prospective information in the valuation of expected bad debt will result in the application of the standard that is based on personal judgments regarding the impact of the changes in the economic factors on expected bad debt.

I. General approach of impairment

According to the general approach, there are three levels of valuation:

a) Level 1: twelve-month credit losses: to be applied to all items (since initial recognition), un-less credit quality has deteriorated significantly,

b) Level 2: credit losses over the total maturity (in the case of homogeneous accounts receiv-able portfolio): to be applied when the credit risk for individual financial instruments or a group of financial instruments has significantly increased,

c) Level 3: credit losses over the total maturity (when considered individually): if there are ob-jective indications of an impairment requirement when looking at individual assets, the credit losses in the Solidare-Group are determined in the same way as the individual value ad-justments currently.

The valuation of cash and cash equivalents and other financial assets is carried out in the context of the general impairment approach.

II. Simplified approach of impairment

In the case of trade and other receivables, the so-called simplified approach is used, if the entire maturity is decisive.

Under the simplified approach, the entity does not need to track the changes in credit risk. Instead, the entity has to recognise a credit loss provision in the amount of the total maturity, the so-called expected credit loss, both at initial recognition and at each subsequent reporting date.

The application of IFRS 9 leads to a significant change in the receivables management and the determination of impairment requirements. However, the Solidare-Group currently does not expect any significant quantitative impacts (<kEUR 100) within the scope of the impairment model of IFRS 9.

Hedge Accounting

The changes in IFRS 9 relating to hedge accounting include, among other things, the expansion of the scope of permitted hedged items, changes in the accounting logic for certain non-designated value components of hedging instruments, the elimination of fixed effectiveness ranges and the retrospective effectiveness test, the new implementation of "Recalibration." The new regulations, which are less restrictive compared to IAS 39, simplify the presentation of economic risk management in the balance sheet, which in turn can help to reduce artificial volatility in the Consolidated Income Statement.

In principle, the changes listed above have no impact on the Solidare-Group, as no such hedging instruments are currently used.

Transition

Changes in accounting policies resulting from the application of IFRS 9 are generally applied retrospectively. However, there is the possibility to exercise the exemption by not adjusting comparative information for previous periods with regard to the changes in classification and valuation (including impairment). The Solidare-Group will make use of this exemption. Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 are generally recognised in retained earnings and other reserves as of 1 January 2018. According to the current estimates, in addition to the quantitative and insignificant impacts (shown above), no further significant impacts due to the application of IFRS 9 are expected.

Due to the first-time application of IFRS 9, there will be changes in the notes disclosures, which relate mainly to value adjustments. As soon as the standard will be applied for the first time, transparent presentations will be disclosed.

- **IFRS 15 „Revenue from contracts with customers“**

  In May 2014, the IASB published IFRS 15 "Revenue from contracts with customers". The application is mandatory for reporting periods beginning on or after 1 January 2018. The standard regulates when and in what amount an IFRS reporting entity must recognise revenue:

  The new accounting standard IFRS 15 specifies a comprehensive framework for determining whether, in what amount and at what time revenue is recognised.

The objective of the new standard is to bring together the diversity of the regulations contained in various standards and interpretations. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard contains significantly more extensive application guidelines and specifications for note disclosures as the previous regulations as well as a new concept of the principal and agent concept. The assessment of the position as a principal or agent requires discretionary decisions, for example with regard to the weighting of the criteria set out in IFRS 15.23.

IFRS 15 applies to all contracts with customers except of, among others, leases that fall under IAS 17 "Leases".

The Solidare-Group recognises revenue from the following major sources:

a) Rental income and other income from Asset Management

b) Income from the sale of property and other income from property development & sales

Rental income does not fall under the application of IFRS 15 within revenue from renting, but within the scope of IAS 17 and of IFRS 16 as of 1 January 2019. As part of the implementation projects for IFRS 15 and IFRS 16, an in-depth analysis of the revenue component was conducted. In accordance with IFRS 16, in addition to separate leasing components, a differentiation is made between other performances (non-lease components, subject of IFRS 15) and those components of the continuing obligation which do not lead to a performance of the lessor (IFRS 16.B33).

In this context, the analysis of the sales revenue showed that the individual components of rental income are not to be summarised, but to be valued separately. In the future, a distinction must be made between those continuing obligation components in which the Solidare-Group has an obligation to provide a service (other operating income - subject of IRFS 15) and those under which the renter does not receive a separate service, which he must, however, refund Solidare as part of the utility bill (property tax and building insurance - not subject of IFRS 15, but IFRS 16 as of 2019). Before applying IFRS 16, all components of a contract that do not constitute a leasing component according to IAS 17 in conjunction with IFRIC 4.12 shall be accounted for in accordance with other Standards and thus fall under IFRS 15.

The disclosure of operating costs and the corresponding income in the income statement is also unbalanced under application of IFRS 15, which means that the presentation is consistent and a clear statement of net cold rent and warm rent is achieved. Since there are no changes in the period-related recognition of operating income, the application of IFRS 15 will not have an impact on the financial position of the Group In addition, there are no impacts of the new standard on other income from asset management, the income from sale of property and other income from property development & sales.

The standard will be effective for annual periods beginning on or after 1 January 2018. Since there are no quantitative impacts resulting from the new standard, it is not necessary to choose a transitional approach.

- **IFRS 16 „Leases“**

On 13 January 2016, the IASB issued IFRS 16, the new accounting standard for leases. The new requirements in this standard apply in particular to the recognition of leases by lessees, introducing significant changes to lease accounting.

For the lessee, the standard provides one (single) accounting model. This model causes the lessee to recognise all assets and liabilities from lease contracts in the balance sheet, except for short-term leases and leases of low value assets (each option). According to IFRS 16, the lessee recognises a lease liability in the balance sheet for all leases in the amount of the present value of the future lease payments plus directly attributable costs and simultaneously activates a corresponding right to use the underlying asset. During the lease term, the lease liability is mathematically updated similar to the regulations of the previous IAS 17 for finance leases. Right-of-use assets that are not investment properties according to IAS 40 are amortised on schedule. Rights of use for investment properties that are measured at fair value according to IAS 40 are measured in accordance with the common accounting and valuation principles of IAS 40.

At the time of initial application, the Solidare-Group expects a minor increase (estimated quantitative change < kEUR 200) in the balance sheet total due to the recognition of lease liabilities and a comparably high increase in assets due to the rights of use to be capitalized. The equity ratio will decrease accordingly. The changes mainly result from the long-term lease of Solidare's business premises in Duesseldorf and the leasing of vehicles. Other leases, which in particular relate to the office equipment, will probably continue to be recognised balance-neutral in the balance sheet due to their quantitative insignificance according to the granted option of IFRS 16.

The nature of the expenses associated with these leases will change in the income statement. The linear expenses for operating leases are replaced by interest expenses for liabilities arising from the lease and depending on the asset underlying the respective right-of-use asset. This will lead to a slight improvement in the adjusted EBITDA as well as to an increase in cash flow from operating activities.

For lessors, the accounting model of IFRS 16 does not differ much from the provisions of IAS 17. For the Solidare Group as a lessor, the rental income remain within the scope of IFRS 16. According to IFRS 16, in addition to separate leased components it is to be differentiated between other services (non-lease components, subject of IFRS 15) and other components of the continuing obligation that do not lead to the provision of a lessor's service. A necessary condition for the identification of a separate non-lease component is the lessor's obligation under the continuing obligation to provide a service (IFRS 16. B33). Thus, revenues from certain types of operating costs (such as property tax and building insurance) fall within the scope of IFRS 16, as renters do not receive any additional

The Solidare-Group intends to apply IFRS 16 for the first time as of 1 January 2019. At this point in time, the modified retroactive approach is being considered as a transitional approach.

- **IFRS 17 „Insurance contracts“**

  IFRS 17 regulates the accounting for insurance contracts and replaces IFRS 4. The initial application date is 1 January 2021.

  The standard is expected to have no significant impact on the financial reporting due to the operations of the Solidare-Group.

- **IFRIC 22 „Foreign currency transactions and advanced consideration“**

  IFRIC 22 clarifies how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The standard is expected to have no significant impact on the financial reporting of the Solidare-Group due to low foreign currency transactions.

- **Amendments to IAS 28 "Investment in associates and joint ventures“**

  On 12 October 2017, the IASB published amendments to the accounting of long-term investments in associates and joint ventures. The amendments to IAS 28 clarify that IFRS 9 applies to non-current interests in associates or joint ventures that are not accounted for using the equity method. The amendment is effective – which must still be endorsed by the EU before they can be adopted – on or after 1 January 2019.

  It is anticipated that the standard will not have a material impact on the financial reporting of the Solidare-Group since the Group does not participate in associates or joint ventures.

- **Amendments to IAS 40 "Investment Property “**

  The amendments clarify the transfers to, or from, investment property portfolio.

  Since Solidare's property assets are not classified as investment property according to IAS 40, the changes are not expected to have any impact on the financial reporting of the Solidare-Group.

- **Amendments to IFRS 2 "Share-based payment transactions“**

  The amendments clarify the classification and measurement of share-based payment transactions.

  Since the Solidare-Group does not yet provide any share-based payment transactions, the amendments are not expected to have any impact on the financial reporting of the Solidare-Group.

- **Amendments to IFRS 4 "Insurance Contracts“**

  The amendments affect entities that fall under the scope of IFRS 4 and for which insurance business is the predominant activity. The entities concerned may waive the application of IFRS 9 during the transition until the new standard for insurance contracts enters into force and are therefore subject to the provisions of IAS 39. Other entities that fall under the scope of IFRS 4 may recognise differences in value fluctuations under IFRS 9 for certain financial assets and how they would be accounted for under IAS 39 in the consolidated statement of comprehensive income rather than in the Consolidated Income Statement.

  The amendments are not expected to have any impact on the financial reporting of the Solidare-Group as it is outside the scope of IFRS 4.

- **Amendments to IFRS 9 "Financial instruments: Classification and measurement“**

  The amendment is intended, under certain conditions, to allow the valuation at amortised costs or FVOCI as well as for those financial assets that, in the event of an early termination, may be subject to a compensation payment to the terminating party.

  The impacts of IFRS 9 have already been explained in this section. The additional amendments are unlikely to have any impact on the financial reporting of the Solidare-Group, as no such financial assets exist so far.

- **Amendments to IFRS 15 "Revenue from contracts with customers“**

  The amendments clarify the following topics in IFRS 15: identification of performance obligations (when a promised good or promised service can be cut off from other commitments made in the contract); principal versus agent considerations, licensing application guidance on the concept of the transfer of control in services provided by third parties; clarification of conditions for a period-based realisation of revenues from the licensing intellectual ownership. In addition, further facilitations have been added for the transition to IFRS 15.

  The impacts of IFRS 15 have already been explained in this section. The additional amendments to the standard have no significant impact on the financial reporting of the Solidare-Group.

- **Improvements to IFRS 2015-2017**

  The IASB has made amendments as part of its annual process of making minor improvements to standards and interpretations (Annual improvements to IFRS 2015-2017 cycle). Four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) are affected by the amendments.

  The changes are of low or no relevance to the Solidare-Group.

- **Amendments to IAS 28 / IFRS 10 - Sale or contribution of assets between an investor and its associate or joint venture**

  The amendments address a conflict between the requirements of IAS 28 "Investments in associates and joint ventures" and IFRS 10 "Consolidated financial statements". The amendments clarify that, in transactions with an associate or joint venture, the extent of the recognition depends on whether the sale or contribution of assets constitute a business. The effective date of the amendments has yet to be set by the IASB.

  The amendments are currently not relevant to the Solidare-Group since there is currently no investment in an associate or joint venture.

3 ACCOUNTING AND VALUATION POLICIES

3.1 Statement of compliance with IFRSs

The consolidated financial statements as of 31 December 2017 of Solidare Real Estate Holding plc, Malta, and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), including the interpretations of the IFRS interpretations committee (IFRIC), as adopted in the European Union. Accounting and valuation principles are identical to those applied in the last consolidated financial statements of the Company as at 31 December 2016.

3.2 Basis of preparation of the consolidated financial statements

Apart from certain financial instruments that are measured at fair values at the end of each reporting period and as explained in the accounting policies below, the consolidated financial statements have been prepared based on the respective historical costs.

Historical cost is generally based on the fair value of the consideration paid for the asset on the acquisition date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics (e.g. condition and location of the asset or restrictions on sales and use) into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for:

- share-based payment transactions that are within the scope of IFRS 2 "*Shared-based Payment*",
- leasing transactions that are within the scope of IAS 17 "*Leases*", and
- and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "*Impairment of Assets"*.

Fair value is not always available as a market price and must frequently be determined on the basis of various valuation parameters. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the Solidare-Group, reclassifications between these various IFRS 13 levels are made at the end of the financial year in which the change occurred.

The consolidated financial statements are presented in Euro. All values are rounded to the nearest thousand (kEUR), except when otherwise indicated. In some cases, this may result in minor discrepancies in the tables included in these consolidated financial statements and in the totals provided in the Notes.

The consolidated financial statements presented in this report were prepared for the period from 1 January to 31 December 2017. The period from 1 January to 31 December 2016 was reported as a comparative period. Single items are summarised in the Consolidated Statement of Financial Position and the Consolidated Income Statement. They are commented on in the Notes to the consolidated financial statements.

Assets and liabilities are classified as non-current if the maturity period is more than one year after the balance sheet date or if the sale or consumption takes longer than the normal course of a business cycle.

Due to the merger, the Solidare-Group data for the period of 1 January to 31 December 2016 are only comparable to a very limited extent with figures posted for the same period of the last year. In addition, classification and the description of individual items in the income statement were adjusted due to changed operating activities in 2017.

3.3 Consolidation

3.3.1 Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Even then, if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

a) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between

- the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. recycled to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

b) Acquisition of subsidiaries

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. In the Solidare-Group, the valuation is carried out by independent appraisers in line with the recommendations of the Royal Institution of Chartered Surveyors (RICS).

For the acquisition solidare real estate holding GmbH, Entercon AG was engaged to prepare the property appraisals. The property appraisal of Entercon AG is based on property appraisals for the property companies of the Solidare-Group prepared by the experts of Jones Lang LaSalle ("JLL"). The external appraiser JLL values the properties according to the valuation principles of Royal Institution of Chartered Surveyors (RICS), based on market knowledge, knowledge after property inspection and information provided by the Solidare-Group that includes inventory data, rent lists, rental agreements, land register extracts and investment budgets. The data are reviewed by the appraiser and checked for plausibility through comparisons with market data. The appraiser also makes estimates, among others, for the occupancy rates, future rental income, future investments and expected returns. The discounted cash flow method (DCF method) is used to value the standing investments. This method is based on a dynamic investment calculation, which explicitly includes valuation assumptions and ensures the transparent calculation of fair value.

A standardised DCF method is used for the standing investments in Germany. This DCF method includes the future cash inflows and outflows for the respective properties over a detailed analysis period of 9 years as well as a terminal value that corresponds to the rental income capitalized at a growth-based rate in year 10.

In appraising undeveloped sites or sites that can be developed beyond their existing status, the value of the site is based primarily on the value of the optimal building that could be constructed and for which a construction permit would be granted. The value of the site in these cases is calculated with the sales comparison approach or, if a specific construction plan exists, with the residual value method. Under the residual value method, the first part of the calculation involves estimating the probable sale proceeds (development value) of the completed project based on a DCF calculation. The second step includes the deduction of all costs connected with the preparation or completion of the project from this development value. Possible costs include, for example, demolition costs, all construction costs, ancillary building costs, fees, financing costs, sales and marketing costs as well as a contingency position for unforeseen expenses. The developer's profit is estimated as a percentage of the development value or total development cost and also deducted. Financing costs incurred during construction are often estimated by calculating the interest on the total construction costs over one-half of the construction period. A clear development plan is a fundamental prerequisite for determining the project costs. When the sales comparison approach is used, the square meter prices are derived from market transactions.

The following exceptions apply to the measurement at fair value:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see note 2.22 b); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, a negative difference arises, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated profit or loss for the year when the acquirer obtains control of the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.3.2 Associated companies and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment and is not tested separately for the existence of an impairment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. The determined impairment loss is offset against the carrying amount of the investment. There is no allocation of the impairment loss to the assets included in the carrying amount of the share, including goodwill. Any impairment loss is recognised in accordance with IAS 36, if the recoverable amount increases again in the subsequent years.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment according to IFRS 5 is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Solidare-Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses to the extent of the Group's interest in the associate or joint venture are eliminated.

3.3.3 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a different group entity is the joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint Operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party..

3.4 Foreign currency

3.4.1 Functional currency

The functional currency of the parent company and the Solidare-Group is the Euro. The Solidare-Group’s reporting currency is also the Euro. With the exception of the Solidare International AG (as of 22 May 2018: blockenscence services ag), the functional currency of all its subsidiaries is the Euro as well. The functional currency of Solidare International AG (blockenscence services ag) is the Swiss franc.

3.4.2 Currency translation

For Group companies whose functional currency is the Euro, transactions in foreign currencies are translated at the relevant exchange rates at the transaction date. In subsequent periods, financial assets and liabilities denominated in foreign currencies are translated using the closing exchange rate; gains and losses from the subsequent valuation are recognised in the Consolidated Income Statement. Gains and losses arising from the translation of available-for-sale equity are recognised directly in other comprehensive income. No such transactions occurred during the financial year 2017.

The assets and liabilities of the Group's foreign companies with a functional currency other than the Euro are translated into Euro at the exchange rates prevailing on 31 December. Any resulting translation differences are recognised in other comprehensive income. Equity items are managed using historical rates. The Consolidated Income Statement and the Consolidated Cash Flow Statement are translated into euro using average exchange rates during the respective periods. The exchange rates of the Swiss franc, the main foreign currency of the Solidarity-Group, are as follows:

		Consolidated statement of financial position year-end rate as of 31 Dec 2017		**Consolidated statement of profit and loss average rate**	
		2017	2016	2017	2016
Switzerland	1 CHF corresponds to EUR:	0.8546	0.9312	0.8995	0.9216

3.5 Tangible assets

In accordance with IAS 16, tangible assets are carried at cost less accumulated depreciation and recognised impairment losses. Acquisition or production cost includes all expenses incurred to bring the asset to the location and condition necessary for it to be capable of operating in the intended manner. Depreciation is calculated on a straight-line basis beginning in the month of acquisition.

Ordinary straight-line depreciation on depreciable tangible assets is based on the following useful lives:

	Useful life in years
Technical equipment and machinery	5 - 13
Office furniture and equipment	2 - 13

The useful lives of the various assets and the depreciation method are reviewed regularly in agreement with IAS 16 to ensure they reflect the expected development of the economic value in use of the tangible asset.

3.6 Intangible assets

Intangible assets are carried at cost less amortisation in accordance with IAS 38. With the exception of goodwill, all intangible assets held by the Solidare-Group have a finite useful life and are amortised on a straight-line basis over their useful lives (pro rata temporis). Goodwill is not reduced through scheduled amortisation.

Intangible assets acquired as part of a business combination are recognised separately from goodwill. They are measured at their fair value at the time of acquisition. In the subsequent periods, these intangible assets are valued at cost less accumulated amortisation and any accumulated impairment losses, in the same way as individually acquired assets.

Ordinary straight-line amortisation is based on the following useful lives:

	Useful life in years
Software	2 - 5
Other intangible assets	2 - 5

Other intangible assets relate mainly to contracts with favorable market terms. They are written-down over a useful life of five years in accordance with the individual contract terms. In addition, other intangible assets are tested in accordance with IAS 36 when there is an indication of impairment.

The Solidare-Group has no internally generated intangible assets or capitalized trademarks.

3.7 Impairment

Tangible and intangible assets are tested for impairment as required by IAS 36 when there is any indication that they may be impaired. Independent of this practice, goodwill and intangible assets with an indefinite useful life must be tested annually for signs of impairment. The impairment test is performed at the cash-generating unit level if cash inflows cannot be directly allocated to a specific asset and individual valuation is therefore not possible. Cash-generating units represent the smallest group of assets to which independent cash inflows can be allocated. A cash-generating unit may not be larger than an operating segment defined in accordance with IFRS B. IAS 36 defines the recoverable amount as the relevant benchmark for impairment testing. The recoverable amount equals the higher of fair value less costs to sell and the value in use.

Fair value less costs to seil represents the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction at normal market conditions between knowledgeable and willing parties, less the costs to sell; the costs to sell are incremental costs directly attributable to the sale of an asset or cash-generating unit.

The value in use represents the present value of the estimated future cash flows that are expected to arise from the continuing use of an asset or cash-generating unit. Cash flows relevant to the valuation must be based on reasonable and justifiable assumptions. As a rule, the value in use is determined by using a net present value method; the discounted cash flow (DCF) method is used here.

If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, the difference is recognised as an impairment loss. An impairment loss calculated in accordance with the above principles must then be allocated to the assets in the cash-generating unit as follows: first, the carrying amount of the goodwill in the cash-generating unit is written down; any remaining difference is allocated to the other assets in the cash-generating unit in proportion to their carrying amount. An impairment loss is not allocated to an individual asset if a separate fair value less costs to sell would fall below a separately determined value in use or zero.

If there is an indication that the reasons for impairment no longer exist or have decreased, the impairment loss is reversed to the carrying amount that would have been determined (net of amortisation or depreciation) if the impairment loss had not been recognised in previous years. An impairment loss recognised to goodwill may not be reversed.

When companies are acquired as part of a share deal, the accounting rules defined by IFRS 3 Business Combinations are applied (see section 3.3.1. Subsidiaries). The use, if necessary, of the acquisition method leads to goodwill as a technical figure because of the obligation to record deferred tax liabilities on the difference between the fair value and the tax base of the investment property acquired. This goodwill must be tested annually for indications of impairment. The cash-generating units primarily represent individual properties, property portfolios or groups of cash-generating units that benefit from synergies resulting from the combination.

3.8 Property inventories

Property inventories represent assets that are held for sale during the ordinary course of business, or are in the process of production for such sale, or take the form of materials or supplies to be consumed in the production process or in the rendering of services.

The business activities of the Solidare-Group as a real estate company comprise the acquisition and rental as well as the best possible commercial utilization of assets to optimise asset management. The properties acquired and held for sale by the Solidare-Group do not fall within the scope of application of IAS 40 Investment Property, and are therefore accounted for as inventories in accordance with IAS 2.

Inventories are capitalised at acquisition or production cost, including borrowing costs, (see section 3.9. Borrowing costs) and measured at the lower of carrying amount and net realizable value as of the balance sheet date. The acquisition or production cost of inventories includes all purchase and processing costs as well as other expenses incurred to bring the asset to the current location and condition. Net realizable value is determined as the estimated selling price less any outstanding production costs and costs to sell.

Properties under development in the amount of kEUR 92,292 (previous year: kEUR 71,027) are listed under inventories in the Solidare-Group's Consolidated Statement of Financial Position as of 31 December 2017. Capitalized interest on borrowings in the amount of kEUR 706 (previous year: kEUR 202) are taken into account.

3.9 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets whose acquisition or development requires a significant amount of time are generally capitalised as part of the cost. These borrowing costs are reduced by any income from the temporary investment of funds that were borrowed specifically for the acquisition of the qualified asset. The borrowing costs attributable to property inventories under development are capitalised as incurred.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

As at 31 December 2017, borrowing costs of kEUR 504 (previous year: kEUR 202) were capitalised in the property inventories. The weighted average cost of borrowing amounted to 2.99 (previous year: 2.79%).

3.10 Trade and other receivables

Receivables and other financial assets are generally classified as loans and receivables (L&R) in accordance with IAS 39 and carried at amortised cost. Recognisable individual risks are reflected in corresponding valuation adjustments.

3.11 Financial assets

Financial assets are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity investments
- available-for-sale (AFS) financial assets
- loans and receivables

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3.11.1 Classification and measurement

a) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

b) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

d) Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as:

- loans and receivables,
- held-to-maturity investments or
- financial assets at fair value through profit or loss.

Listed redeemable notes held by the Solidare-Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period.

The Solidare-Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period, if the directors consider that fair value can be reliably measured.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

3.11.2 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.11.3 Derecognition of financial assets

The Solidare-Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Solidare-Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.11.4 Derivative financial instruments

Derivative financial instruments are recognised initially at their fair value on the trade date. The market values of derivative financial instruments are determined using standard market valuation methods and taking into account the market data available on the valuation date.

Changes in fair value are recognised in profit or loss for derivatives that have no hedge accounting relationship.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, funds in transit and deposits with financial institutions with a term of up to three months. These items are carried at the value applicable on the relevant balance sheet date. The above-mentioned liquid funds are included in the cash and cash equivalents which are relevant for the Consolidated Cash Flow Statement.

3.13 Non-current assets held for sale

IFRS 5 requires the classification of non-current assets and disposal groups containing assets and liabilities as held for sale if they can be sold in their present condition and their sale is highly probable within 12 months due to an intention to sell. If the relevant criteria are no longer met, the assets or disposal groups are reclassified to the original balance sheet positions.

Non-current assets held for sale and disposal groups are valued at the lower of the carrying amount and fair value less costs to sell. Exceptions to this IFRS 5 measurement rule are investment properties which are valued in accordance with the fair value mode as well as financial assets and deferred taxes. These non-current assets are only subject to the provisions for separate disclosure under IFRS 5.

As of 31 December 2017, the Group had no non-current assets held for sale (previous year: kEUR 18,960).

3.14 Shareholders' Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.15 Financial liabilities

Financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.15.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 “Financial instruments: recognition and valuation" permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

3.15.2 Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or a shorter period, to the net carrying amount on initial recognition.

3.15.3 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.16 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3.17 Provisions

In accordance with IAS 37.14, an obligation arising from a past event whose timing or amount is uncertain is recorded as a provision when it becomes probable that an outflow of resources will be required to settle this obligation and when the amount can be reliably estimated.

The provision is based on the best estimate at the time the consolidated financial statements are prepared. The best estimate of the amount required to meet the present obligation is the amount the Company would rationally pay to settle the obligation at the balance sheet date or to transfer the obligation to a third party at that time.

The risks and uncertainties that inevitably surround many events and circumstances must be taken into account in determining the best estimate. The expected cash flows must be discounted to their present value if the time value of money is material. The interest expense arising from the compounding of the provision is recorded under financial results, if they are material.

In cases where some or all of the expenditure required to settle an obligation is expected to be reimbursed by another party, the reimbursement may only be recognised when it is virtually certain that it will be received when the obligation is settled. The reimbursement must be treated as a separate asset, and the recognised amount may not exceed the amount of the provision.

The carrying amount of provisions must be reviewed and adjusted at each balance sheet date. If an outflow of resources is no longer probable, the provision must be derecognised through profit or loss.

3.18 Revenue recognition

Results from asset management

Asset Management covers the Solidare-Group’s traditional rental business. The main source of revenue is rental income from the Solidare-Group’s portfolio of residential properties in Germany.

Revenues from asset management consists of rental income for residential property and other rental income, operating costs passed on to tenants and revenues from property management for third parties as well as other revenues. Rental income arises from the rents agreed in the underlying rental agreements for residential properties and from other sources resulting from the rental of office space, retail space and parking spaces. Operating costs passed on to tenants include costs for the property management staff and for purchased services directly attributable to tenants such as waste disposal, electricity, insurance, taxes, fees and other expenses for common areas as well as equipment and facilities such as elevators and gardens. The Solidare-Group is accountable to tenants for the selection of suppliers and acts as the contractor in this respect. Therefore, the revenues and expenses from operating costs are reported as gross amounts.

Revenues from property rentals are recognised during the period defined by the underlying rental agreement.

In the financial year 2017, the Solidare-Group’s rental income amounted to kEUR 700 (previous year: kEUR 615) and other income from asset management amounted to kEUR 765 (previous year: kEUR 180).

Results from property development & sales

The results of property development and sales include the revenues from the sale of inventories after deduction of the related production costs, with the transfer of economic ownership representing the date of realization. The transfer of economic ownership is defined as the transfer of the significant risks and opportunities and the transfer of control. Contracts for the sale of inventories that are concluded "off plan" or during the construction stage fall under the scope of application of IAS 18 if the criteria listed in IFRIC 15 are met. An agreement for the construction of property is only viewed as a construction contract that falls under the scope of application of IAS 11 when the buyer is able to define the main planning elements before the start of construction and/or to define changes in the main structural elements after construction has started (independent of whether the buyer decides to exercise this right). IAS 11 is applied if the buyer has this right. IAS 18 is applied to all of the Solidare-Group's development projects at the present time.

Other expenses allocated to the results of property development are recognised as incurred and include all personnel and operating expenses directly related to the development of a property. Income from the sale of inventories is reported under the results of Property Development, whereby revenue is realized when the significant opportunities and risks of ownership are transferred. In the event of a sale, the related production costs are recorded as a disposal under the production cost of sold inventories.

In the financial year 2017, there was income resulting from the sale of property inventories in the amount of kEUR 360 (previous year: kEUR 0). Other income from property development amounted to kEUR 523 (previous year: kEUR 297) and expenses from property development amounted to kEUR 2,365 (previous year: kEUR 28).

3.19 Income taxes

Income taxes comprise both current and deferred taxes. Current and deferred taxes are recognised to the consolidated statement of income, unless they are related to items that are recognised either in other comprehensive income or directly in equity. In these cases the current or deferred taxes are also recognised in other comprehensive income or directly in equity. If current or deferred taxes result from the initial recognition of a business combination, the tax effects on the accounting for the business combination are included.

3.19.1 Current taxes

The current tax expense is based on taxable income for the year. Taxable income differs from net income as reported on the consolidated statement of comprehensive income due to income and expenses that are only taxable or tax deductible in later years or are never taxable or tax deductible. The Solidare-Group's liabilities for ongoing taxes will be calculated based on the applicable tax rates or shortly applicable tax rates.

3.19.2 Deferred taxes

Deferred taxes are recognised for existing differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and the corresponding tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are only recognised when it is probable that positive taxable income will be available to utilize the deductible temporary differences. Deferred tax assets and deferred tax liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor net income.

Deferred tax liabilities are recognised on taxable temporary differences arising from investments in subsidiaries unless the Solidare-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 the deferred tax assets is reviewed each year at the balance sheet date and reduced if it is no longer probable that sufficient taxable income will be available to utilize the claim in full or in part.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

3.20 Judgments and estimation uncertainty

The preparation of the Solidare consolidated financial statements as of 31 December 2017 in accordance with IFRS requires the use of judgments and assumptions for future developments by the Board of Solidare real estate holding plc. These judgments and assumptions can have a significant influence on the recognition and value of assets and liabilities, the disclosure of other obligations as of the balance sheet date and the reporting of income and expenses for the financial year. Actual amounts may differ from estimated values due to changes in the general conditions that differ from those assumptions. In this case, the assumptions and, if necessary, the carrying amounts of the assets or liabilities concerned are adjusted prospectively.

Assumptions and estimates are constantly reviewed and are based on experience and other factors, including expectations on future events that appear reasonable under the given circumstances.

The following assumptions carry a significant risk that may lead to a material adjustment in the value of assets and liabilities during the next financial year:

- The determination of the net selling value of property inventories is based in part on calculations that are based on the expected sales revenue less the estimated remaining costs for completion and sale. These calculations are updated at each balance sheet date, which can lead to significant fluctuations in the net selling values of the property. For further details on the property inventories, see section 7.4 Property inventories.
- The impairment testing of intangible assets, goodwill and tangible assets is based on forward-looking assumptions. The determination of the recoverable amount or value in use of an asset for an impairment test involves the use of numerous assumptions, e.g. concerning future surplus cash flows and the discount rate. These surplus cash flows reflect the latest estimates available at the time the financial statements are prepared (see sections 8.1 and 8.2).
- The recognition of deferred tax assets, in general, and of tax assets on tax loss carry forwards, in particular, is based on the expectations of the Solidare-Group's Board concerning the availability of sufficient future taxable income. The accounting decision on the recognition or impairment of deferred taxes is based on assumptions concerning the timing of the reversal of deferred tax liabilities and on the latest tax planning data in a five-year planning period (see section 8.6 income taxes).

- The valuation of provisions is based on best estimates, which are in part made by external experts. The valuation of provisions is based, in particular, on past experience, the probable outcome of legal disputes and tax litigation, future cost trends, interest rate assumptions, etc. (see section 7.12 provisions).
- The measurement of financial liabilities at amortised costs using the effective interest method considers the expected contractual cash flows. In some cases, the agreements do not include agreed maturity periods and payment dates. Therefore, the cash flows that are considered in the measurement are subject to the assumptions of the management in terms of the amount and maturity period.
- Alternative financial valuation methods are applied to valuate financial instruments if no active market exists for these financial instruments. The valuation-relevant parameters, used to determine the fair value, are partly based on forward-looking assumptions. The fair value of certain derivative financial instruments depends partially on the future development of certain real estate properties and service companies of the Solidare-Group. The development is based on expert options, which are prepared by independent experts. In the majority of cases, these expert opinions are calculated on the basis of DCF models by discounting future expected cash flows from the respective property and services. This will require assumptions, such as for example, the applied discounting interest rate, the expected capacity utilization, open construction costs or the future rental price development. It is in the nature of capital value-oriented valuation methods that they react sensitive to the underlying assumptions and parameters. The valuation related assumptions and parameters are calculated carefully on each balance sheet date based on the best possible estimate of the Board or the independent expert in regard to the current market conditions.
- The contingent liabilities arising from warranties, guarantees and other liabilities, which are not recognised in the Solidare-Group's Consolidated Statement of Financial Position, are regularly assessed with regard to their probability of occurrence. If an outflow of resources embodying economic benefits is neither sufficiently probable to require a provision, nor improbable, the relevant obligations are recorded as contingent liabilities. These liabilities represent best estimates by management.

The estimates and the underlying assumptions and parameters are reviewed regularly. Actual values may vary from these estimates when the development of the general parameters differs from expectations on the balance sheet date. Changes are made when more accurate information is available, and the presentation of the assumptions and parameters relevant to the valuation are adjusted accordingly.

4 SCOPE OF CONSOLIDATION

As of 31 December 2017, Solidare Real Estate Holding plc, Malta, held shares in the following entities:

Entity	Place of incorporation	Proportion of ownership interest
Direct consolidated entities		
Solidare International AG (as of 22 May 2018: blockescence services ag)	Switzerland	100.00 %
solidare real estate holding GmbH	Germany	100.00 %
Indirect consolidated entities		
4. Rigi Property GmbH	Germany	100.00 %
7. Rigi Property GmbH	Germany	100.00 %
Pecunia Facility Services GmbH	Germany	100.00 %
Pilatus II Holding GmbH	Germany	100.00 %
Pilatus SR Holding GmbH	Germany	100.00 %
Primus Asset Management GmbH	Germany	100.00 %
Prodomi Wohnservice GmbH	Germany	100.00 %
Promas Verwaltungsgesellschaft mbH	Germany	100.00 %
solidare service GmbH	Germany	100.00 %
solidare Wohnraum, Bau- und Planungsges. mbH	Germany	100.00 %
Rigi Düsseldorf 2 GmbH	Germany	100.00 %
Rigi Hamburg 1 GmbH	Germany	100.00 %
Rigi Neuss 1 Property GmbH	Germany	100.00 %
2. Rigi Property GmbH	Germany	94.90 %
ONO student GmbH	Germany	94.90 %
Rigi Hausener Weg GmbH	Germany	94.00 %
VSF Grundstücks AG	Germany	94.00 %
3. Rigi Property GmbH	Germany	83.75 %
Non-consolidated participation		
Rigi Property GmbH	Germany	3.23 %

Changes in scope of consolidation

In the financial year 2017, the following entities had been included in the scope of consolidation of Solidare for the first time:

- 7. Rigi Property GmbH
- Pilatus SR Holding GmbH
- Rigi Düsseldorf 2 GmbH
- Rigi Hamburg 1 GmbH
- Rigi Hausener Weg GmbH

All entities that were included in the scope of consolidation for the first time in the financial year 2017, represent the acquisition of a non-operating entitiy (Rigi Hausener Weg GmbH) or were newly established (other named entities). Therefore, there are no business combinations within the meaning of IFRS 3.

In addition, solidare real estate holding GmbH increased its shares in 4. Rigi Property GmbH by 5.10 to 100.00% (share holdings without status changes) during the financial year. As a transaction between the owners, the transaction was recognised directly in the shareholders' equity.

5 SIGNIFICANT DEVELOPMENTS OF THE SHARES OF RIGI PROPERTY GMBH

As of 31 December 2017, solidare real estate holding GmbH held 3.23% of the shares in Rigi Property GmbH. In the financial year 2017 the Solidare-Group had to make impairments in connection with the sale of shares in Rigi Property GmbH, Bonn and contractual works and services provided for the entity, that had significant influence on the profit or loss position of the Group:

In May 2016, solidare real estate holding GmbH sold 91.67% of its shares in Rigi Property GmbH to the property company Bonn Platanenweg 29 S.á.r.l., Louxemburg. On 31 December 2017, there are outstanding receivables resulting from the sale in the amount of kEUR 1,500 due from the buyer. Furthermore, a general contractor agreement was concluded between the Rigi Property GmbH and Primus Asset GmbH for the renovation of the object. On 31 December 2017, there are outstanding receivables resulting from the general contractor agreement in the amount of kEUR 2,164, that have been subject of a legal dispute as on balance sheet date.

In February and March 2018 both parties agreed to an out-of-court settlement with the following content:

Pilatus SR Holding GmbH acquires the shares that Bonn Platanenweg 29 S.á.r.l, Louxemburg holds in Rigi Property GmbH for kEUR 30 and the property company also waives all further claims against the Solidare-Group. In April 2018, Pilatus SR Holding additionally acquired the remaining 3.23% of the shares in Rigi Property GmbH from solidare real estate holding GmbH for kEUR 1. Regarding the receivables resulting from the general contractor agreement PRIMUS Asset GmbH and Rigi Property GmbH settled out-of-court that the PRIMUS Asset GmbH waives a part of these receivables (kEUR 93), which primarily include interest and reminder fees. Furthermore, Primus Asset obligates to grant a long-term credit period for a part of the receivables. Another part of the receivables is secured by a guarantee of BayernLB.

In the Consolidated Financial Statement of the Solidare-Group as of 31 December 2017 the outstanding purchase price receivables due from Bonn Platanenweg 29 S.á.r.l., Louxembourg, have been written down to EUR 1. The book value of kEUR 543 of the remaining 3.23% of the shares that Solidare real estate holding GmbH holds in Rigi Property GmbH has been reclassified to financial assets and has been adjusted down to kEUR 1. The receivables of PRIMUS Asset GmbH due from Rigi Property GmbH resulting from the general contractor agreement have been adjusted by kEUR 93 due to the out-of-court settlement. As of the balance sheet date, the outstanding receivables due from Rigi Property GmbH amounted to kEUR 1,986 due to the partial utilization of the guarantee.

Because of the the complete repurchase of the shares in 2018 and the out-of-court settlement, the Solidare-Group believes it is in a position to profitable develop or to sell the object hold by the entity in the future.

6 SEGMENT REPORTING

A business segment as defined by IFRS 8 is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision maker (Board of Directors) to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

The Solidare-Group is engaged in the development and trading of properties in the segment of micro-apartments. All properties held by Solidare-Group are located in the Rhine-Ruhr region. Due to the uniform characteristics of the property portfolio and the narrow geographic area, there is no division of the business into segments. The group controlling of the operating results is made on a global basis without differentiations in segments like regions or investment activities.

The disclosures to assets, liabilities, expenses and profits for the only segment can be derived from the Consolidated Statement of Financial Position and Income Statement.

7 EXPLANATIONS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSTION

7.1 Property, plant and equipment

The book value of the property, plant and equipment as of 31 December 2017 can be derived from the following table:

	31 Dec 2017	31 Dec 2016
	kEUR	kEUR
Property, plant and equipment	551	471
Total	**551**	**471**

The development of book values was as follows:

	Property, plant and equipment
	kEUR
Historical cost	
Balance at 1 January 2017	**471**
Additions	274
Amortisations	138
Disposals	56
Balance at 31 December 2017	**551**

The property, plant and equipment consist mainly of operating and business equipment and vehicles. The additions primarily relate to the historical costs for additional operating and business equipment.

7.2 Intangible assets

The book value of the intangible assets as of 31 December 2017 can be derived from the following table:

	31 Dec 2017 kEUR	31 Dec 2016 kEUR
Software	47	88
Contracts with favourable market terms	794	1,021
Total	**841**	**1,109**

The development of book values was as follows:

	Software kEUR	Contracts with favour-able market terms kEUR	Total kEUR
Historical cost			
Balance at 1 January 2017	**88**	**1,021**	**1,109**
Additions	0	0	0
Amortisations	41	227	268
Disposals	0	0	0
Balance at 31 December 2017	**47**	**794**	**841**

Significant intangible assets

The Group has service contracts with favorable market terms for the development of property assets of the Solidare-Group compared to market conditions. Based on a useful life of five years, the service / work contracts acquired in the previous year through business combinations were reduced by scheduled depreciations in the amount of kEUR 227 to a book value of EUR 0.8 million (previous year: EUR 1.04 million). With regard to the accounting and valuation methods of service / work contracts that are favorable to market conditions, we also refer to section 3.6 of these Notes.

7.3 Financial assets

	31 Dec 2017 kEUR	31 Dec 2016 kEUR
Loans carried at amortised cost		
Loans to related parties	125	283
Other investments (participations)	1	0
Total	**126**	**283**

Financial assets include unsecured loans granted to related parties in the amount of kEUR 125 (previous year: kEUR 283). We refer to section 10 of these Notes.

The other investments (participations) relate to the shares in Rigi Property GmbH, Bonn, which were stated under non-current assets held for sale in the previous year. Due to the omission of the intention to sell, the shares were reclassified to financial assets in the financial year 2017. Furthermore, the shares were impaired by kEUR 542 in the financial year. We refer to section 5 of these Notes.

7.4 Property inventories

As at the balance sheet date of 31 December 2017, the book value of the property inventories amounted to kEUR 92,292 (previous year: kEUR 71,027). In the financial year, existing property was substantially further developed and further properties acquired. The development in the financial year is shown in the following table:

	Property inventories kEUR
Balance at 1 January 2017	**71,027**
Additions	16,823
Capitalised modernisation costs & development	3,938
Capitalisation of interest on borrowings	504
Disposals	0
Balance at 31 December 2017	**92,292**

As at 31 December 2017, property inventories include capitalised borrowing costs of kEUR 706 (previous year: kEUR 202), of which kEUR 504 were capitalised in the financial year 2017. In the financial year, no inventories were recognised as expenses in the income statement. The realisation of property inventories of approximately kEUR 92,292 is expected to take longer than twelve months due to the stage of development of the properties.

7.5 Trade and other receivables

	31 Dec 2017 kEUR	**31 Dec 2016** kEUR
Trade receivable	2,733	1,637
- less impairment	-95	-116
Subtotal trade recivables	**2,638**	**1,521**
Other receivables	2,538	2,375
- less impairment	-1,500	0
Subtotal other receivables	**1,027**	**2,375**
Prepaid expenses	55	154
Total	**3,720**	**4,050**
Thereof non-current	2,789	4,050
Thereof current	931	0

The amount of kEUR 1,986 of the kEUR 2,638 (previous year: kEUR 1,521) trade receivables relate to outstanding final invoices to Rigi Property GmbH, Bonn, within the scope of the general contract agreement concluded between these two parties. We refer to section 5 of these Notes. Due to expected uncollectibility, individual trade receivables had been impaired.

Other receivables with a book value of kEUR 1,027 (previous year: kEUR 2,375) relate to the still outstanding portion of the purchase price receivable (kEUR 345) against the PA.RE Real Estate Holding GmbH from the sale of Rigi Property GmbH, Bonn. We refer to section 10 of these Notes. Due to an out-of-court settlement, other receivables were impaired by kEUR 1,500. We refer to section 5 of these Notes.

Prepaid expense items were created for expenses that represent expenses for future periods after 31 December 2017 and mainly relate to prepayments to suppliers as well as to insurances whose maturity exceeds 31 December 2017.

The above-mentioned receivables include amounts (see age structure analysis below), which are overdue as of the reporting date, for which the Group, however, has not recognised impairments. In particular, this applies to the still outstanding portion of the purchase price receivable against the PA.RE Real Estate Holding GmbH from the sale of Rigi Property GmbH, Bonn. No impairments were made, since Solidare is still considered to be the legally enforceable nature of the claim. We refer to section 10 of these Notes. With regard to the overdue receivables due from Rigi Property GmbH in the amount of kEUR 1,986, we refer to section 5 of these Notes.

In the financial year 2017, impairment losses on trade receivables and other receivables were recognised in the amount of EUR 1,595 (previous year: kEUR 116) in the income statement.

The following table shows the receivables that are not impaired according to their maturities:

	31 Dec 2017	**31 Dec 2016**
	kEUR	kEUR
Less than 60 days	467	500
60 to 90 days	26	500
91 to 120 days	24	0
120 days +	166	0
Total	**683**	**1.000**

The following table shows the receivables according to their maturities:

	Less than 1 year	**1 to 5 year**	**5 years +**	**Total**
	kEUR	kEUR	kEUR	kEUR
Trade receivables	1,707	0	931	2,638
(31 December 2016)	*(1,521)*	*(0)*	*(0)*	*(1,521)*
Other receivables	1,027	0	0	1,027
(31 December 2016)	*(2,375)*	*(0)*	*(0)*	*(2,375)*
Prepaid expenses	55	0	0	55
(31 December 2016)	*(154)*	*(0)*	*(0)*	*(154)*
Total	**2,789**	**0**	**931**	**3,720**

Receivables with a maturity period of more than one year were discounted at a market interest rate.

7.6 Cash and cash equivalents

In the Consolidated Statement of Financial Position as of 31 December 2017 cash and cash equivalents amounted to kEUR 406 (previous year: kEUR 1,461).

7.7 Assets classified as held for sale

As of 31 December 2017, the Group has no non-current assets held for sale (previous year: kEUR 18,960).

The property assets of 4. Rigi Property GmbH (kEUR 18,417) stated under this item as of the previous year's reporting date were transferred to the buyer in the financial year 2017 due to the purchase agreement concluded on 25 November 2016 in the financial year 2017. The shares in Rigi Property GmbH (kEUR 543), which were also stated under this item as of the previous year's reporting date, were reclassified to financial assets in the financial year 2017 due to the omission of the intention to sell.

7.8 Shareholders‘ equity

Solidare Real Estate Holding plc, Malta, has an authorised capital of 300,000,000 ordinary shares (common stock) as of 31 December 2017 with a nominal value of EUR 1,00 which do not entitle the subscriber to a fixed profit. As of 31 December 2017, 40,800,000 ordinary shares (previous year: 40,800,000 ordinary shares) were issued and fully paid.

	Number of shares		**Common stock**		**Additional paid-in capital**	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
	thousand	thousand	kEUR	kEUR	kEUR	kEUR
Issued and fully paid-in capital: ordinary shares of par value EUR 1.00	40,800	40,800	40,800	40,800	6	0

The movement in issued and paid-in ordinary shares of Solidare Real Estate Holding plc, Malta, did not change during the reporting period.

In the financial year 2017, kEUR 6 were transferred to the capital reserve due to the granting of option rights in connection with the conclusion of a financing facility. This value resulted after the deduction of associated transaction costs in the amount of kEUR 1.

In the Consolidated Statement of Financial Position as of 31 December 2017, the retained earnings in the amount of kEUR -4,354 (previous year: kEUR 1,392) include profits carried forward (previous year: losses) of kEUR 1,392 (previous year: kEUR -844), the consolidated profit for the year of kEUR -5,735 (previous year: kEUR 2,236) as well as kEUR 11 resulting from the increase in the shares in 4. Rigi Property GmbH. The shares were increase to 100.00% through an increase in share holdings without status changes. As a transaction between the owners, the transaction was recognised directly in shareholders’ equity.

As of 31 December 2017, non-controlling interests (minority interests) in the Solidare-Group of kEUR 4,026 (previous year: kEUR 4,026) existed stemming from all group companies, in which the Company does not hold 100% of the shares via solidare real estate holding (see section 4).

In the period from 1 January to 31 December 2017, the Solidare-Group did not grant any share-based options or payments.

7.9 Financial liabilities

	31 Dec 2017 kEUR	31 Dec 2016 kEUR
Unsecured — amortised cost		
Loans granted from related parties	8,630	9,202
Loans granted from third parties	0	1,513
Current accounts	312	161
	8,942	10,876
Secured — amortised cost		
Bank loans	8,025	26,866
Loans granted from third parties	28,049	0
Current accounts	0	0
	36,074	26,866
Total	**45,016**	**37,742**

The financial liabilities existing as at the reporting date of 31 December 2017, serve as short-term financing in the amount of kEUR 16,967 (previous year: kEUR 37,742) and as long-term financing in the amount of kEUR 28,049 (previous year: kEUR 0) of the entity..

The material bank loan terms as of 31 December 2017 are as follows:

	Currency	**Interest** fix/variable	**Average interest rate** %	**Remaining amount** kEUR	**Consolidated Statement of Financial Position** kEUR
Mortgage loans Sparkasse Muensterland Ost – Rigi Neuss 1 Property GmbH	EUR	variabel	2.50*	1,250	1,250
Mortgage loans Volksbank Warendorf – Rigi Neuss 1 Property GmbH	EUR	variabel	2.50*	1,250	1,250
Mortgage loans Volksbank Hamm – Rigi Neuss 1 Property GmbH	EUR	variabel	2.50*	1,275	1,275
Mortgage loans Sparkasse Neuss – Rigi Neuss 1 Property GmbH	EUR	variabel	2.50*	1,250	1,250
Mortgage loans Volksbank Warendorf – ONO Student GmbH	EUR	variabel	1.95*	3,000	3,000
Total					**8,025**

*Interest adjustments are dependent on the development of the benchmark interest rate of 3-months-EURIBOR

In the financial year 2017, substantial financing agreements were signed with an institutional investor (credit line EUR 50 million) and a pension fund (credit line EUR 29 million) to replace existing short-term bank loans. Of this total, kEUR 12,158 and kEUR 15,891 have already been called up as of the balance sheet date of 31 December 2017. These loans from third parties were granted at fixed interest rates of 15.0% per annum or 3.1% per annum. One of the financing agreements concluded includes the granting of option rights to shares of a Group company to the lender and embedded derivative financial liabilities.

Loans from banks and third parties in the amount of kEUR 64,280 are secured by mortgages and other securities (pledging of company shares, guarantees) vis-à-vis the creditors, which serves to satisfy the creditors' claims in the event of a default in the repayment.

Loans granted by related parties were concluded at interest rates between 5.0% and 12.0% per annum. We refer to section 10 of these Notes..

As of 31 December 2017, the Solidare-Group has unused credit lines in the amount of EUR 49.4 million for the acquisition and development of further property.

The following table shows the remaining maturity date of the financial liabilities as of 31 December 2017:

	Thereof remaining maturity date until 1 year	**Thereof remaining maturity date 1 to 5 years**	**Thereof remaining maturity date over 5 years**	**Consolidated Statement of Financial Position**
	kEUR	kEUR	kEUR	kEUR
Loans granted from related parties	8,630	0	0	8,630
Loans granted from third parties	0	12.´,158	15,891	28,049
Overdraft	312	0	0	312
Mortgage loans Sparkasse Münsterland Ost – Rigi Neuss 1 Property GmbH	1,250	0	0	1,250
Mortgage loans Volksbank Warendorf – Rigi Neuss 1 Property GmbH	1,250	0	0	1,250
Mortgage loans Volksbank Hamm – Rigi Neuss 1 Property GmbH	1,275	0	0	1,275
Mortgage loans Sparkasse Neuss – Rigi Neuss 1 Property GmbH	1,250	0	0	1,250
Mortgage loans Volksbank Warendorf – ONO Student GmbH	3,000	0	0	3,000
Total				**45,016**

7.10 Trade payables

In the Consolidated Statement of Financial Position as of 31 December 2017, trade payables of kEUR 1,124 (previous year: kEUR 935) are disclosed resulting from the development of the property inventories. Liabilities to affiliated companies are not included in trade payables (previous year: kEUR 307).

7.11 Other payables

	31 Dec 2017	31 Dec 2016
	kEUR	kEUR
Other financial liabilities		
derivative financial liabilities	120	0
Deposits	46	0
Liabilities from the acquisition of shares	0	329
Total other financial liabilities	**166**	**329**
Other non-financial liabilities		
Deferred income	156	54
Liabilities to tax authorities	101	122
Liabilities from wages and salaries	16	93
Other	372	335
Total other non-financial liabilities	**645**	**604**
Total	**811**	**933**

The other financial liabilities relate to the fair value of embedded derivative financial liabilities (kEUR 120) and cash deposits from leases (kEUR 46).

Other non-financial liabilities relate to sales revenue and wage tax liabilities, liabilities for social securities contributions well as deferred income. Deferred income items are primarily formed for rents received, which represent rental income for the upcoming periods after 31 December 2017.

With the exception of derivative financial liabilities (kEUR 120), all other liabilities are classified as current (kEUR 691).

7.12 Provisions

The balances of the provisions are as follows:

	31 Dec 2017	31 Dec 2016
	kEUR	kEUR
Land reclamation	2,967	3,267
Other provisions	357	1,022
Total	**3,324**	**4,289**

As of 31 December 2017, all provisions are short-term in their nature.

	Land reclamation	Other provisions	Total
	kEUR	kEUR	kEUR
Balance at 1 January 2017	**3,267**	**1,022**	**4,289**
Additional provisions recognised	0	323	323
Property acquisition	0	286	286
Reductions arising from payments/other sacrifices of future economic benefits	300	427	727
Reductions resulting from re-measurement or settlement without cost	0	6	6
Reclassification to the Consolidated Statement of Financial Position item tax liabilities	0	841	841
Unwinding of discount and effect of changes in the discount rate	0	0	0
Balance at 1 December 2017	**2,967**	**357**	**3,324**

Provision for land reclamation

Based on a property purchase agreement, one of the group companies is obliged to reclaim the land. The expected reclamation costs were accrued for. Due to changes in construction plans and regulatory approvals, the necessary work could not be completed as planned in 2017. After an updated planning, the completion of the necessary work is expected for 2018.

Other provisions

Other provisions relate to outstanding invoices for legal, consulting and tax services and tax accruals (kEUR 357). Based on their short-term classification, a cash outflow is expected to be incurred within one year.

Furthermore, in the financial year 2017, tax provisions of kEUR 841 included in this statement of finan-cial position item were reclassified to the current tax liabilities. The reclassification is carried out because the provisionally estimated tax amounts of the previous year have gained sufficient characteristics of liabilities after the official tax filing with the German tax authorities and the related confirmation from the tax authorities.

8 NOTES TO THE CONSOLIDATED INCOME STATEMENT

8.1 Results from asset management

The rental income for the property inventories in the amount of kEUR 700 (previous year: kEUR 615) corresponds to the agreed rents in the respective rental agreements in the reporting period. Mainly 3. Rigi Property GmbH and 4. Rigi Property GmbH generated rental income in the reporting period, as the remaining properties were renovated and upgraded during the financial year.

Other income from asset management in the amount of kEUR 765 (previous year: kEUR 180) includes further operating costs and income from rental services such as facility management, administration and management of buildings, including their technical facilities and installations (property management).

Expenses related to property assets in the amount of kEUR 1,253 (previous year: kEUR 269) include expenses in connection with the maintenance of the property assets, which do not lead to a significant improvement or structural change of the property, as well as operating costs, which are partially charged out to tenants. This item also includes personnel and material expenses in connection with the rental and administration of properties including all provided services in the area of property management. Personnel expenses directly attributable to Asset Management amounted to kEUR 167 in the financial year 2017 (previous year: kEUR 215). In addition, expenses from property assets include amortisation on property, plant and equipment and intangible assets in the amount of kEUR 39 (previous year: kEUR 0).

8.2 Results from property development & sales

The result from property development & sales in the amount of kEUR -1.482 (previous year: kEUR 269) includes the income from the sale of Group's property after deducting the related production costs. This includes the income from individual apartment sales as well as block sales (property or portfolio sales).

The item also includes other income generated from services to third parties in the area of property development. The provided services include, in particular, planning, architecture and renovation services. In the financial year 2017, this item includes revenues from the provision of services to Rigi Property GmbH in the amount of kEUR 403, resulting in an increase in total revenue of more than 10% in accordance with IFRS 7.34.

Expenses from property development & sale in the amount of kEUR 2,365 (previous year: kEUR 28) comprise all personnel and material expenses related to the development of the Solidare's property portfolio which can not be capitalised since they are not attributable to a specific project or do not relate to expenses before the start of the project as well as to expenses provided to third parties in the area project development. Costs directly attributable to the sale of objects are also recognised under this item. In the financial year 2017, the result from property development & sales includes impairments on receivables and financial assets in the amount of kEUR 2,042 (previous year: EUR 0). We refer to section 5 of these Notes.

8.3 Other not directly attributable expenses

Not directly attributable expenses consist of expenses that are not directly attributable to the different revenue streams (asset management and property development & sales). They consist of the following expenses:

	2017 kEUR	2016 kEUR
Other not directly attributable expenses		
Legal, audit and consulting expenses	1,127	397
Personnel expenses	875	170
Administration expenses	770	392
Depreciation and amortisations	367	160
Donations non-profit organisations	262	0
Rental and office expenses	124	124
IT and communication expenses	33	41
Other	30	18
Total	**3,588**	**1,302**

The legal, audit and consulting expenses primarily relate to consulting expenses for acquisitions, auditing and tax consulting expenses as well as other legal and consulting expenses. The other not directly attributable expenses include depreciation on tangible and amortisation on intangible assets in the amount of kEUR 367 (previous year: 160).

8.4 Gain on a bargain purchase

This item shows the difference between consideration transferred and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed from the acquisition of subsidiaries. The gain on a bargain purchase of kEUR 2.561 disclosed in the previous year resulted from the acquisition and the subsequent valuation of solidare real estate holding GmbH. In financial year 2017, however, no such profit was generated.

8.5 Financial result

The financial result is broken down as follows:

	2017 kEUR	2016 kEUR
Financial result		
Financial expense	-1,644	-566
Financial income	28	127
Other financial result	-120	0
Total	**-1,736**	**-439**

The financial expense primarily results from interest paid and deferred interest for loans received. The financial income results from interest on cash and cash equivalents as well as from interest on interest-bearing loans and receivables issued by the Solidare.

In the financial year 2017, the financial expense in the amount of kEUR 504 (previous year: kEUR 202) was reduced by capitalised borrowing costs on the property inventories under development. The weighted average cost of borrowed capital was 2.99% (previous year: 2.79%).

The other financial result results from the valuation of derivative financial liabilities (kEUR -120).

Transaction costs in the amount of kEUR 1,674 incurred in the financial year 2017 in connection with the conclusion of various financing agreements are recognised over the entire maturity period using the effective interest method. Of this amount, kEUR 22 was already included in financing expenses in the financial year.

8.6 Income taxes

In Malta, no separate corporate income tax system exists. A company is subject to the income tax like an individual person. All companies located in Malta are subject to a nominal income tax rate of 35%. Since the introduction of the income tax in Mallta in 1948 there is an imputation system of income taxes, e. g. the income taxes paid by a company will be imputed/refunded on the level of its shareholers at the time of a dividend payment. This system applies for Maltese shareholders as well as for non-resident shareholders.

The Board of Directors of Solidare Real Estate Holding plc. plans to generate revenues via dividend income from its German subsidiary solidare real estate holding GmbH. From an income tax perspective, solidare real estate holding GmbH basically generates profit form the following two sources of income streams:

- Dividend income/capital gains which would be exempted from income taxes in Malta through the application of the participation exemption under the Maltese tax law.
- Other income.

Foreign income taxes are calculated using the tax rate applicable in the respective countries, which varies from 12.3% to 35.0% (previous year: 0.0% to 35.0%). Besides Malta, the Solidare-Group is also represented in Germany and Switzerland with Group companies. In Germany all Group companies – except for VFS Grundstuecks AG – are structured in the legal form of limited liability companies (GmbH), this means they are subject to corporation tax, trade tax and the solidarity surcharge. The property companies, which are the substantial part of the Group's activities, essentially managing asset and thus are trade tax-exempted. Therefore, these companies are only subject to corporation tax plus the solidarity surcharge payable on this. Therefore, a nominal income tax rate of 15.83% is applied here. In case of the minor German service companies in the Solidare-Group, the commercial tax has to be calculated additionally, which results in a formal tax on income tax of 30.5%.

The Swiss Group is subject to ordinary taxation, the commercial capital and income tax rate is 12.3%.

The components of the income taxes of Solidare-Group for the reporting period are as follows:

	2017 kEUR	2016 kEUR
Current taxes (-expenses / +earnings)		
Malta	0	0
Abroad	-261	152
Deferred taxes (-expenses / +earnings)	660	1,140
Income taxes (-expenses / +earnings)	**399**	**1,292**

The Solidarity-Group's tax expense for the reporting period 2017 can be referred to the income of the year as follows:

	2017 kEUR	2016 kEUR
Profit before tax from continuing operations	-6,594	1,210
Income tax expense calculated at 15.83%	1,044	-191
Effects of different tax rates	195	-98
Effects from gain of a bargain purchase	0	405
Expenses and income with no tax effects	-210	36
Permanent deviations from deferred taxes	-651	1,140
Aperiodic effects	21	0
Effective tax burden (+ expense / -earnings)	**399**	**1,292**

The tax rate applied to the above-mentioned reconciliation for 2017 corresponds to the company tax rate of 15,83% (previous year: 15.83%) on taxable profits according to the German tax law, which is to be paid by the most important group property companies in Germany. These German property companies were active in the Group network for the first time in the financial year 2016. In 2017, no business segment was classified as discontinued.

As at 31 December 2017, there are no current income tax assets or current income tax liabilities. For the amount of tax provisions, please see section 7.12.

Deferred tax assets as of the balance sheet date in the Consolidated Statement of Financial Position in the Solidare-Group are as follows:

	31 Dec 2017 kEUR	31 Dec 2016 kEUR
Valuation of intangible assets (deferred tax liabilities)	126	162
Valuation of properties (deferred tax liabilities)	7,035	7,226
Valuation of financial liabilities (deferred tax liabilities)	261	**0**
Total deferred tax assets	**7,422**	**7,388**
Valuation of provisions (deferred tax assets)	18	18
Tax loss carry forwards (deferred tax assets)	19	0
Tax loss carry-forwards (deferred tax assets)	805	131
Total deferred tax liabilities	**842**	**149**

Under the tax laws prevailing in Malta tax loss carry forwards may be carried forward and offset against future profits without any time restrictions. Companies forming part of a group may benefit from group relief provisions in respect of allowable losses which are surrendered. However, group relief only applies to companies' resident in Malta, and such companies that are deemed to form part of a group if one or more companies are owned, directly or indirectly, as to at least fifty-one per cent.

The Swiss Group has no significant tax loss carry forwards.

No deferred tax assets were capitalised for the loss carryforwards for corporate income tax in the amount of kEUR 2,633 (previous year: kEUR 2,633) and for trade income tax in the amount of kEUR 3,963 (previous year: kEUR 3,993) of VSF Grundstuecks AG due to the complete change of ownership in the past and the current, not fully resolved legal situation.

The Company assumes to realise deferred tax assets in accordance with IAS 12 to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. However, tax loss carried forwards can only be used in the future if they do not belong to non-taxable income. On this basis deferred tax assets and liabilities are disclosed. In addition, deferred tax assets result from the lower tax valuation of other provisions.

The deferred tax liabilities are mainly due to the temporary differences between the recognition of hidden reserves in the property inventories disclosed in the financial year 2016 due to the acquisition of the solidare real estate holding GmbH in the Consolidated Statement of Financial Position and the lower tax values. We refer to section 5 of these Notes.

8.7 Result from discontinued operations

As of May 4, 2016, the previous investment business was fully transferred to its shareholders by the separation of the subsidiary and its participations and a capital reduction..

As a result, the result of the investment business was classified as a discontinued business segment until it was distributed to its shareholders:

	2017	**2016**
	kEUR	kEUR
Investment income		
Interest income	0	84
Other financial income	0	117
Gain on revaluation of assets and liabilities	0	112
Total investment income	**0**	**313**
Investment costs		
Legal and consulting expenses	0	-79
Other not directly attributable expenses	0	-93
Interest expenses	0	-125
Total investment costs	**0**	**-297**
Earnings before taxes	**0**	**16**
Income tax expenses	0	0
Loss on disposal of the business	0	-136
Loss for the period from discontinued operations	**0**	**-120**

In 2017, no business segment was classified as discontinued.

8.8 Earnings per share

Information about earnings per share is in accordance with IAS 33:

	2017	2016
	EUR/Share	EUR/Share
From continuing operations	-0.14	0.09
From discountinued operations	0.00	0.00
Total	**-0.14**	**0.09**

The results and the weighted average number of shares for basic earnings per share are as follows:

	2017	2016
	kEUR	kEUR
Profit for the period attributable to the owners of the Company	-5,735	2,236
Profit for the period used in the calculation of basic earnings per share	-5,735	2,236
Loss from discontinued operations used in the calculation of basic earnings per share from discontinued operations	0	-120
Profit for the period from continuing operations used in the calculation of basic earnings per share from continuing operations	**-5,375**	**2,356**

	2017	2016
	Thousand	Thousand
Weighted average number of shares for the calculation of basic earnings per share	40,800	25,802

In the financial year 2017, no dilutive effects were taken into account when calculating earnings per share. Although there are potentially dilutive effects from the future issue of equity instruments under a financing agreement as of the reporting date. However, their exercise is highly unlikely.

9 LEGAL DISPUTES

In May 2016, solidare real estate holding GmbH sold 91.67% of its interest in Rigi Property GmbH before the solidare real estate holding GmbH was acquired by Solidare Real Estate Holding plc. In connection with the sale, a general contractor agreement was also concluded between the property company Bonn Platanenweg 29 S.a.r.l. and PRIMUS Asset GmbH for the renovation of the before-mentioned property. Since the property company Bonn Platanenweg 29 S.a.r.l. has not settled a first partial invoice of PRIMUS Asset GmbH in the amount of kEUR 500 from 12 October 2016, PRIMUS Asset GmbH was able to obtain a debt-securing mortgage in an equal amount to secure its claim. Within the context of a court settlement, PRIMUS Asset GmbH committed itself in February 2017 to the deletion of the obtained land mortgage. In return, they received a guarantee of BayernLB in the amount of kEUR 270.

On 6 April 2018 a subsidiary of the entity, the 7th Rigi, received a lawsuit for a commission payment. Thereupon the 7. Rigi Property GmbH has filed for insolvency on 25 April 2018, because a primary committed financing was cancelled. On 2 Mai 2018, the district court of Duesseldorf decided on the insolvency opening proceedings of the 7. Rigi Property GmbH. The insolvency proceedings have not yet been opened.

In addition, the Solidare-Group was not involved in any further legal disputes as of 31 December 2017.

10 RELATED PARTY DISCLOSURE

According to IAS 24 “Related Party Disclosures” an entity is required to identify all relationships and transactions with related parties and individual persons, since the relationships can have an impact on net worth, financial and profit situation of the Solidare-Group.

Intergroup transactions, which are related parties in the sense of IAS 24, are eliminated in the preparation of the Consolidated Financial Statements and will not be mentioned in this note. We refer to section 4 for the presentation of all subsidiaries.

All members of the governing body of the Solidare-Group (especially the Board of Directors) and their immediate family members are deemed related parties from the point of view of Solidare Real Estate Holding plc, Malta, in accordance with IAS 24 Related Party Disclosures.

Zeki Yigit, Member of the Board of Directors of Solidare Real Estate Holding plc, Malta, is the sole owner and Managing Director of Suryoyo Holding GmbH, Duesseldorf, one of the shareholders of Solidare Real Estate Holding plc, Malta.

As of 31 December 2017 the Company discloses several short-term loans due to Suryoyo Holding GmbH, Duesseldorf, at a total book value of kEUR 8,620 (31 December 2016: kEUR 7,756) shown as financial liabilities in the Consolidated Statement of Financial Position as of 31 December 2017. Additionally the financial liabilities include short-terms loans due to Zeki Yigit in an amount of kEUR 10 (31 December 2016: kEUR 10).

Mrs. Feride Can, sister of Mr. Zeki Yigit, is the main shareholder and managing director of Paulus Holding GmbH, Guetersloh.

In the financial year 2017, the Solidare-Group has repaid all liabilities due to Paulus Holding GmbH, Guetersloh. Therefore, the Consolidated Financial Statement as of 31 December 2017 does not show any short-term loans due to Paulus Holding (31 December 2016: kEUR 1,041).

Mr. Petrus Can, son of Mrs. Feride Can, is the sole shareholder and managing director of Gauss Consult GmbH, Guetersloh.

In the Consolidated Statement of Financial Position as of 31 December 2017, the Company has reported trade payables to Gauss Consult GmbH, Guetersloh, in the amount of kEUR 0 (31 December 2016: kEUR 45). In the reporting period 2017, the entity was charged with a total of kEUR 1,243 for deliveries and services.

Mr. Genco Yigit, brother of Mr. Zeki Yigit, is the sole shareholder of Genco Handels & Vertriebsgesellschaft mbH, Bad Laer, which is the sole shareholder of Valvero GmbH, Bad Laer.

In the Consolidated Statement of Financial Position as of 31 December 2017, the Company has reported trade payables to Valvero GmbH, Bad Laer, in the amount of kEUR 0 (31 December 2016: kEUR 42). In the reporting period 2017, Valvero GmbH, Bad Laer, was charged with a total of kEUR 21 for deliveries and services.

Valvero GmbH, Bad Laer, has been main shareholder of Cocon GmbH, Bad Laer, until 1 August 2017.

In the Consolidated Statement of Financial Position as of 31 December 2017, the Company has not reported trade payables to Cocon GmbH, Bad Laer (31 December 2016: kEUR 0) anymore. During the business year 2017, the Company was charged with a total of kEUR 1,386 for deliveries and services in the reporting period.

Mr. Simon Yigit, cousin of Mr. Zeki Yigit, is an independent business consultant.

In the Consolidated Statement of Financial Position as of 31 December 2017, the Company has reported trade payables to Mr. Simon Yigit in the amount of kEUR 10 (31 December 2016: kEUR 0). In the reporting period 2017, Mr. Simon Yigit charged to the Company an amount of kEUR 65 for deliveries and services.

René Mueller is member of the Board of Directors of Solidare Real Estate Holding plc, Malta.

In the Consolidated Statement of Financial Position as of 31 December 2017, the Company reported directly and indirectly various loan receivables to René Mueller in a total value of kEUR 125 (31 December 2016: kEUR 283) under financial assets.

René Mueller is member of the Board of Directors of GSC General Service Center AG, Zug. In the Consolidated Statement of Financial Position as of 31 December 2017, the Company has reported trade payables to GSC General Service Center AG, Zug, in the amount of kEUR 87 (31 December 2016: kEUR 0). In the reporting period 2017, GSC General Service Center AG, Zug, was charged with a total of kEUR 152 for deliveries and services.

Patrick Rehberger is member of the Board of Directors of Solidare Real Estate Holding plc. and Managing Director of solidare real estate holding GmbH, Duesseldorf, and of other group companies. Moreover, he is also Managing Director of one of the shareholder of Solidare Real Estate Holding plc, Malta, the Suryoyo Holding GmbH, Duesseldorf, as well as of other companies, which do not belong to the Solidare-Group. One of these non-Solidare companies, PA.RE Real Estate Holding GmbH, Saarbruecken, granted a loan to the Solidare-Group in 2016 that has been repaid during the current reporting period. Therefore the Consolidated Statement of Financial Position as of 31 December 2017 does not contain financial liabilities due to the entity (31 December 2016: kEUR 405). In addition, business shares were sold to PA.RE Real Estate Holding GmbH in the previous year whose purchase price was not yet fully settled. They are reported under other receivables in the Consolidated Statement of Financial Position as at 31 December 2017 in the amount of kEUR 345 (31 December 2016: kEUR 329).

11 OPERATING LEASE ARRANGEMENTS

11.1 The Group as lessee

The Group's rental and lease agreements mainly consist of rented administration buildings, company vehicles and office equipment.

The payments recognised as an expense from operating leases are reported in the income statement under other not directly attributable expenses and are as follows:

	2017	2016
	kEUR	kEUR
Minimum lease payments	116	97
Contingent rentals	0	0
Sub-lease payments received	-30	-30
Total	**86**	**67**

The future minimum lease payments from non-cancellable operating leases are as follows:

	31 Dec 2017	31 Dec 2016
	kEUR	kEUR
Less than 1 year	60	86
1 to 5 years	0	99
5 years +	0	0
Total	**60**	**185**

The lease commitments relate in particular to the rent of the business premises of Solidare Real Estate Holding GmbH and its subsidiaries in Duesseldorf. This is a typical commercial lease contract. The contract includes a price adjustment clause depending on the development of the consumer price index in Germany.

11.2 The Group as lessor

The operating leases in which the Group is the lessor relate to the investment property owned by the Group. For the respective property, the Group concluded General Lease Commitments with third parties on fixed maturities and without any price adjustment clauses.

The future minimum lease payments from non-cancellable operating leases are as follows:

	31 Dec 2017	31 Dec 2016
	kEUR	kEUR
Less than 1 year	224	699
1 to 5 years	270	466
5 years +	0	0
Total	**494**	**1.165**

In the reporting period 2017, contingent rents have not been recognised as income in the income statement.

12 INFORMATION ON FINANCIAL INSTRUMENTS

12.1 Classes and categories of financial instruments

IFRS 7.6 requires the breakdown of the financial instruments by classes and the reconciliation of the items reported in the statement of financial position. The formation of the classes is determined by the reporting company itself and is therefore generally different from the categories defined according to IAS 39, which are recorded for the purposes of the valuation of the financial instruments.

Accordingly, similar financial instruments were grouped into one class. The definition of the classes also took account of the possibility of a simple transition to the items shown in the statement of financial position. As a result, the following classes were defined in this consolidated financial statements: Trade and other receivables, other financial assets and cash and bank balances on the as-sets side as well as loans from banks, other financial liabilities, trade payables, liabilities from the share acquisition and other liabilities on the shareholders' equity and liabilities side.

In addition to the classification of financial instruments into classes, IFRS 7 requires the disclosure of the carrying amounts of the financial assets and liabilities according to the categories of IAS 39. The following tables show the carrying amounts and fair values of the individual financial assets and liabilities for each individual class as well as by category according to IAS 39. The following tables show the carrying amounts and fair values of financial assets and reconciles the amount to the corresponding line item in the Group's statement of financial position. Since the statement of financial position item "Other liabilities" contains financial instruments and non-financial liabilities, the column "Non-FI" allows the com-plete reconciliation to the items of the statement of financial position.

Allocation of financial instruments into categories of IAS 39

Solidare has only financial assets and liabilities that are measured at amortised cost. On the other hand, there are no financial assets and liabilities at fair value. The further categorisation of the financial assets and liabilities pursuant to IAS 39 are presented in the following table:

	L&R	Non-FI		
Assets in kEUR	**Amortised costs**	**Not subject to IFRS 7**	**Book value at 31 Dec 2017**	**Fair Value at 31 Dec 2017**
Trade and other receivables	**3,665**	**55**	**3,720**	**3,720**
Trade receivables	2,638	0	2,638	2,638
Other receivables	1,027	55	1,082	1,082
Other financial assets	**126**	**0**	**126**	**126**
Loans Granted	125	0	125	125
Other participations	1	0	1	1
Cash and bank balances	**406**	**0**	**406**	**406**
TOTAL ASSETS	**4,197**	**0**	**4,252**	**4,252**

	HFT	FLAC	Non-FI		
Equity and liabilities in kEUR	**Fair Value through profit and loss (FL@FV/P&L)**	**Amortised costs**	**Not subject to IFRS 7**	**Book value at 31 Dec 2017**	**Fair Value at 31 Dec 2017**
Financial liabilities	**0**	**45,016**	**0**	**45,016**	**46,668**
Bank loans	0	8,025	0	8,025	8,025
Other financial liabilities	0	36,991	0	36,991	38,643
Trade payables	**0**	**1,124**	**0**	**1,261**	**1,261**
Other liabilities	**120**	**46**	**645**	**811**	**811**
Derivative financial liabilities	120	0	0	120	120
Deposit	0	46	0	46	46
Remaining other liabilities	0	0	645	645	645
TOTAL EQUITY AND LIABILITIES	**120**	**46,186**	**645**	**47,088**	**48,740**

L&R: loans and receivables
FLAC: financial liabilities at amortised cost
Non-FI: non-financial asset/liabilities
HFT: held for trading

Allocation of financial instruments into categories of IAS 39 - previous year

The financial assets in the previous were as follows:

	L&R	Non-FI		
Assets in kEUR	**Amortised costs**	**Not subject to IFRS 7**	**Book value at 31 Dec 2016**	**Fair Value at 31 Dec 2016**
Trade and other receivables	**4,050**	**0**	**4,050**	**4,050**
Trade receivables	1,521	0	1,521	1,521
Other receivables	2,529	0	2,529	2,529
Other financial assets	**283**	**0**	**283**	**283**
Loans Granted	283	0	283	283
Cash and bank balances	**1,461**	**0**	**1,461**	**1,461**
TOTAL ASSETS	**5,794**	**0**	**5,794**	**5,794**

The financial assets in the previous year were as follows:

Equity and liabilities in kEUR	FLAC Amortised costs	Non-FI Not subject to IFRS 7	Book value at 31 Dec 2016	Fair Value at 31 Dec 2016
Financial liabilities	**37,742**	**0**	**37,742**	**37,742**
Bank loans	26,866	0	26,866	26,866
Other financial liabilities	10,876	0	10,876	10,876
Trade payables	**935**	**0**	**935**	**935**
Other liabilities	**329**	**604**	**933**	**933**
Liabilities from acquisition of shares	329	0	329	329
Remaining other liabilities	0	604	604	604
TOTAL EQUITY AND LIABILITIES	**39,006**	**604**	**39,610**	**39,610**

L&R: loans and receivables
FLAC: financial liabilities at amortised cost
Non-FI: non-financial asset/liabilities

The fair value in the above table are determined according to recognised methods of financial mathematics (we refer to the fair value hierarchy for financial instruments in section 12.3 of these Notes).

Trade receivables are stated at short notice or are determined considering any possible value adjustments, which is why their fair value corresponds to the book value. The same applies to cash and cash equivalents and other receivables. The carrying amount of the loans granted included under other financial assets also corresponds to the amortised cost.

Loans granted by banks are generally valued at amortised cost. The remaining financial liabilities mainly consist of loans from related parties and third parties and are valued analogue to the bank loans.

12.2 Net profits and losses

According to IFRS 7.20 (a), the net gains and losses are required for each category of financial instruments as defined in IAS 39.9. For Solidare in the reporting period 2017 they are as follows:

Figures in kEUR Category	Valuation	Fair Value	Value adjustments	Result from disposal or repurchase	Other gains or losses	Net profit/ net loss
L&R	Amortised costs	0	-2,137	0	28	-2,109
FLAC	Amortised costs	0	0	0	-1,644	-1,644
HFT	Fair Value through profit and loss (FL@FV/P&L)	-120	0	0	0	-120

L&R: loans and receivables
FLAC: financial liabilities at amortised cost
HFT: held for trading

In the previous year, the net profits and losses for each category of financial instruments as defined in IAS 39.9 were as follows:

Figures in kEUR Category	Valuation	Value adjust-ments	Result from dis-posal or repur-chase	Other gains or losses	Net profit/ net loss
L&R	Amortised costs	-116	0	127	11
FLAC	Amortised costs	0	0	-566	-566

L&R: loans and receivables
FLAC: financial liabilities at amortised cost

12.3 Fair value hierarchy for the fair value measurement of financial instruments

The following table shows the assets and liabilities that have been measured at fair value and their classification according to the fair value hierarchy of IAS 39:

Figures in kEUR Balance Sheet Item	Level 1	Level 2	Level 3	Total
Other liabilities				
Derivative financial liabilities	0	0	120	120

The reconciliation from the beginning balances to the closing balances as of 31 December 2017 for financial instruments that are measured with level 3 inputs, is as follows:

Figures in kEUR	Derivative financial liabilities
Balance as of 1 January 2017	**0**
Valuation of financial instruments through profit and loss	120
Balance as of 31 December 2017	**120**

At the balance sheet date, 31 December 2017, the consolidated financial positions only includes embedded derivative financial liabilities measured at fair value, that relate to the conclusion of a comprehensive financial facility. The fair value of that derivative financial instrument depends on the future value development of certain real estate properties and service companies of the Solidare-Group.

Fair values are determined based on capital market methods, especially with discounted cash flow methods (DCF). Report of independent experts are used within the valuation. The experts determine the fair value by discounting expected future cash flows from the respective properties and the services provide by the group. The central inputs therefore are especially the expected future cash flows from the sale and rental of properties as well as the provision of services and the specific discounting interest rate of each project. Particularly with regard to the determining of the expected future cash flows, it is necessary to make assumptions, regarding the expected utilization, future construction costs or rental price trends and value development. The relevant parameters and assumptions for valuation are thoroughly determined on every balance sheet date through the management or independent experts while considering current market conditions. A change of the unobservable inputs can lead to substantial fluctuations in the fair value of derivative financial liabilities, nevertheless significant changes in value are unlikely, because the business development can be predicted relatively well.

13 FINANCIAL RISK MANAGEMENT

13.1 Financial risk management objectives

As a property portfolio owner and developer, the Solidare-Group is exposed to various risks. With an effective and consistent risk management, the Company ensures that developments that could jeopardise strategic and operational goals are recognised in time and considered in the respective decision-making processes.

The Solidare-Group is actively trying to counteract risks by the means of internal regulations, reporting systems and control procedures to monitor, evaluate and manage the risks of the operating business. The risk management is carried out in all Solidare-Group's levels and is managed by the Board of Directors, which is involved in all risk-relevant decisions. Within the risk process, the risks are identified and analysed on a company level and in the operating units. For each risk, the probability of occurrence as well as the potential damage are collected and considered in business decisions. Measures and controls are carried out to counter-control the identified risks as well as to minimise damages.

The most important risk factors are financial as well as market and property-specific risks. The main financial risk factors are fluctuations in the capital and property markets, changes in interest rates and the deterioration in the credit standing and solvency of customers and business partners.

For the future, a further expansion of the risk management as well as the formalisation and institutionalisation of existing processes are planned.

13.2 Market and financial risk

The refinancing is of high strategic importance to the Solidare-Group. The Solidare-Group's business activities have a high capital requirement, which exposes the Group to significant financial risks. Significant fluctuations in the capital and property markets may make the raising of financing funds more difficult. In order to keep the refinancing risk low, the Solidare-Group is taking care for a balanced mix of equity and borrowed capital, as well as for different maturities of the financing, in line with the overall strategy for the respective financed property. Due to the successful completion of the refinancing in the financial year 2017 (see section 7.9), most of the property portfolio is now having non-current loans.

In order to receive or to continue to receive loans, the Solidare-Group must fulfil certain obligations according to the agreements with the lenders. The compliance with these obligations is permanently monitored by the Solidare-Group and is therefore in close contact with the lenders. If these obligations are not fulfilled, the lender may terminate the credit agreement under certain circumstances. Currently, no material failures are known or expected which could influence the business activities of the Solidare-Group in a negative way.

In order to avoid risks of the capital market compliance, the Solidare-Group actively monitors compliance to ensure the compliance with the capital market commitments and, in particular, to prevent the misuse or dissemination of insider information.

13.3 Interest risk management

Solidare-Group is exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. Interest rate increases can affect the results of the Solidare-Group through higher interest expenses for existing variable borrowing. A change in the interest rate has a direct impact on the Solidare-Group's financial result in the case of a floating interest rate borrowing. New borrowings are carefully chosen with the purpose of ensuring the lowest possible interest rate on a long-term basis. In order to avoid interest rate risks, the Solidare-Group is increasingly seeking to replace borrowings with floating interest rates with fixed rates. In the financial year 2017 that objective came closer through the conclusion of two comprehensive financing facilities.

13.4 Currency risk management

The Group undertakes transactions denominated in foreign currencies. Consequently, exposures to exchange rate fluctuations arise. These exchange rate risks are due to the subsidiary in Switzerland and are only marginally. From management's perspective, forward foreign exchange contracts are therefore not necessary to hedge the risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	2017	**2016**	**2017**	**2016**
	kEUR	kEUR	kEUR	kEUR
CHF	421	290	644	536

13.5 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. It is planned to adopt a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a mean of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on receivables due from tenants is low. In general, tenants are required to provide collateral. The credit risk for receivables due from banks is also considered low since all financial transactions are concluded with financial institutions with good credit ratings.

13.6 Liquidity risk management

Liquidity risks are minimised due to medium-term liquidity planning. A liquidity management, combined with the regular and extensive reporting to the Solidare-Group's management, ensures that the operational commitments are met, funds are optimally invested and the flexibility for current acquisition opportunities is preserved.

The Solidare-Group also uses non-current financing, which considers the economic viability of the property. In order to avoid cost overruns and the related excessive liquidity outflow, the Solidare-Group carries out continuous budget and construction progress monitoring during the development projects and maintenance work.

In coordination with the operating units and the management, the legal department constantly monitors pending cash outflows from legal risks.

14 CAPITAL MANAGEMENT

The Solidare-Group manages its capital with the aim to ensure that all Group companies are able to operate under the going-concern assumption while maximising the income of the Company's stakeholders by optimising the debt-to-equity relation.

The capital structure of the Group consists of net debt (current and non-current financial liabilities less cash and cash equivalents) and Group equity. This comprises the capital stock, capital reserves, retained earnings and non-controlling interests. The Solidare-Group is not subject to any externally imposed capital requirements.

The management of solidare real estate holding GmbH reviews the capital structure of the Solidare-Group on a monthly basis. As part of the review, the management considers the costs of capital and the risk associated with each class of capital. The Solidare-Group does not have a target gearing ratio. Although it is calculated on a regular basis (see below), the amount of the debt is, however, placed in relation to the property assets. The gearing ratio is determined as the proportion of net debt to equity. While the gearing ratio was 111.61% as of 31 December 2017 (31 December 2016: 78.49%), the property inventories amounted to kEUR 92,292 as of 31 December 2017 (31 December 2016: kEUR 71,027).

The gearing ratio at the end of the reporting period is as follows:

	31 Dec 2017	**31 Dec 2016**
	kEUR	kEUR
Debt (1)	45,016	37,742
Cash and bank balances	-406	-1,461
Net debt	**44,610**	**36,281**
Shareholders‘ equity (2)	39,959	46,223
Net debt to shareholders‘ equity	**111.64 %**	**78.49 %**
Property assets	**92,292**	**71,027**

(1) Debt is defined as long- and short-term borrowings.

(2) Shareholders' Equity includes the capital of the Solidare-Group according to the Consolidated Statement of Financial Position.

15 OTHER INFORMATION ON THE CASH FLOW STATEMENT

15.1 Cash and cash equivalents

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents include cash in hand and in banks. Cash and cash equivalents at the end of the reporting period as shown in the Consolidated Cash Flow Statement can be reconciled to Consolidated Statement of Financial Position as follows:

	31 Dec 2017 kEUR	31 Dec 2016 kEUR
Cash and bank balances	406	1,461
Cash and bank balances included in a disposal group held for sale	0	0
Total	**406**	**1,461**

15.2 Non-cash transactions

The non-cash transactions mainly relates to impairments of the purchase price demands from the disposal of the interest in Rigi Property GmbH, Bonn, as well as the value adjustment of the remaining interest on the aforementioned entity. We refer to section 5 of these Notes.

15.3 Reconciliation in accordance to IAS 7

The liabilities resulting from financing activities in the financial year 2017 can be reconciled as follows:

Figures in kEUR

	Balance at 31 Dec 2016	Cash flows from financing activities	Non-cash changes	Balance at 31 Dec 2017
Financial liabilities	37,742	6,618	656	45,016
Other liabilities	933	0	-122	811
Total	**38,675**	**6,618**	**534**	**45,827**

16 EMPLOYEES

The resulting average number of employees in the reporting period was 26 (previous year: 11) and is comprised as follows:

	2017 Number	2016 Number
Salaried employees	26	11
Industrial worker	0	0
Total	**26**	**11**

Total personnel expenses in the amount of kEUR 875 (previous year period: kEUR 385) were incurred in the reporting period 2017.

17 GOVERINING BOARD AND COMPENSATION

In the business year from 1 January to 31 December 2017, the Board of Directors of the Company comprised the following persons:

- René Mueller
- Zeki Yigit
- Patrick Rehberger (since 18 August 2017)

Thomas Jacobsen is Secretary of the Company.

The Board of Directors did not receive any remunerations for the period.

18 EVENTS AFTER THE BALANCE SHEET DATE 31 DECEMBER 2017

On 9 May 2018, the company acquired 100% of the shares in Samarion S.E., Düsseldorf , which in turn holds 35.5% shares and 53.05% voting rights in gamigo AG, Hamburg, one of the leading companies in the field of online gaming in Europe. The purchase price of EUR 62 million was paid by way of several promissory notes, of which EUR 42 million were fulfilled at closing and the remainder to be fulfilled in shares and cash. Subsequently the company disposed 100% of the shares of solidare real estate holding GmbH, in which the real estate business of the company is bundled. The purchase price amounts to EUR 42.93 million.

Mr. Zeki Yigit, resigned from his functions as a member of the Board of Directors and CEO of the Company on 9 May 2018. On 31 may 2018 an extraordinary general meeting took place, at which the name change of the company in Blockescence plc was resolved. The new investment strategy of the company consists of the acquisitions of key market players in suitable industries, where implementation of blockchain technology with the relevant support and hands-on management can create value. Additionally Mr. Remco Westermann (chairman) and Mr. Tobias M. Weitzel were appointed as Directors of the board. On 31 May 2018, Mr. Patrick Rehberger resigned from his position as Director. This changes have not been registered in the Commercial Register of Malta.

We refer to section 5 and 9 of these Notes for further significant events after the balance sheet date 31 December 2017.

There were no further reportable events after 31 December 2017.

19 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on 21 June 2018.

20 GUARANTEE OF THE BOARD OF DIRECTORS

In all conscience, we assure, as representative for the Board of Directors of the Company, that the consolidated financial statements for the period from 1 January to 31 December 2017 are in compliance with IFRSs, as adopted by the EU, and give a true and fair view of the Group's Net Assets, Financial Position and Results of Operations.

Malta, 21 June 2018

Remco Westermann René Mueller

Independent Auditors' Report

To the Solidare Real Estate Holding plc, Valetta, Malta

We have audited the consolidated financial statements prepared by Solidare Real Estate Holding plc, – comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements – for the year ended 31 December 2017. The preparation of the consolidated financial statements in accordance with those International Financial Reporting Standards (IFRS) as adopted by the EU, is the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with those IFRS as adopted by the EU, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements, comply in all material respects with IFRS as adopted by the EU and give a true and fair view of the net assets, financial position and results of operations of the Group.

Leipzig, 26 June 2018

Deloitte GmbH
Wirtschaftspruefungsgesellschaft

(Schwarz)	(Sauer)
Wirtschaftspruefer	Wirtschaftspruefer
[German Public Auditor]	[German Public Auditor]

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.