

Britannia Invest A/S
Frederiksberggade 16
1459 Copenhagen K
Business Registration No
14119280

Annual report 2018

The Annual General Meeting adopted the annual report on 09.05.2019

Chairman of the General Meeting



Name: Frantz Palludan

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Entity details

Entity

Britannia Invest A/S
Frederiksberggade 16
1459 Copenhagen K

Central Business Registration No (CVR): 14119280

Registered in: Copenhagen

Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Frantz Palludan, Chairman
Nikolaj Stampe, Vice Chairman
Søren Vendelbo Jacobsen
Peter Olsson

Executive Board

Claude Winther Nielsen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
P.O. Box 1600
0900 Copenhagen C
Lead Client Service Partner: Lars Kronow

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Britannia Invest A/S for the financial year 01.01.2018 - 31.12.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 11.03.2019

Executive Board



Claude Winther Nielsen

Board of Directors



Frantz Palludan
Chairman



Nikolaj Stampe
Vice Chairman



Søren Vendelbo Jacobsen



Peter Olsson

Independent auditor's report

To the shareholders of Britannia Invest A/S

Opinion

We have audited the financial statements of Britannia Invest A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Independent auditor's report

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 11.03.2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556



Bjørn Winkler Jakobsen

State Authorised Public Accountant

Identification No (MNE) mne32127

Management commentary

	2018 GBP'000	2017 GBP'000	2016 GBP'000	2015 GBP'000	2014 GBP'000
Financial highlights					
Key figures					
Revenue	23,341	21,914	22,641	20,028	22,053
Gross profit/loss	28,071	32,094	4,217	43,446	31,225
Operating profit/loss	28,199	33,716	3,879	43,124	30,676
Net financials	(8,998)	(9,545)	(9,670)	(8,062)	(10,342)
Profit/loss for the year	17,351	22,554	(6,823)	33,327	19,218
Total assets	436,815	369,809	358,752	376,187	328,334
Investments in property, plant and equipment	81,459	1,120	1,161	35,371	57,276
Equity	178,673	161,322	138,768	150,237	119,223
Cash flows from (used in) operating activities	7,637	6,007	9,260	6,810	13,613
Cash flows from (used in) investing activities	(75,469)	18,901	(1,161)	(20,009)	(43,715)
Cash flows from (used in) financing activities	53,000	(7,000)	(10,000)	16,727	31,855
Ratios					
Return on equity (%)	10.2	15.0	(4.7)	24.7	17.2
Equity ratio (%)	40.9	43.6	38.7	39.9	36.3
Earnings per share (GBP) at DKK 100	3.9	5.0	(1.5)	7.5	4.3
Price/Equity value	40.1	36.2	31.2	33.8	26.8

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" Issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.
Earnings per share (GBP) at DKK 100	$\frac{\text{Net results for the year}}{\text{Number of shares}}$	The owners' share of profit/loss for the year.
Price/Equity value	$\frac{\text{Equity}}{\text{Number of shares}}$	The equity value of the shares equals the value of the Company.

Management commentary

Primary activities

The Company's mission is to invest in British commercial real estate.

This makes Britannia Invest A/S a company with a clear investment profile intending to exploit the special investor-friendly practices in the British property market.

The key concepts of the investment strategy are security and quality. This applies to the identification of investment properties, including the quality, location, rate of return and growth potential of such properties, as well as requirements applicable to the tenants.

The Company's mission is to be a dynamic property company that constantly monitors opportunities in the portfolio of properties with a view to optimising the rate of return.

At year-end 2018 the portfolio consisted of the following assets:

- | | |
|-----------------------|-------------|
| • Regus Building | Bristol |
| • Whitehall II | Leeds |
| • Optima Building | Glasgow |
| • Citygate One | Newcastle |
| • Talisman House | Aberdeen |
| • Finsbury Square | London |
| • Old Mutual House | Southampton |
| • 80 Hammersmith Road | London |
| • 76 Hammersmith Road | London |
| • Bridgewater House | Manchester |
| • Mainpoint | Edinburgh |
| • Acero | Sheffield |
| • One Colmore Row | Birmingham |
| • One City Square | Leeds |

Highlights from the annual report

Over the course of 2018 the UK saw a lot of political and financial uncertainty due to Brexit and the government's lack of parliamentary support. In spite of all these uncertainties, tenant take-up and investor interest in the UK market remained positive and the property market performed well, subject to asset classes. The office sector performed well with capital growth of around 2.5% and a total return of just above 7.3%.

Britannia Invest A/S realised a return on equity of 10.2 % and a profit after tax of GBP 17.3m, including GBP 7.9m of revaluations.

The core business return is presented as "the basic primary rental business without balance sheet adjustments".

Management commentary

Due to financial reporting requirements, "Revenue" and "Gross profit" in the income statement does not include financial expenses. Britannia Invest A/S's conventional way of showing the profit from primary operations is as follows:

	2018 GBP'000	2017 GBP'000
Rental income and other income	23,341	21,841
Property costs UK	(3,265)	(4,165)
Financial costs	(9,038)	(9,555)
Profit from rental business	11,038	8,121
Profit from asset sales	390	1,921
Administration in DK	(182)	(230)
Profit/(loss) from primary operations	11,246	9,812

Revenue increased, partly as a result of new acquisitions and partly as a result of successful rent reviews, regears and new lettings.

2018 was an active year for transactions, with one disposal and three acquisitions.

Phoenix House was sold in April for GBP 6.1m, resulting in a profit for the financial year of GBP 0.4m.

Acero was acquired for gross GBP 26.6m in May, One Colmore Row for GBP 18.3m in June and One City Square in December for GBP 32.3m.

Profit from primary operations increased from GBP 9.8m to GBP 11.2m due higher rental income, combined with reduced property and finance cost.

During the year, property costs in the UK fell due to lack of performance fee and the reduced cost of repairs and maintenance.

The portfolio had a positive market revaluation of GBP 5.2m after writing off GBP 4.8m in transaction costs on the three acquisitions.

Equity increased from GBP 161.3m to GBP 178.7m and the intrinsic value increased by 11% from 304 to 332.

Borrowing increased from GBP 190m to GBP 243m due to the use of external funding, but overall LTV remains modest at 57% and LTV from external funding at 22%.

Management commentary

In the annual report for 2017, a profit after tax of GBP 13.4m was expected for 2018. The improvement is due to a higher turnover and lower costs, further supported by revaluations of both properties and interest swaps.

The Company realised a profit after tax of GBP 17.1m against last year's profit of GBP 22.6m. The positive fair market revaluations on the balance sheet fell from GBP 14.3m to GBP 7.9m.

	<u>GBP'000</u>
Fair market value adjustment of properties	5,216
Fair market value adjustment of interest swaps	<u>2,698</u>
	7,914

The rate of exchange of the British pound fell from 8.3912 to 8.2719 from 31 December 2017 to 31 December 2018.

At year-end 2018, the portfolio of properties was valued at GBP 428.0m, an increase of GBP 86.7m. On a like-for-like basis the properties that had been in the portfolio all year increased in value by GBP 9.4m. The external valuers Savills have valued the portfolio at GBP 436.5m.

The balance sheet total increased by 18%, from GBP 369.8m to GBP 436.8m. Equity increased from GBP 161.3m to GBP 178.7m. Profit for the year increased equity by GBP 17.1m. Return on equity was 6.6% and the intrinsic share value increased from a price of 304 to 332 from 31 December 2017 to 31 December 2018.

Since the beginning of 2003 the Company has been owned by shareholders who are subject to taxation under the Danish Pension Investment Return Tax Act. Combined with other technical tax requirements, this means that the Company, being subject to the Pension Investment Return Tax Act, is not liable to pay tax in Denmark. Due to this, no tax expense on income earned in Denmark has been recognised in the annual report. However, in the UK, tax at a rate equivalent to 22% will be payable on profit on UK activities. Tax depreciation on properties reduces the operating profit in the UK and a tax payment of GBP 1.9m has been recognised for 2018. The final tax payment will be calculated at the end of the UK financial year in April 2019.

The Board of Directors considers the result for the year satisfactory.

Development in activities and finances

Acquisition and disposals of properties

2018 was an active and satisfactory year as regards transactions, with three acquisitions and one disposal.

Acero in Sheffield was acquired on 17 May for GBP 26.6m gross. The property is a new build acquired directly from the developer. It is located in a prime location in Sheffield less than 5 minutes' walk from the train station. The property is 80,497 sq ft and was 60% occupied at the time of acquisition and at year-end this has increased to 75%, with the rest of the space under offer.

Management commentary

One Colmore Row in Birmingham was acquired on 8 June for GBP 18.3m. The property is 42,778 sq ft, of which 4,182 sq ft is vacant. The property is located in a prime location in a traditional core business district but after years of undermanagement and underinvestment the reception and vacant floor are in need of upgrading and refurbishment.

One City Square in Leeds was acquired on 21 December for GBP 32.3m. The property is located in an absolute prime location in Leeds. It comprises 107,934 sq ft, of which 58,238 is occupied by Deloitte on leases expiring in 2028. Approximately 25% was vacant at the time of acquisition and due to lease expiries, this will increase to 45% during 2019. Most of the vacant space, common areas and the reception area are in dire need of a major upgrade and refurbishment after years of undermanagement.

Phoenix House in Newport was sold in April for GBP 6.1m. The property was acquired in 2013 for GBP 13.3m. The return over the ownership period was 1% and for the current financial year, a profit on the sale of GBP 0.4m has been recorded.

Portfolio of properties

At 31 December 2018, the Company's portfolio of properties consists of 14 well-located office buildings with a geographic spread throughout the UK, 12 of which are freehold and 2 are leasehold.

The total area is 1,197,372 sq ft. 97,813 sq ft is vacant at year-end, of which the newly acquired properties account for 47,586 sq ft. The total acquisition cost of the property portfolio is GBP 415.3m and the contractual rent at year-end is GBP 26.6m, giving a return of 5.8% on the market value. At year-end total borrowing was GBP 243m, over the year interest payments were GBP 9m, showing an interest cover of 288%.

Asset management

On the asset management side, 2018 was also a very active and satisfactory year. The vacant space might have increased from 52,144 sq ft to 97,813 sq ft, but 47,586 sq ft of this is in the newly acquired assets.

Optima became fully let from January. In Bridgewater House, several new lettings and regears were agreed totalling 30,695 sq ft and GBP 553k. Some of the space was let as is and some was refurbished. The reception and the café offering that were installed in December 2016 have been well received by the market and the existing tenants. Some 25% remains vacant, but with all the improvements to the property, the ERV has improved and all this has meant a positive revaluation of the property by GBP 4.5m. In 76 Hammersmith Road, the tenant extended the lease by five months. The tenant still plans to leave in January 2019, but the extension gave five months' extra income and postponed the potential refurbishment. In Mainpoint (part ground floor), the retail lease was extended by 10 years. The service charge dispute with one of the tenants was settled in court in favour of the Landlord and a lease extension has been agreed in principle for the tenant to avoid paying the service charge backlog. In 80 Hammersmith Road, four rent reviews increased the rental income by GBP 400k, equal to a 40% increase. For Old Mutual House, there was a small rental increase. In Whitehall 2, the tenants on the second, third and fourth floors did not vacate at lease expiry but are holding over. Five-year lease extensions are in negotiations and planned to finalise in early 2019.

Management commentary

External valuation of the property portfolio

In accordance with company policy, the entire portfolio of properties is valued at the end of each quarter by an independent valuer appointed by the Company. Savills has carried out a quarterly, independent valuation of the property portfolio and has valued the portfolio at GBP 436.5m at 31 December 2018.

In the annual report, Management has valued the portfolio at GBP 428.0m. This results in a variance of 2.0% compared to the value estimated by the independent valuer. Management's valuation has been made on a going concern basis and builds on a detailed analysis of the individual properties, including an assessment of the state of the properties, their location, current and estimated level of rent, the tenants' covenant strength and offers received for some of the properties.

Risks

Interest rate risks

The Company finances its acquisition of properties through floating-rate loans. The loans are repayable within the next two years. An average interest rate of approx. 3.5% is currently paid. The Company still has two interest-rate swap agreements (swaps) to fix the interest rate. The agreements expire on 31 December 2019. The swap interest rate is calculated exclusive of margin to banks. Fair-value adjustments have been made to all swaps in the financial statements, and their market value at 31 December 2018 is negative by GBP 1.1m.

Currency risks

Properties owned by the Company are acquired in British pound sterling (GBP), and the operation of properties is also made in this currency. In order to hedge the currency risk involved in GBP, mortgage loans are raised in GBP. At 31 December 2018, mortgage loans had a market value of GBP 243m corresponding to approx. 57% of the book value of properties of GBP 428.0m.

As the Company's presentation currency is GBP, financial reporting is not materially affected by fluctuations in this currency. However, exchange rate adjustments are made to the Company's share capital, which is recorded in DKK, and to its activities in Denmark which are insignificant.

Finance and liquidity risks

At year-end 2018, shareholder loans totalled GBP 190m with expiry in 2020. Agreements have been entered into with the Company's credit institution for a GBP 53m credit facility, of which GBP 40m will expire in September 2019 and GBP 13m expires in March 2019. The loans are repayable over a period of approx. two years on average. It is planned in Q1 2019 to increase the shareholder loan and again reduce the external funding.

Outlook for 2019

For 2019, Britannia Invest A/S expects to generate a profit of GBP 9.3m from rental activities and a profit after tax of GBP 11.8m. GBP/DKK exchange rate fluctuations will only have a limited effect on the result. Over the past year there has been a lot of political uncertainty due to Brexit. This is expected to continue for some time but as in the past, this is not expected to have a material, adverse effect on the future performance of the Company.

Management commentary

Ownership

The Company has registered the following shareholders as holding more than 5% of the voting rights or nominal value of the share capital.

Pension funds related to Pensionskassernes Administration A/S, Hellerup, Denmark

AP Pension, Copenhagen Ø, Denmark and

Sampension Global Real Estate K/S, Hellerup, Denmark

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2018

	Notes	2018 GBP'000	2017 GBP'000
Revenue		23,341	21,914
Fair value adjustments of investment property		5,216	10,380
Fair value adjustments of debt		2,698	3,969
Property costs	1	<u>(3,184)</u>	<u>(4,169)</u>
Gross profit/loss		28,071	32,094
Administrative expenses	2, 3	(262)	(299)
Other operating income		<u>390</u>	<u>1,921</u>
Operating profit/loss		28,199	33,716
Other financial income	4	40	10
Other financial expenses	5	<u>(9,038)</u>	<u>(9,555)</u>
Profit/loss before tax		19,201	24,171
Tax on profit/loss for the year	6	<u>(1,850)</u>	<u>(1,617)</u>
Profit/loss for the year	7	<u>17,351</u>	<u>22,554</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 GBP'000</u>	<u>2017 GBP'000</u>
Investment property		<u>427,975</u>	<u>346,900</u>
Property, plant and equipment	8	<u>427,975</u>	<u>346,900</u>
Fixed assets		<u>427,975</u>	<u>346,900</u>
Trade receivables		785	176
Other receivables		<u>754</u>	<u>600</u>
Receivables		<u>1,539</u>	<u>776</u>
Cash		<u>7,301</u>	<u>22,133</u>
Current assets		<u>8,840</u>	<u>22,909</u>
Assets		<u>436,815</u>	<u>369,809</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018</u> <u>GBP'000</u>	<u>2017</u> <u>GBP'000</u>
Contributed capital		53,815	53,050
Retained earnings		<u>124,858</u>	<u>108,272</u>
Equity		<u>178,673</u>	<u>161,322</u>
Payables to associates		190,000	190,000
Payables to shareholders and management		4,648	4,648
Other payables		<u>994</u>	<u>972</u>
Non-current liabilities other than provisions		<u>195,642</u>	<u>195,620</u>
Bank loans		53,000	0
Prepayments received from customers		5,399	4,618
Income tax payable		1,078	2,017
Other payables		<u>3,023</u>	<u>6,232</u>
Current liabilities other than provisions		<u>62,500</u>	<u>12,867</u>
Liabilities other than provisions		<u>258,142</u>	<u>208,487</u>
Equity and liabilities		<u>436,815</u>	<u>369,809</u>
Contingent liabilities	10		
Assets charged and collateral	11		
Related parties with controlling interest	12		

Statement of changes in equity for 2018

	Contributed capital GBP'000	Retained earnings GBP'000	Total GBP'000
Equity beginning of year	53,050	108,272	161,322
Exchange rate adjustments	765	(765)	0
Profit/loss for the year	0	17,351	17,351
Equity end of year	53,815	124,858	178,673
Translated into DKK'000 at 31 December 2018	445,153	1,032,259	1,477,412

The Company's contributed capital amounts to DKK 445,150,000 at 31 December 2018.

There have been no changes to the Company's share capital in the past five financial years.

Share capital consists of 4,451,500 shares at DKK 100.

The shares have not been divided into classes.

Cash flow statement for 2018

	Notes	2018 GBP'000	2017 GBP'000
Operating profit/loss		24,735	27,963
Working capital changes	9	(470)	(522)
Other adjustments		<u>(4,841)</u>	<u>(10,517)</u>
Cash flow from ordinary operating activities		19,424	16,924
Financial income received		40	10
Financial income paid		(9,038)	(9,555)
Income taxes refunded/(paid)		<u>(2,789)</u>	<u>(1,372)</u>
Cash flows from operating activities		<u>7,637</u>	<u>6,007</u>
Acquisition etc of property, plant and equipment		(81,459)	(1,120)
Sale of property, plant and equipment		<u>5,990</u>	<u>20,021</u>
Cash flows from investing activities		<u>(75,469)</u>	<u>18,901</u>
Loans raised		53,000	0
Repayments of loans etc		<u>0</u>	<u>(7,000)</u>
Cash flows from financing activities		<u>53,000</u>	<u>(7,000)</u>
Increase/decrease in cash and cash equivalents		(14,832)	17,908
Cash and cash equivalents beginning of year		<u>22,133</u>	<u>4,225</u>
Cash and cash equivalents end of year		<u>7,301</u>	<u>22,133</u>

Notes

1. Property costs

	2018	2017
	GBP'000	GBP'000
Management fee	1,316	2,314
Other property costs from maintenance, etc	1,868	1,855
	3,184	4,169

2. Administrative expenses

	2018	2017
	GBP'000	GBP'000
Administrative expenses in Denmark	182	230
Administrative expenses in UK	80	69
	262	299

3. Staff costs

	2018	2017
	GBP'000	GBP'000
Wages and salaries	62	59
	62	59

Average number of employees	1	1
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	Remunera- tion of manage- ment 2018	Remunera- tion of manage- ment 2017
	GBP'000	GBP'000
Total amount for management categories	62	59
	62	59

Staff costs are included in administrative expenses. There are no variables in wages and salaries. Total wages and salaries relate to Management whose activities have significant effect on the Company's risk profile.

Notes

	2018	2017
	GBP'000	GBP'000
4. Other financial income		
Other financial income	40	10
	40	10

5. Other financial expenses

	2018	2017
	GBP'000	GBP'000
Interest expenses from loans to shareholders	6,109	5,441
Interest expenses from derivative financial instruments	2,592	3,916
Interest expenses from external funding	337	198
	9,038	9,555

	2018	2017
	GBP'000	GBP'000
6. Tax on profit/loss for the year		
Current tax	1,850	1,617
	1,850	1,617

	2018	2017
	GBP'000	GBP'000
7. Proposed distribution of profit/loss		
Retained earnings	17,351	22,554
	17,351	22,554

Notes

	Investment property GBP'000
8. Property, plant and equipment	
Cost beginning of year	347,119
Additions	81,459
Disposals	<u>(13,276)</u>
Cost end of year	<u>415,302</u>
Fair value adjustments beginning of year	(219)
Fair value adjustments for the year	5,216
Reversal regarding disposals	<u>7,676</u>
Fair value adjustments end of year	<u>12,673</u>
Carrying amount end of year	<u>427,975</u>

The calculation of fair value is based on the following rates of return:

	31.12.2018	31.12.2017
	<u>%</u>	<u>%</u>
Weighted average capital income	5.75	6.03
Highest rate of return	8.00	13.00
Lowest rate of return	4.95	4.50

An increase of the required rate of return by an average of 0.5 percentage points will reduce the total fair value by GBP 34.1m.

Management determined the fair value using the first year's rate of return model. As in previous years, a valuer was involved in the calculation of the fair values of properties.

	2018	2017
	<u>GBP'000</u>	<u>GBP'000</u>
9. Change in working capital		
Increase/decrease in receivables	(763)	251
Increase/decrease in trade payables etc	<u>293</u>	<u>(773)</u>
	<u>(470)</u>	<u>(522)</u>

Notes

10. Contingent liabilities

All of the Company's shareholders are liable to pay tax under the Danish Pension Investment Return Tax Act. As more than 90% of the Company's assets (measured as an average for the year) were in the form of real estate, the Company is not liable to taxation in Denmark under the Danish Corporation Tax Act. The tax liability lies with the individual shareholders.

However, Britannia Invest A/S is jointly and severally liable for tax payable on taxable income from Britannia Invest A/S in relation to each of the shareholders.

11. Assets charged and collateral

The Company has no undrawn credit facilities at credit institutions. Bank overdraft withdrawals are secured by way of properties of a carrying amount of GBP 207.2m in total.

12. Related parties with controlling interest

Related parties with controlling interest in Britannia Invest A/S:

None.

Related parties with significant influence on Britannia Invest A/S:

Pension funds related to Pensionskassernes Administration A/S, Hellerup

AP Pension, Copenhagen Ø

Sampension Global Real Estate K/S, Hellerup

The Company's Management, including the Executive Board and the Board of Directors

The annual report only discloses transactions between related parties that have not been conducted at arm's length. Such transactions have not been conducted during the financial year.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Accounting policies

Income statement

Revenue

Revenue comprises of rental income from investment properties.

Fair value adjustments of investment property

Fair value adjustment of investment property comprises adjustments for the financial year of the Entity's investment properties measured at fair value at the balance sheet date.

Fair value adjustments of financial liabilities

Fair value adjustments of financial liabilities comprise adjustments for the financial year of the Entity's financial liabilities measured at fair value at the balance sheet date.

Property costs

Property costs include costs incurred to operate the Entity's properties in the financial year, including repair and maintenance costs, property tax and electricity, water and heating, which are not charged directly from the lessee.

Administrative costs

Administrative costs comprise expenses incurred for the Entity's administrative functions, including wages and salaries for Management and the board of directors.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Other financial income

Other financial income comprises interest income.

Other financial expenses

Other financial expenses comprise interest expenses regarding liabilities related to the investment properties.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Income tax

All of the Company's shareholders are liable to pay tax under the Danish Pension Investment Return Tax Act. As more than 90% of the Company's assets (measured as an average for the year) consisted of real estate, the Company is not an independent entity liable to taxation under the Danish Corporation Tax Act as the individual shareholders are subject to taxation.

As the Company is not liable to pay tax in Denmark, no tax expense related to the activities in Denmark has been computed or provided for in the financial statements.

Accounting policies

The Company remains liable to pay tax in the UK on activities carried out there. So tax on profit/loss for the year consists of tax on this year's income taxable in the UK.

Deferred tax

As mentioned above, the Company is not liable to pay tax in Denmark, and any provision for deferred tax is not relevant for Danish tax purposes.

No provision is made for deferred tax in respect of the UK. Previously, tax depreciation add-backs for UK properties were not subject to taxation as – pursuant to usual UK practice – the properties were sold to buyers who accepted to adopt the value written down for tax purposes. Sales of depreciation bases are not in future expected to deviate from prior years.

Deferred tax assets are recognised in so far as they are expected to be used within the next few years through positive taxable income from UK activities.

Balance sheet

Investment property

On initial recognition, investment properties are measured at cost consisting of the acquisition price of the properties plus directly related acquisition costs.

Subsequent to initial recognition, investment properties are measured at fair value which is equivalent to the amount at which the individual property may be sold to an independent buyer at the balance sheet date.

Fair value is determined by applying the yield-based model as the calculated value in use of expected cash flows from each property. The calculation is based on budgeted net earnings for the next year that has been adjusted to normal earnings, and using a required yield rate that reflects current market yield rates for similar properties. The value is adjusted for factors not reflected in normal earnings, for example, actual vacancy rate, major refurbishments etc.

The financial year's adjustments of the properties' fair value are recognised in the income statement.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Cash

Cash comprises bank deposits.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Accounting policies

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the service agreed.

Income tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.