

# GLOBE TRADE CENTRE S.A.

Current report number: 4/2015

Date: 16 January 2015

Subject: **Events with a potential impact on GTC's consolidated financial statements for the year ended 31 December 2014**

The management board of Globe Trade Centre S.A. ("GTC", the "Company") informs that based on preliminary valuation reports of the assets in GTC's real estate portfolio, it assesses that the fair value of its real estate portfolio to be included in the consolidated financial statements of GTC's capital group as of and for the financial year ended 31 December 2014 (the "2014 Financial Statements") will be approximately EUR 132 million lower than the values reflected in the financial statements as of 30 September 2014. The above assessment is subject to receipt of final valuation reports and the completion of the annual audit.

## 1. Devaluation of the Company's assets

The decline in fair value is mostly related to the Company's assets located in secondary cities in Romania, Croatia and Bulgaria, as well as the landbank in Budapest.

In previous years the Company supported the operations of certain of its projects with an outlook to improve their operating performance; however, such support has not resulted in the expected improvement. Following the reassessment of the performance of the Company's portfolio in secondary cities and B-class locations in Romania, Croatia, Bulgaria and Hungary during the fourth quarter of 2014, the Management decided to no longer support certain of these assets and to sell the Company's non-performing assets. As a result of the current market situation, the preliminary valuation reports were based on less favorable assumptions with respect to the future performance of certain shopping malls, which resulted in changes of the estimated rental value of the projects, their required additional investments and their risk-adjusted yields.

As a result of the above factors, in the fourth quarter of 2014 the average portfolio yield based on the total value of completed assets has slightly increased, from 8.6% to 8.9%, and the average portfolio ERV has declined from 13.8 to 13.1 EUR/sqm/month.

The table below presents a **break-down of the valuation adjustments** which are expected to be recognized in the 2014 Financial Statements.

### Anticipated devaluation by category (in EUR millions):

	<b>Three-month period ended 31 December 2014</b> <i>(unaudited)</i>
Adjustment to fair value of completed assets	(71)
Impairment adjustment	<u>(28)</u>
<b>Loss due to decline in fair value of investment properties</b>	<b>(99)</b>
Impairment of residential projects	(22)
Share of loss of associates and joint ventures companies	(11)
<b>Total fair value loss</b>	<b><u>(132)</u></b>

The tables below present a **breakdown of the expected valuation results** as of 31 December 2014 (unaudited):

<b>Portfolio of completed properties</b>	<b>Book value as of 30 September 2014</b>	<b>Devaluation in the three-month period ended 31 Dec 2014</b>	<b>Book value as of 31 December 2014</b>
	<i>EUR million</i>	<i>EUR million</i>	<i>EUR million</i>
Poland retail	150	-	150
Poland office	304	(5)	299
Serbia office (Belgrade)	106	(6)	100
Croatia retail (Zagreb)	110	(8)	102
Croatia retail (Secondary Cities)	13	(10)	3
Hungary office (Budapest)	158	(3)	155
Slovakia office (Bratislava)	14	(5)	9
Romania retail (Secondary Cities)	29	(19)	10
Romania office (Bucharest)	155	(7)	148
Bulgaria retail (Secondary Cities)	64	(8)	56
<b>Total</b>	<b>1,103</b>	<b>(71)</b>	<b>1,032</b>

<b>Commercial landbank portfolio</b>	<b>Book value as of 30 September 2014</b>	<b>Devaluation in the three-month period ended 31 Dec 2014</b>	<b>Book value as of 31 December 2014</b>
	<i>EUR million</i>	<i>EUR million</i>	<i>EUR million</i>
Poland	112	(2)	110
Serbia	41	(1)	40
Croatia	4	(1)	3
Hungary	35	(15)	20
Romania	16	(3)	13
Bulgaria	15	(6)	9
<b>Total</b>	<b>223</b>	<b>(28)</b>	<b>195</b>

<b>Residential completed and landbank portfolio</b>	<b>Book value as of 30 September 2014</b>	<b>Devaluation in the three-month period ended 31 Dec 2014</b>	<b>Book value as of 31 December 2014</b>
	<i>EUR million</i>	<i>EUR million</i>	<i>EUR million</i>
Poland	6	-	(*) 6
Croatia	15	(8)	7
Hungary	17	(8)	9
Romania	41	(3)	(*) 38
Slovakia	10	(3)	7
<b>Total</b>	<b>89</b>	<b>(22)</b>	<b>67</b>

(\*) *excluding sale transactions*

## **2. Effect of fair value adjustments on the covenants in the existing finance agreements**

The loan agreements entered into in connection with the **Avenue Mall Osijek, Galeria Arad, and Galleria Stara Zagora** projects, with outstanding total loan amounts of approximately EUR 66 million, include loan-to-value financial covenants (LTVs). Due to the decrease in the value of the properties, according to the draft valuation received by the Company as at 31 December 2014, such covenants would not be met. As stipulated in the loan agreements, a breach of covenants must be remedied within a period of six to twelve months from a notice given by the lender. No notice under the above loan agreements has been served by the lenders as of the date of this current report.

In addition, the amount outstanding under the loan related to the **Galeria Piatra Neamt** project, i.e. approximately EUR 6 million, would be higher than the asset value as of 31 December 2014, according to the draft valuation received by the Company.

The liabilities under the loans incurred in connection with the four assets described above have been guaranteed by GTC SA. The Company is currently in the process of negotiating with the respective lenders the restructuring of such loans and introducing an accelerated repayment schedule which would be serviced by GTC SA. The Company has received initial purchase offers for some of the above-mentioned assets and is in the process of evaluating these offers.

The loan agreements related to the **Felicity** and **Sasad** residential projects with an outstanding loan amount of approximately EUR 34 million also include loan-to-value financial covenants (LTVs). As at 31 December 2014, these covenants were not met. Such loans have not been guaranteed by GTC SA. The Company is currently negotiating the terms of the loans with the respective lenders, based on which the lenders would take over the above-mentioned projects or sell them jointly with GTC SA and subsequently cancel the existing loans.

According to the loan agreement related to the **Galleria Varna** project, with an outstanding amount of approximately EUR 18 million, the LTV covenant under such loan agreement will be applicable from December 2017. The liabilities under the loan have been guaranteed by GTC SA. The Company has received initial offers to sell the above-mentioned project and is in the process of evaluating them. As a consequence, the Company is currently negotiating with the lenders the restructuring of the relevant loan.

## **3. Liquidity and Sources of Funding**

As at 31 December 2014, the Company holds Cash and Cash Equivalent (as defined in IFRS) in the amount of approximately EUR 78 million. As discussed above, there are certain loans outstanding that

may become due prior to original maturity and might require immediate partial repayment. The Company attempts to efficiently manage all its liabilities and is currently reviewing its funding plans related to: (i) debt servicing of its existing assets portfolio; (ii) capex; and (iii) development of commercial properties. Such funding will be sourced through available cash, operating income, sales of assets and refinancing. Whilst liquidity uncertainties exist, the Management Board believes that based on its current assumptions, the Company will be able to settle all its liabilities for at least the next twelve months.

#### **4. Gearing ratio**

The Company monitors its gearing ratio, which is Gross Debt less Cash & Deposits (as defined in IFRS) divided by its investment in real estate. The Company's policy is to maintain the gearing ratio at between 40% and 60%. Based on currently available information, as at 31 December 2014 the Company's gearing ratio would amount to approximately 58%.

#### **5. Publication of the 2014 Financial Statements**

The financial data presented in this current report has not been audited and is subject to, inter alia, the receipt of final valuation reports. The final and audited financial data will be disclosed in the 2014 Financial Statements which, as set out in the Company's current report No. 3/2015 dated 15 January 2015, are due to be published on 23 March 2015.

*This current report includes forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "believes", "expects", "may", "anticipates", "would" or similar expressions of the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the Company's actual results, financial condition, results of operations or developments to differ materially from any future results, financial condition, results of operations or developments expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which it currently operates and will operate in the future. These forward-looking statements speak only as at the date of this current report. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein in order to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by applicable law.*

Legal basis: Art. 56 section 1 item 1 of the Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005, as amended.

Signed by:

/s/ Witold Zatoński

Member of the Management Board

/s/ Erez Boniel

Member of the Management Board