Executive summary 2018

AEDES SiiQ
COMMERCIAL PROPERTIES

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AEDES SIIQ
COMMERCIAL PROPERTIES

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01 Company Profile

1.1 Letter to Shareholders

Shareholders,

2018 saw the completion, on 28 December, of a partial and proportional demerger, resulting in the transfer to this Company, today Aedes SIIQ S.p.A., of the SIIQ complex previously held by Aedes SIIQ S.p.A., renamed Restart SIIQ S.p.A..

Sedea SIIQ S.p.A., today Aedes SIIQ S.p.A., hence benefited from the SIIQ complex for only 4 days of its financial year. We should, therefore, focus on illustrating the main activities carried out in the context of this complex throughout 2018, although carried out by the demerged company Aedes SIIQ S.p.A., now Restart SIIQ S.p.A.. These activities, as far as the consolidated reporting formats are concerned, are presented in the following pro-forma consolidated statements.

In 2018, we continued, in the context of the SIIQ complex, to move further ahead with our development projects to implement additional revenue assets in the short and medium term, and marginally to pursue purchases of revenue properties, in accordance with the property company model adopted in our capacity as a SIIQ.

The main activities revolving around the SIIQ complex are summarized below:

a) Preliminary activities continued on the development of the Caselle Open Mall project (114,000 sqm of GLA), namely:

1. completion of the administrative and town-planning process for the receipt of building permits in 2019;
2. execution of the works required for the lifting of the existing urban constraints in the area covered by the project (water systems);
3. execution of administrative activities for the last expropriations on the areas affected by future road works;
4. execution of pre-letting activities, assisted by leading consultants, ascertaining the tangible and prior interest of the market (expressions of interest and Head of Terms) to prepare an advanced business plan instrumental to the future financing of the works;

b) development activities were completed on the Serravalle Retail Park (Phase C1), while letting activities continued on this complex, with occupancy of available space reaching approximately 90% at 31 December 2018. The new phase of the initiative was inaugurated on 14 June 2018;

c) the lease contract with a primary Tenant was concluded on one of the two office towers in via Richard, Milan. Following completion of the refurbishment planning, the renovation work agreed with the Tenant and scheduled for delivery by fourth quarter 2019 is currently in progress;

d) the sale of the property located in via Agnello, Milan, was completed on 29 June 2018. The office property, with a GLA of over 4,400 sqm, at 31 December 2017, had been valued € 48.5 million by the independent expert. The sale of the property generated a capital gain of € 2.25 million. The sale of a core property such as the one in via Agnello 12 falls into the strategy of focusing on income investments with returns above industry average in order to maximize the return for investors;

e) at 31 December 2018, with regard to the investment agreement on “The Market San Marino” between Aedes SIIQ S.p.A. and BG Asset Management S.A. (Borletti Group) and other partners, for

the acquisition by Aedes of 40% of the company acting as General Partner of the initiative, the total investment of Aedes in this project amounts to € 17.8 million against a total commitment of € 23.6 million. The development of the first phase of the project is expected to be completed by spring 2020. The investment agreements concluded in 2017 include, *inter alia*, a call option granted to Aedes for the purchase of the entire project, exercisable in 2022.

Mention should be made that, in light of the financial position and results of operations of the Parent Company at 31 December 2018, the first reference year for verifying the parameters set by the Special Regime of SIIQs, the asset and profit requirements have both been met.

In 2018, Aedes SIIQ joined the EPRA - European Public Real Estate Association - conforming with the main international Reits on financial reporting which, given the demerger transaction, refers to pro-forma figures for 2018. The 2018 Annual Report contains the explanatory section of the EPRA financial measures applied to the pro-forma figures for the same year.

The Aedes Group is aware that business should not be restricted to merely producing financial results, but to developing a responsible industrial model aimed at achieving shared objectives, by adopting a transparent approach towards all its Stakeholders: investors, business partners, employees, clients and suppliers.

The Aedes SIIQ S.p.A. Group ended 2018 with a loss of € 0.265 million, relating mainly to the 4 days of operation of the SIIQ complex, net of the net costs for the demerger and listing of approximately € 0.9 million, and with a pro-forma consolidated profit of € 9.01 million. Aedes SIIQ S.p.A. intends to continue on its growth path in the forthcoming years, consistent with its ability to finance the growth.

The Chairman

Carlo A. Puri Negri

The Chief Executive Officer

Giuseppe Roveda

1.2 Governance

BOARD OF DIRECTORS

Giuseppe Roveda	**Carlo A. Puri Negri**	**Benedetto Ceglie**
Chief Executive Officer	Chairman	Vice-Chairman [4]
Alessandro Gandolfo	**Giorgio Gabrielli**	**Adriano Guarneri**
Director	Director	Director [1]
Annamaria Pontiggia	**Rosanna Ricci**	**Serenella Rossano**
Independent Director [1 2 3]	Independent Director [2 3]	Independent Director [2 3]

BOARD OF STATUTORY AUDITORS

Cristiano Agogliati	**Fabrizio Capponi**	**Sabrina Navarra**
Chairman [5]	Standing Auditor [5]	Standing Auditor [5]

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

(1) Investment Committee
(2) Control, Risk and Related Party Transactions Committee
(3) Remuneration and Appointments Committee
(4) Director in charge of the internal control and risk management system
(5) Supervisory Body

1.3 Shareholder structure

At the date of approval of this Report, the share capital of Aedes SIIQ S.p.A. amounts to € 210,000,000.00 and is divided into 32,030,344 ordinary shares with no par value.

As a result of the partial and proportional demerger pursuant to the project approved by the Board of Directors of Aedes SIIQ S.p.A. (now Restart SIIQ S.p.A.) and Sedea SIIQ S.p.A. (now Aedes SIIQ S.p.A.) on 8 August 2018 and by the Shareholders' Meetings of the companies on 27 September 2018, the Company issued no. 86,953,470 warrants named "Warrant Aedes SIIQ S.p.A. 2018-2020" (the "Warrants"), incorporating the right to subscribe to ordinary shares of the newly issued company, with no par value and with regular dividend entitlement, to be exercised by 7 July 2020, at the price (including share premium) of € 6.35 (six and thirty-five cents) for each new ordinary share, in the ratio of no. 1 (one) ordinary share for each group of no. 30 (thirty) Warrants exercised, and also resolved to increase its share capital to service the exercise of the Warrants, in divisible form against payment, by a maximum amount (including share premium) of € 18,405,151.15, through issue of a maximum of 2,898,449 new ordinary shares, with no par value and with regular dividend entitlement, at the price (including share premium) of € 6.35 each, in the ratio of no. 1 new ordinary share for each group of no. 30 Warrants held (the "Warrant Increase"), it being understood that, if not fully subscribed by 7 July 2020, the Warrant Increase will remain unchanged within the limits of the subscriptions collected by such date.

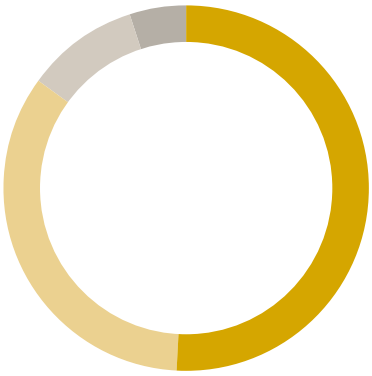
The table below shows the list of shareholders holding over 5 (five) percent of the issued share capital at 31 December 2018, based on Consob[1] communications and on the updated Shareholders' Register, as well as on other information available to the Company at that date[2].

(1) Received under art. 120 of Legislative Decree no. 58/1998
(2) Taking account of the SME status of the Company, pursuant to art. 1, par. 1, lett. w-quater.1, of Legislative Decree no. 58/1998

Shareholder	no. of shares	% of share capital
Augusto S.p.A.	16,425,242 *	51.280%
Vi-Ba S.r.l.	3,170,000	9.897%
Aurelia S.r.l. through Itinera S.p.A.	1,693,554	5.287%
Market	10,741,548	33.536%
Total Shares	**32,030,344**	**100.00%**

* of which 50,000 shares held through Restart SIIQ S.p.A.

Given the relevant shareholder structure, calculated on the basis of 32,030,344 ordinary shares outstanding at 31 December 2018, the shareholder base is composed as shown in the chart.
Mention should be made that at 31 December 2018, 86,953,470 Warrants were still outstanding, entitling their holders to subscribe at a price of € 6.35 (including share premium), no. 1 new Aedes ordinary share resulting from the Warrant Increase for each group of no. 30 Warrants held.



51% Augusto S.p.A.

34% Market

10% Vi-Ba S.r.l.

5% Aurelia S.r.l. through Itinera S.p.A.

Treasury shares

At 31 December 2018, Aedes did not hold any treasury shares.

02 Directors' Report on Operations

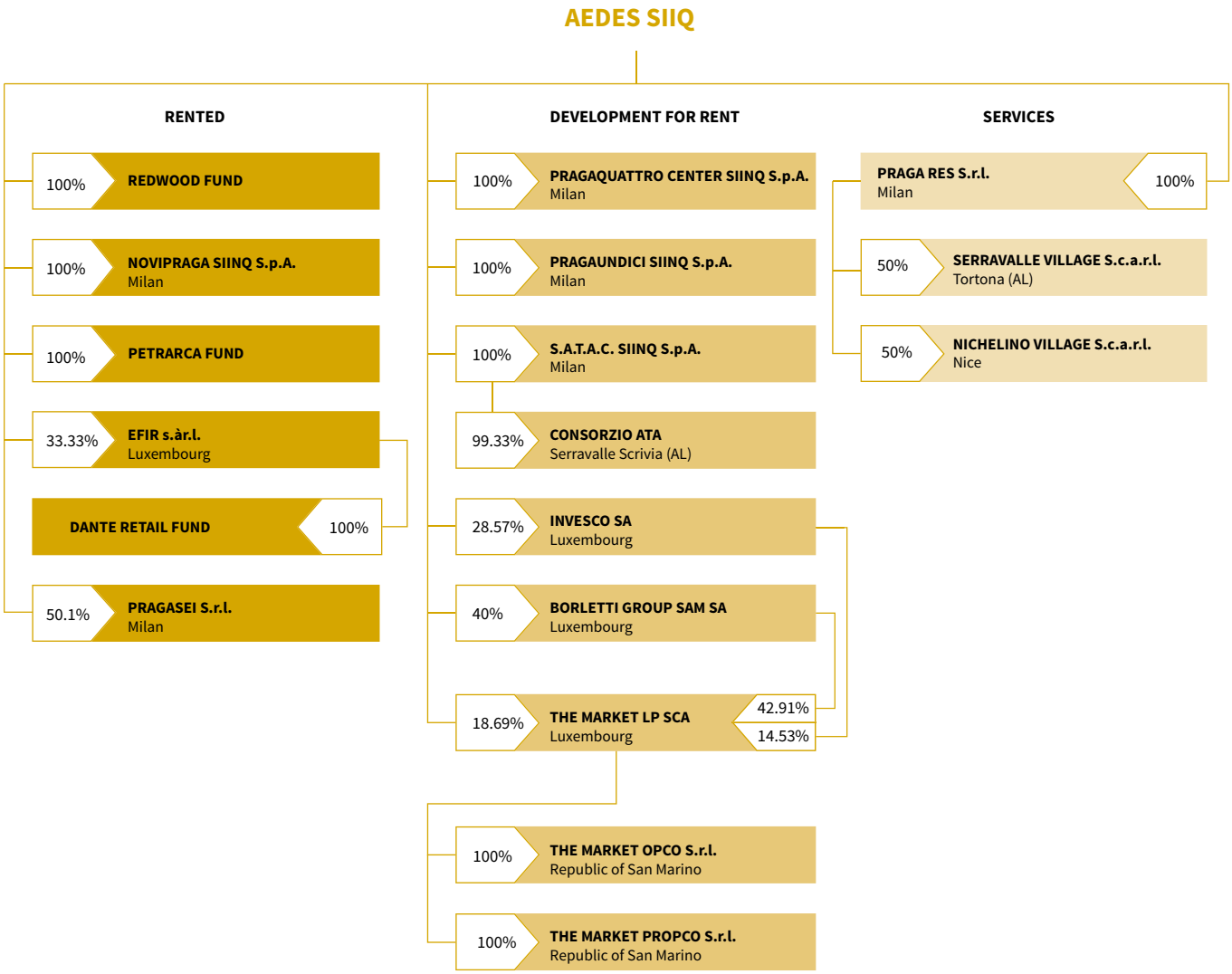
2.1 Group Structure

Aedes SIIQ S.p.A. ("Aedes", the "Company" or the "Parent Company"), following the decision to join the statutory and tax regime typical of listed property investment companies (so-called SIIQ Regime), switched to SIIQ status on 1 January 2018.

An annex to these financial statements provides further information on investments held directly and indirectly by the Parent Company.

AEDES is an ancient name that has its roots in Latin, and its meaning is home, temple or construction. Aedes SIIQ was created with the aim of enhancing the value of its property assets, generating benefits for all its stakeholders.

The simplified structure of the Group at 31 December 2018 was as follows:

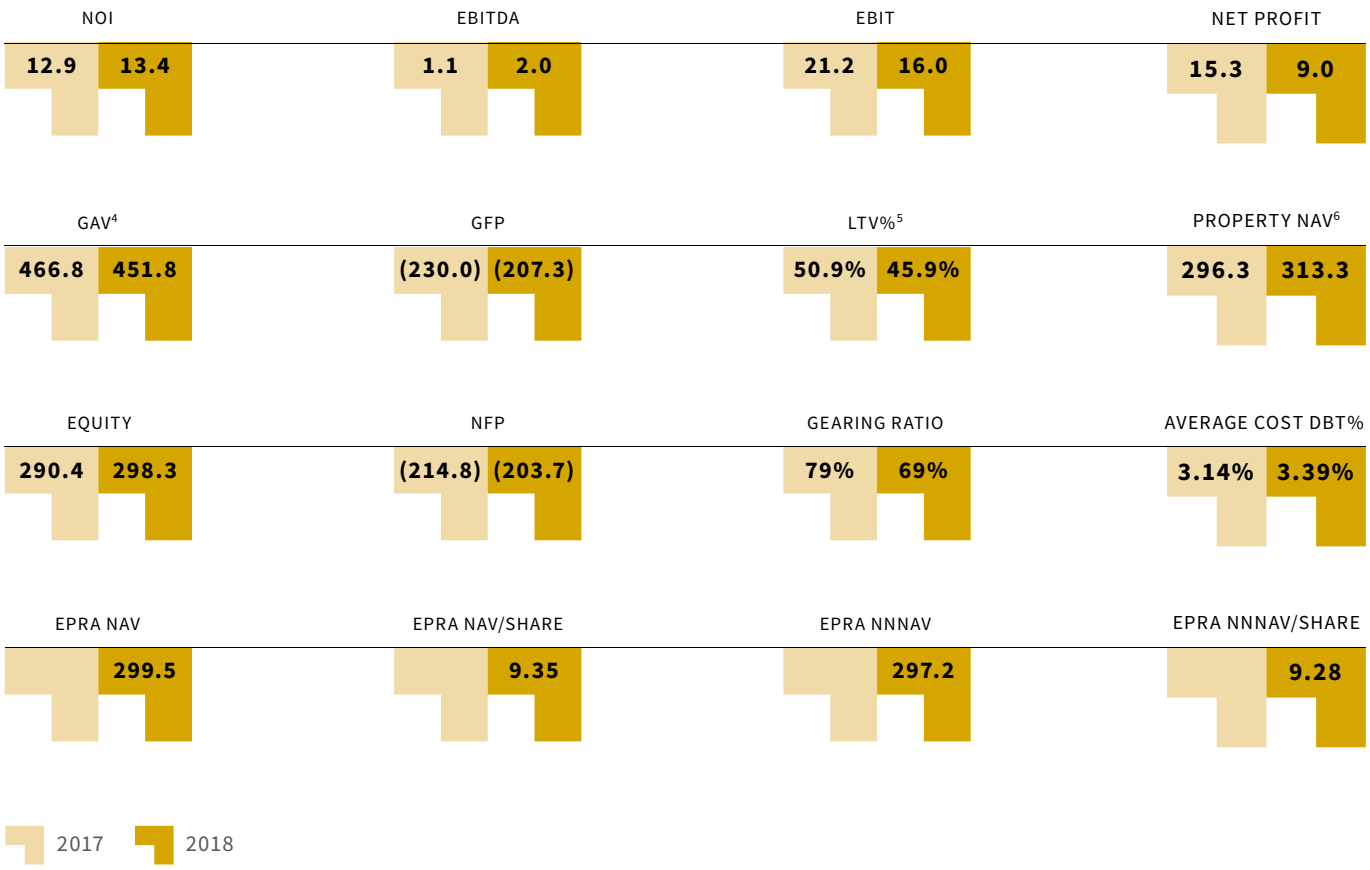


2.2 Strategy and business model

The Aedes strategy aims to create and optimize in the medium to long term a revenue property portfolio, primarily for Retail use and secondarily for Office use, with a sustainable resort to debt such as to generate cash flows consistent with the SIIQ model.
Additionally, Aedes provides, also through Group companies, services (asset management, administration and finance) addressed exclusively to subsidiaries. The subsidiary Praga Res S.r.l. performs Project and Construction Management activities, mainly for Group companies, in order to maintain greater control over investments.

2.3 Performance measures

Financial Highlights [3]

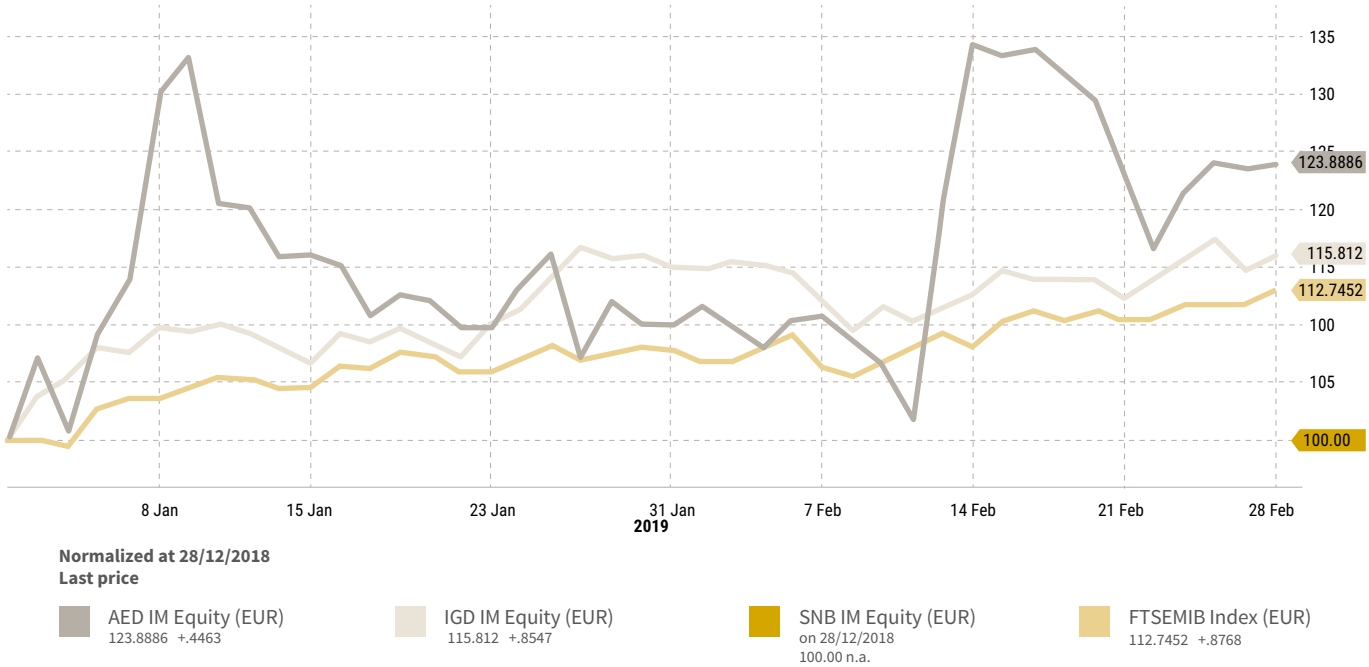


(3) Figures in Euro millions.
(4) Consolidated figures. The 2017 statement of financial position figures refer to pro-forma figures. The 2017 and 2018 income statement figures refer to pro-forma figures.
(5) GFP / GAV. Taking account of the debt allocated on properties alone, the LTV ratio stands at 30.7%.
(6) Consolidated figures.
(7) Source Bloomberg

Market performance[7]

Aedes share on the Stock Exchange

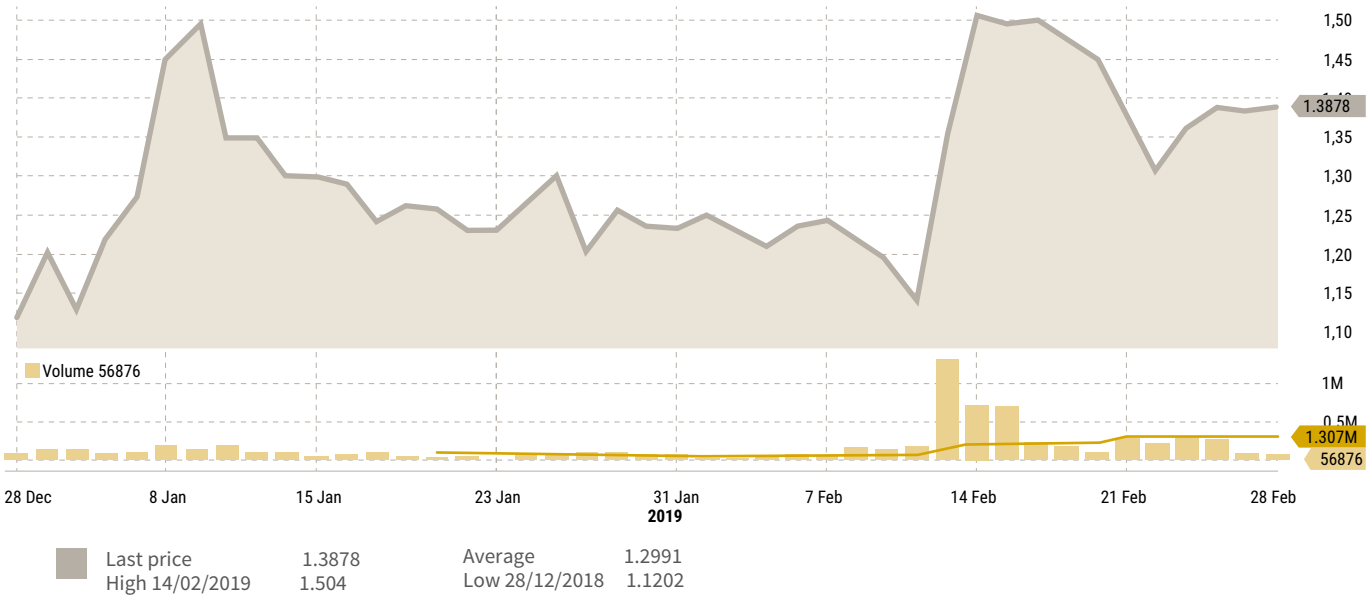
Following the effectiveness of the partial and proportional demerger, which took place on 28 December 2018, the Company changed its name to Aedes SIIQ S.p.A. (MTA: AED); on the same date, trading began on the Company's ordinary shares and warrants (ISIN codes IT0005350449 and IT0005353195 respectively) on the Electronic Stock Market ("MTA") organized and managed by Borsa Italiana.
The chart below shows the trend of the Aedes share versus its main competitors and the market index from the date of listing until 28 February 2019.



Key statistics and price trend of the Aedes share:

Price at 28 December 2018:	€ 1.1202
Price at 28 February 2019:	€ 1.3878
Change for the period:	24%
High:	€ 1.5004 (14 February 2019)
Low:	€ 1.1202 (28 December 2018)
Average Price:	€ 1.1291

Market capitalization at 28 February 2019: € 44.45 million

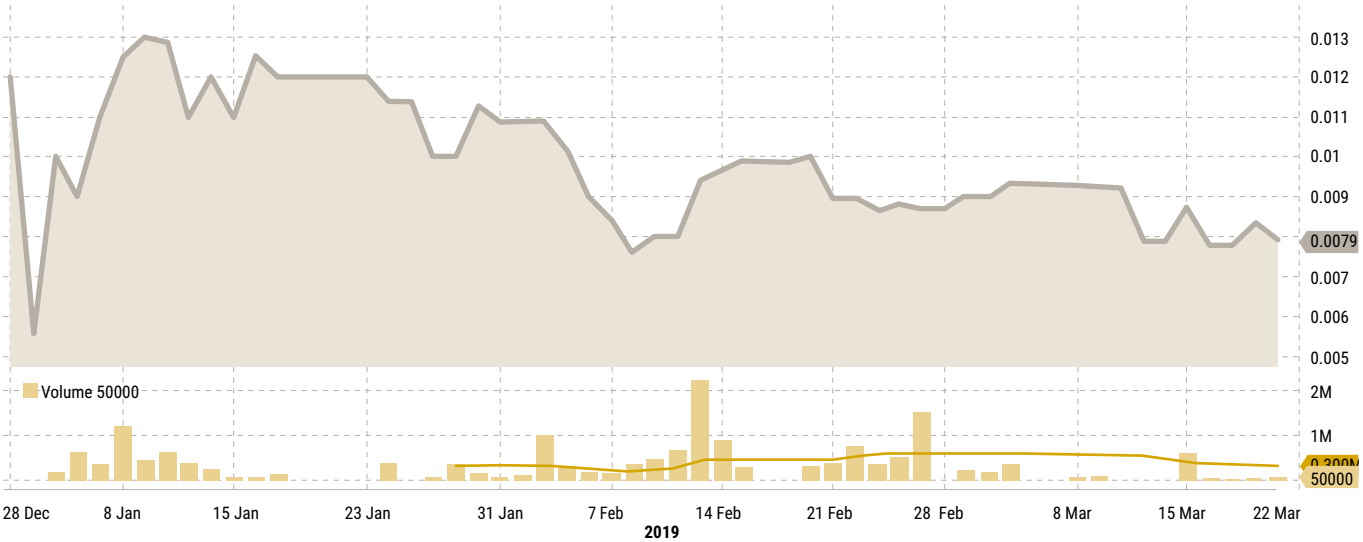


Warrant performance

With the effectiveness of the Demerger, no. 1 Warrant for every no. 1 Warrant of the Demerged Company held was assigned free of charge to the holders of the Warrants of the Demerged Company.

As a result of the Demerger, Aedes also resolved to increase its share capital to service the exercise of the Warrants, in divisible form against payment, by a maximum amount (including share premium) of € 18,405,151.15, through issue of a maximum of 2,898,449 new ordinary shares, with no par value and with regular dividend entitlement, at the price (including share premium) of € 6.35 each, in the ratio of no. 1 new ordinary share for each group of no. 30 Warrants held (the "Warrant Increase").

Trading of the Aedes Warrant started on 28 December 2018, with an initial price of € 0.012. The chart below shows the Aedes Warrant in the first 2 months of 2019.



Last price	0.0079	Average	0.0099
High 09/01/2019	0.013	Low 02/01/2019	0.0055

2.4 Net Asset Value

At end 2018, the EPRA NNNAV of the Aedes Group amounted to € 297.2 million, including the pro-rata share of equity held through joint ventures, real-estate funds and associates measured at equity, taking account of the market value of the properties owned by them.

The table below shows the NAV and NNNAV of the Aedes Group:

(Euro/000)	**31/12/2018**
Outstanding shares	*32,030,344*
EPRA Net Asset Value	
Equity	298,316
NAV	
Includes:	
Revaluation of investment property	0
Revaluation of inventory	227
Excludes:	
Fair value of derivative financial instruments	968
EPRA NAV	**299,511**
EPRA NAV per share	***9.35***
Fair value of derivative financial instruments	(968)
Fair value of financial debt	(1,309)
EPRA NNNAV	**297,234**
EPRA NNNAV per share	***9.28***

The diluted EPRA NAV and EPRA NNNAV are not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

With a NNNAV per share of € 9.28 and a NAV per share of € 9.35, the price of the Aedes share has offered a considerable discount so far.

In relation also to Consob Recommendation no. DIE/0061944 of 18 July 2013, for the preparation of the Consolidated Financial Statements at 31 December 2018, the Group appointed CB Richard Ellis as the primary independent expert in order to carry out appraisals of the property portfolio to assist the Directors in their assessments. CB Richard Ellis was also appointed as independent expert for the Group's property portfolio held through the Petrarca Fund, on behalf of the Fund's Management Company. The valuation assignments are awarded on the basis of fixed fees.

As the entire property assets of the Group are subject to appraisal by independent experts, the directors have not identified any second-level indicators of impairment.

2.5 Performance in the year

Results

Following the listing of Aedes SIIQ S.p.A. on 28 December 2018, the partial and proportional demerger of Restart SIIQ S.p.A. in favour of Aedes SIIQ S.p.A. came to completion, with the resulting formation of the new Aedes Group.
Below is a reclassification of the consolidated result of operations, which corresponds to the result of the individual financial statements:

Description (Euro/000)	31/12/2018
Gross rental revenue	106
Sundry revenue	676
Total revenue	**782**
Net losses from vacancies	(3)
Opex	(2)
Other non-rechargeable costs	(5)
Total direct external costs	**(10)**
Net Operating Income	**772**
Direct Personnel Expense	(10)
Total internal direct costs	**(10)**
HQ Personnel Expense	(36)
Consultancy	(1,053)
G&A	(111)
Total general expenses	**(1,200)**
EBITDA	**(438)**
Fair value adjustment of investment property	141
Amortization, depreciation, provisions and other non-property write-downs	(8)
EBIT (Operating profit)	**(305)**
Financial income/(expense)	(45)
EBT (Profit before tax)	**(350)**
Tax/tax charges	85
Profit/(loss) from continuing operations	**(265)**
Result - Non-controlling interests	0
Result - Group	**(265)**

For a clearer understanding of the Group's performance, the pro-forma income statement for 2018 is shown versus the prior year:

Description (Euro/000)	31/12/2018	31/12/2017	
	Aedes Proforma	Aedes Proforma	Change
Gross rental revenue	15,745	17,385	(1,640)
Margin from sale of properties	2,710	752	1,958
Margin from sale of investments	0	198	(198)
Other revenue	1,906	853	1,053
Total revenue	**20,361**	**19,188**	**1,173**
Net losses from vacancies	(1,367)	(606)	(761)
IMU, other tax and insurance on properties	(3,514)	(3,267)	(247)
Opex	(249)	(601)	352
Commissions and fees	(766)	(926)	160
Other non-rechargeable costs	(1,061)	(914)	(147)
Total direct external costs	**(6,957)**	**(6,314)**	**(643)**
Net Operating Income	**13,404**	**12,874**	**530**
Direct Personnel Expense	(2,790)	(2,392)	(398)
Internal direct capitalized costs on properties	1,483	1,556	(73)
Total direct costs	**(1,307)**	**(836)**	**(471)**
HQ Personnel Expense	(2,779)	(2,924)	145
Consultancy	(3,060)	(2,505)	(555)
G&A	(4,286)	(5,482)	1,196
Total general expenses	**(10,125)**	**(10,911)**	**786**
EBITDA	**1,972**	**1,127**	**845**
Fair value adjustment of investment property	12,196	20,874	(8,678)
(Write-down)/write-back of inventory	0	(1,530)	1,530
Amortization, depreciation, provisions and other non-property write-downs	(1,693)	105	(1,798)
Income/(expense) from associates	3,528	597	2,931
EBIT (Operating profit)	**16,003**	**21,173**	**(5,170)**
Financial income/(expense)	(7,501)	(5,274)	(2,227)
EBT (Profit before tax)	**8,502**	**15,899**	**(7,397)**
Tax/tax charges	508	(206)	714
Profit/(Loss) from continuing operations	**9,010**	**15,693**	**(6,683)**
Profit (Loss) from assets/liabilities sold and/or held for sale	0	(375)	375
Profit/(Loss)	**9,010**	**15,318**	**(6,308)**
Result - Non-controlling interests	0	(65)	65
Result - Group	**9,010**	**15,383**	**(6,373)**

All the margins of the Aedes Group's pro-forma income statement are positive and, up to the EBITDA level, appear to have improved versus 2017. The net result for 2018 shows a profit of € 9.0 million versus a profit of € 15.4 million in 2017.

The drop in EBIT versus the prior year is explained by lower fair value adjustments of investment property and higher depreciation calculated on the assets relating to the previous registered office of the Company, following the decision to transfer it.

The pro-forma consolidated income statement figures reclassified by item are analyzed below.

Total revenue

Total revenue amounted to € 20.4 million, up by 6% versus the prior year. The percentage of rental revenue dropped to 77% of total consolidated revenue versus 91% in the prior year.
Gross rental revenue amounted to € 15.7 million versus € 17.4 million at 31 December 2017. The € 1.7 million decrease is attributable to lower lease payments on a number of properties vacated in 2018 and undergoing redevelopment (€ 0.6 million), to lower rents on properties sold in 2018 (€ 1 million) and lower rents on the property in Via Veneziani (€ 0.4 million), only partly offset by higher revenue of € 1.9 million from the Serravalle Retail Park (acquired in May 2017).

The margin from the sale of properties, amounting to € 2.7 million, includes income from the sale of investment property of € 2.3 million (€ 0.8 million in 2017) and of property inventory of € 0.4 million (nil in 2017).

The margin from the sale of investments was nil in 2018, while in 2017 it had included € 0.2 million attributable to the disposal of the investment held in Roma Development S.r.l.

Other revenue includes:

- the margin from Construction Management services, which amounted to € -0.1 million (€ -0.4 million in 2017);
- the margin from Project Management services, which amounted to € -0.2 million (€ +0.1 million in 2017);
- sundry revenue of € 2.2 million versus € 1.2 million in 2017. The 2018 figure includes the contribution received for the transfer to the new registered office, amounting to € 0.7 million, € 0.2 million for services provided under "The Market", and the proceeds from the write-off of a financial payable (€ 0.7 million) and of trade payables (€ 0.4 million). In 2017, the item had included € 0.2 million in services provided for "The Market", in addition to € 0.3 million in income from the write-off of a payable to a trade partner.

Direct external costs

Direct costs amounted to € 7.0 million at 31 December 2018, increasing by € 0.7 million versus € 6.3 million at 31 December 2017, attributable to the growth in property assets.

The increase is attributable mainly to higher property tax as a result of the growth in property assets after first quarter 2017 (purchase of the Serravalle Retail Park in May 2017 and of two office towers in Viale Richard, Milan, in December 2017), as well as to losses from vacancies and non-rechargeable costs related to properties awaiting conclusion of refurbishment activities.

Net Operating Income

Net Operating Income, as a result of the items relating to total revenue and total direct external costs commented above, amounted to € 13.4 million versus € 12.9 million at 31 December 2017.

Direct costs

Direct personnel expense at 31 December 2018 increased versus 31 December 2017, as a result of the development of the organizational structure, following the expansion of the revenue portfolio and the pipeline for the development of revenue properties.
Internal direct capitalized costs at 31 December 2018 relate mainly to the capitalization of operating costs from the planning and construction of phase C of the Serravalle Retail Park, absent in the prior year.

General expenses

General expenses amounted to € 10.1 million, falling by € 0.8 million versus € 10.9 million at 31 December 2017.

The reduction in head office personnel expense and general costs is due mainly to lower variable compensation paid to the Chief Executive Officer and to employees (€ 0.6 million in 2018 versus € 1.6 million in 2017), as well as to net income of € 0.3 million generated by the release of the accounting effects of the normalization of the rental of the former registered office of the Company.

The increase in consultancy is attributable to the listing costs, amounting to € 0.9 million.

EBITDA

As a result of the items referring to revenue, direct costs and general expenses commented on above, EBITDA came to a positive figure of approximately € 2 million, up by approximately € 0.9 million versus 31 December 2017.

Fair value adjustments of investment property

In 2018, investment property recorded positive net adjustments of € 12.2 million versus positive adjustments of € 20.9 million in the prior year.

The fair value adjustments in 2018 are due mainly to the revaluation of a number of commercial properties following conclusion of new business lease and rental contracts (€ 4.6 million), of the development area located in the Municipality of Caselle (€ 3.1 million), the office buildings located in Via Richard, Milan (€ 2.6 million), and a number of development areas previously classified under inventory (€ 1.6 million). In 2017, the item had included the revaluation of the fair value on acquisition of the Serravalle Retail Park for € 5.7 million and the revaluation of the development area located in the Municipality of Caselle, following conclusion of the town-planning agreement with the Municipality for € 8.3 million, as well as the revaluation of the office buildings located in Via Richard, Milan, and acquired in 2017 (€ 9.6 million).

(Write-down)/write-back of inventory

At 31 December 2018, the item amounted to zero (€ 1.5 million in write-downs in 2017).

Amortization and depreciation, provisions and other non-property write-downs

Amortization, depreciation, provisions and other non-property write-downs at 31 December 2018 amounted to € 1.7 million (basically nil in 2017). The item is broken down as follows:

- € 1.6 million in depreciation (€ 0.5 million in 2017), the increase due mainly to the restatement of the useful life of the furnishings and plant of the former registered office following the Company's decision to transfer it;
- write-downs of trade receivables basically nil (€ 0.2 million of write-downs released in 2017);
- € 0.1 million in provisions for risks and charges (€ 0.4 million in releases in 2017).

Income/(Expense) from associates and joint ventures

The item at 31 December 2018 showed a positive balance of € 3.5 million (a positive € 0.6 million at 31 December 2017), due mainly to the adjustment to higher market values of the assets held by the same investments, in line with the policies adopted by the Group.

EBIT

EBIT came to a positive € 16 million versus € 21.2 million in 2017; the difference is due essentially to the significant revaluations made on properties in 2017.

Financial Income/(Expense)

Financial expense net of financial income, including the effects of fair value adjustments of interest rate hedging derivatives, amounted to € 7.5 million in expense (€ 5.3 million in 2017) as a result of higher average financial debt.
The item is composed mainly of:

- financial income: € +0.5 million (€ +0.8 million in 2017);
- financial expense: € -8 million (€ -6.2 million in 2017); the increase is due to the increase in negotiable debt (bonds issued in April and December 2017) which is unsecured and thus pays higher interest;
- fair value adjustment of derivative instruments: basically nil (€ +0.1 million in 2017).

Income tax for the year

Tax for the year came to € +0.5 million (versus € -0.2 million in 2017) and consists of:

- current tax basically nil (versus € 0.3 million in 2017); and
- € 0.5 million the net positive effect from deferred and prepaid tax (€ 0.1 million the net positive effect in 2017).

Profit (loss) from assets and liabilities held for sale

The item amounted to zero at 31 December 2018 versus € -0.4 million at 31 December 2017. The figure in the prior year had included the results generated by Golf Club Castello Tolcinasco SSD S.r.l. and the income statement effects of its disposal, completed on 16 June 2017.

Financial position

The Group's financial position at 31 December 2018 and the corresponding pro-forma figure at 31 December 2017 are summarized below:

Description (Euro/000)	31/12/2018	31/12/2017 proforma	Change
Fixed capital	508,326	478,731	29,595
Net working capital	(5,393)	28,344	(33,737)
Invested capital	**502,933**	**507,075**	**(4,142)**
Equity attributable to the owners of the parent	298,316	290,360	7,956
Consolidated equity	**298,316**	**290,360**	**7,956**
Other non-current (assets) and liabilities	**861**	**1,927**	**(1,066)**
Non-current payables to banks and other lenders	134,909	167,169	(32,260)
Current payables to banks and other lenders	72,427	62,871	9,556
Cash and cash equivalents	(3,580)	(15,252)	11,672
Net financial debt	**203,756**	**214,788**	**(11,032)**
Sources of financing	**502,933**	**507,075**	**(4,142)**

Fixed capital

The item amounted to € 508.3 million (€ 478.7 million at 31 December 2017) and is composed mainly of:

- investment property and other tangible fixed assets of € 445 million (€ 432.9 million at 31 December 2017); the change versus the prior year in investment property is due mainly to the sale of a property in Via Agnello, Milan (€ 48.5 million book value), capitalization of costs (€ 21.4 million), acquisition of three retail properties (€ 4.9 million) and fair value adjustments (€ 12.2 million), in addition to the reclassification of development projects for € 22.2 million previously classified under inventory;
- capital investment in affiliates and joint ventures for € 63.3 million (€ 45.8 million at 31 December 2017); the change is due mainly to payments made on equity investments of "The Market" (€ 15.5 million).

Net working capital

Net working capital came to € -5.4 million (€ +28.3 million at 31 December 2017), and is composed of:

- inventory of € 8.6 million (€ 34.1 million at 31 December 2017); the change is attributable mainly to the sale of a property in Via Umbria, Milan (€ 3.7 million) and to the reclassification to investment property for € 22 million;
- trade and other receivables of € 9 million (€ 17.1 million at 31 December 2017); the change is attributable mainly to the collection in 2018 of the receivable deriving from the disposal of Lot 10B for € 4.4 million, as well as to the change in trade receivables for contracts with third parties;
- trade and other payables of € 23 million (€ 22.9 million at 31 December 2017); this item includes the balance of € 2.3 million due to Restart SIIQ S.p.A. following completion of the demerger.

Invested capital

Invested capital amounted to € 502.9 million, and is funded by equity of € 298.3 million (59%), by net financial debt of € 203.7 million (41%) and by other non-current net liabilities of € 0.9 million.

Consolidated equity

Consolidated equity, fully attributable to the Group, amounts to € 298.3 million, of which € 0.2 million from Aedes SIIQ S.p.A. equity prior to the demerger (excluding the result), € 298.5 million from completion of the demerger and subsequent transfer of the equity investments included in the scope of consolidation, € 0.3 million from loss for the year and € 0.1 million from actuarial losses.

Other non-current (assets) and liabilities

Other non-current assets and liabilities show a negative balance of € 0.9 million and are composed as follows:

- liabilities of € 1.3 million from the provision for severance indemnity (€ 1.0 million at 31 December 2017);
- net tax assets of € 2.8 million as the difference between deferred tax assets and deferred tax liabilities (€ 2.3 million at 31 December 2017);
- liabilities of € 0.7 million relating to provisions for risks (€ 2.7 million), mainly for contractual charges (€ 0.3 million), tax risks (€ 0.2 million), to provisions for the management of property assets (€ 0.1 million), provisions for future charges (€ 0.1 million); following FIH's request to pay the compensation amount as per the arbitration award, in December 2018 the Company, prior to the counterparty's consent and under ample right of restitution based on the Court of Cassation's ruling, made an initial partial payment of € 0.8 million to the benefit of FIH. The residual amount of € 1.3 million, to be shortly paid to FIH, net of credit positions, resulting from the rulings against FIH, claimed respectively by Restart and Satac, has been reclassified under other short-term payables.
- liabilities from non-current net payables of € 0.7 million (€ 0.3 million at 31 December 2017);
- net liabilities of € 1 million from the fair value measurement of derivative instruments (€ 0.2 million at 31 December 2017).

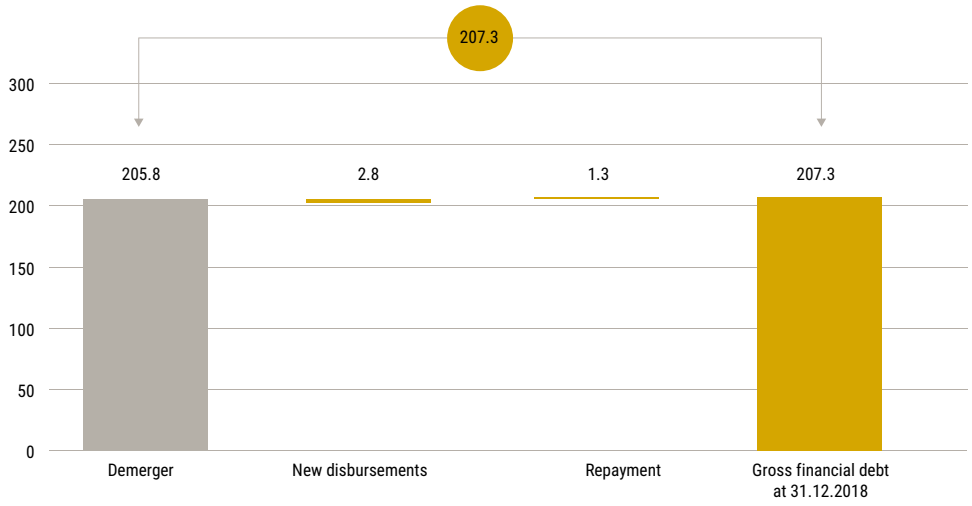
Consolidated net financial debt

The net financial debt of the Group at 31 December 2018 amounted to € 203.7 million.

The net financial debt in 2018 is the result of the difference between gross payables of € 207.3 million and bank deposits of € 3.6 million. The table below shows the net financial debt of the Group at end 2018 versus 2017 pro-forma:

	31/12/2018	31/12/2017 proforma	Change
Bonds maturing within 12 months	(175)	(145)	(30)
Payables to banks maturing within 12 months	(71,984)	(62,640)	(9,344)
Payables to other lenders maturing within 12 months	(268)	(86)	(182)
Bonds maturing beyond 12 months	(44,447)	(43,992)	(455)
Payables to banks maturing after 12 months	(79,230)	(113,324)	34,094
Payables to other lenders maturing after 12 months	(11,232)	(9,853)	(1,379)
Escrow deposits	606	7,038	(6,432)
Cash and cash equivalents	2,974	8,214	(5,240)
Net financial position-(Debt)/Cash on hand	**(203,756)**	**(214,788)**	**11,032**

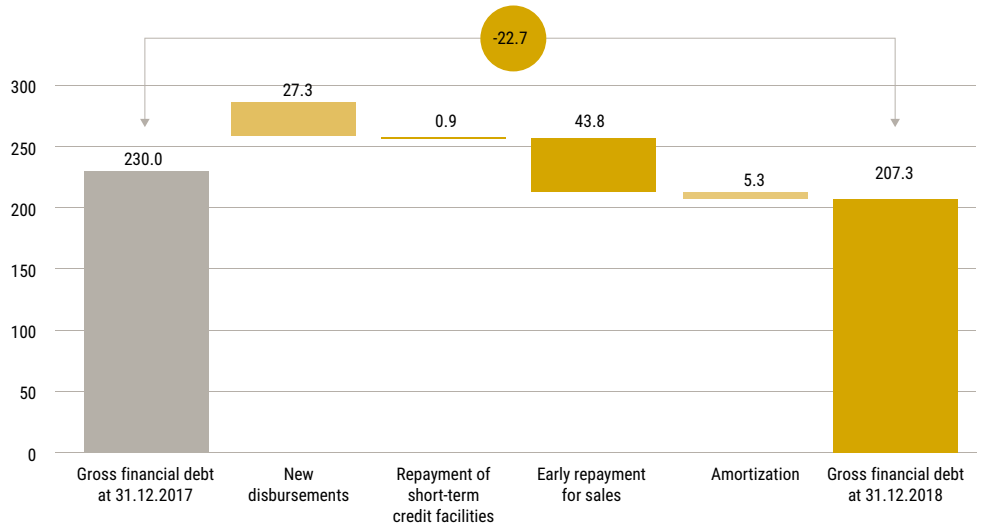
The increase in gross debt is due mainly to the effects of the demerger completed on 28 December 2018, which transferred € 205.8 million in debt to Aedes forming part of the SIIQ Business Complex, as explained in the chart below.



Amounts in € millions

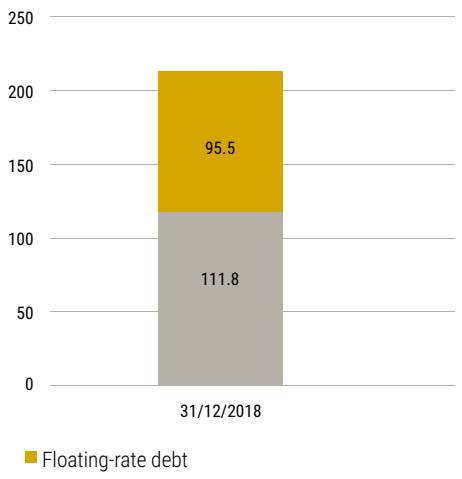
Specifically, the effects on the change in debt are attributable to increases from the new loans concluded on 28 December 2018 for approximately € 2.8 million, and to decreases from period repayments of approximately € 1.3 million.

The table below also shows the changes in gross debt starting with the pro-forma figures at 31 December 2017:



Amounts in € millions

At 31 December 2018, the floating-rate gross debt accounted for 46.8% of the Group's total financial exposure.
The portion of debt not exposed to interest rate risk is due to the subscription by Aedes in November 2015 of an Interest Rate Collar, with 0% strike rates for floor and 1% for cap, with a notional amount of € 50 million and bullet maturity in December 2020. The purpose of the hedging agreement is that of reducing the rate of risk on the overall debt of the Group.
Additionally, the Company issued a fixed-rate bond worth € 29.8 million at year end.



The table below shows the reclassification of the financial debt of the Group by guarantee:

(Euro/000)	31/12/2018
Investment property: mortgages	*107.8*
Investment property: leases	*1.6*
GFP Investment property	**109.4**
Properties under development: mortgages	*19.3*
Properties under development: other loans	*8*
GFP Properties under Development	**27.3**
GFP Subtotal investments	**136.7**
Inventory: mortgages	1.7
GFP Subtotal inventory	**1.7**
GFP property portfolio	**138.4**
Other bank payables	**14.4**
Other payables	**54.5**
Gross financial position	**207.3**

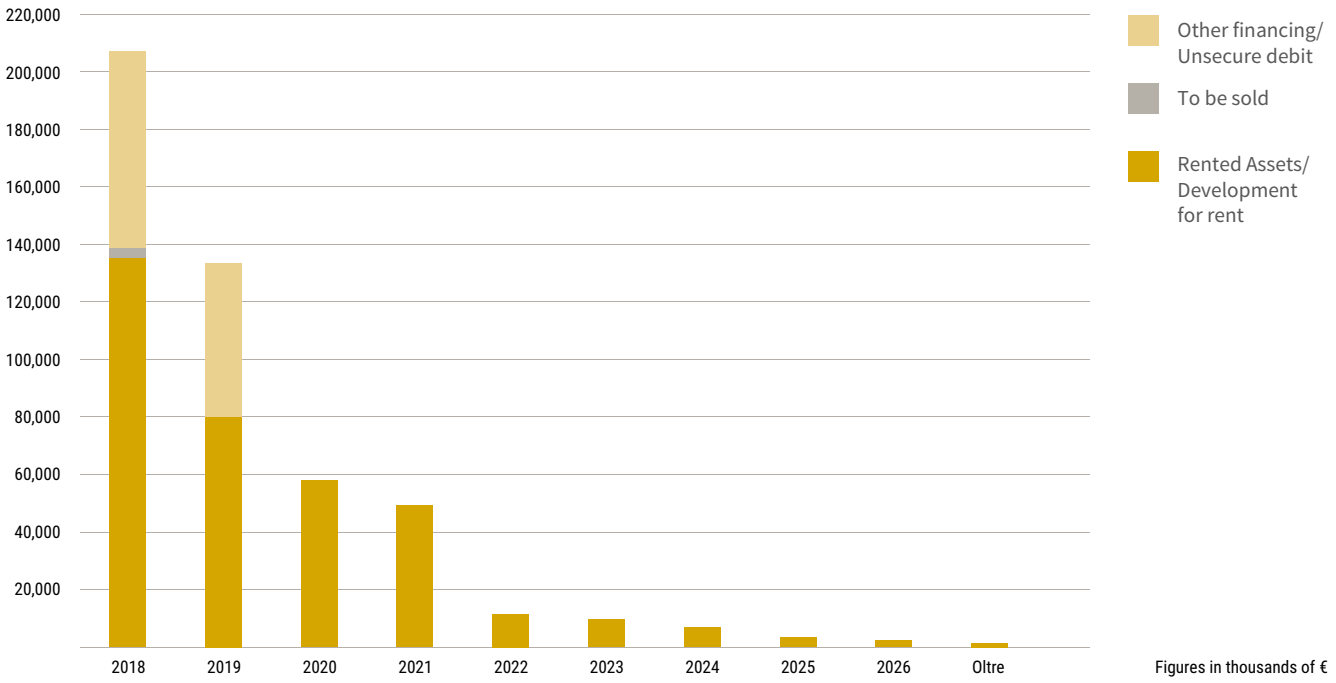
At 31 December 2018, the gross debt has an average duration of 1.98 years.

Short-term financial debt at 31 December 2018 amounted to € 72.4 million.
Out of the € 72.4 million in short-term maturities, approximately (i) € 1.9 million refers to the bullet tranche of a loan maturing on 27 February 2019 held by Pragaundici; (ii) € 11.7 million refers to the bullet tranche of a loan maturing on 30 June 2019 held by Aedes; (iii) € 8.0 million refers to the bullet tranche of a loan maturing on 15 December 2019 held by Satac; and (iv) € 39.1 million refers to the balloon tranche of a loan maturing on 31 December 2019 held by the Petrarca fund.

At the date of approval of the draft financial statements and the consolidated financial statements, there are no significant events regarding the applicability of the contractual covenants that set limits to the use of financial resources within the existing exposure.

The chart below shows the maturity and repayment plan of financial payables, broken down by nature and type of business of the funded asset.

AVERAGE DURATION OF DEBT



Colleoni Office District, Agrate Brianza (MB)

2.6 EPRA performance measures

The table below summarizes the main EPRA performance measures (EPM).

The income statement figures for 2018 have been calculated on the basis of the pro-forma results set out in paragraph 2.5 of this Directors' Report on Operations.

	EPRA – PERFORMANCE MEASURE	Definition	2018	Key rate
1.	EPRA EARNINGS (Euro/000)	Net adjusted income from operations	(7,551)	this paragraph
2.	EPRA NAV (Euro/000)	Net Asset Value, which includes investment property at fair value and excludes fair value of financial instruments	299,511	this paragraph
3.	EPRA NNNAV (Euro/000)	Adjusted EPRA NAV to include fair value of financial instruments and financial payables	297,234	this paragraph
4.	(I) EPRA NET INITIAL YIELD (%)	Ratio between annualized lease rents, net of non-recurring expense, and gross market value of investment property	2.9%	this paragraph
	(II) EPRA 'TOPPED-UP' NIY (%)	Ratio between stabilized lease rents, net of non-recurring expense, and gross market value of investment property	4.6%	this paragraph
5.	EPRA VACANCY RATE (%)	Ratio between market value (ERV) of vacant space and market value of the entire portfolio	40.21%	this paragraph
6.	EPRA COST RATIO (including costs for vacant properties) (%)	Ratio between operating costs of the company and lease rents	84%	this paragraph
	EPRA COST RATIO (excluding costs for vacant properties) (%)		65%	this paragraph

(Euro/000)	31/12/2018
Earnings per IFRS income statement	**9,009**
*Adjustments to calculate EPRA Earnings, **exclude**:*	
Changes in value of investment properties, development properties held for investment and other interests	12,196
Profits or losses on disposal of investment properties, development properties held for investment and other interests	2,250
Profits or losses on sales of trading properties including impairment charges in respect of trading properties.	460
Changes in fair value of financial instruments and associated close-out costs	730
Adjustments to above in respect of joint ventures (unless already included under proportional consolidation)	924
Non-controlling interests in respect of the above	0
EPRA Earnings	**(7,551)**
Basic number of shares	32,030,344
EPRA Earnings per Share (EPS)	**(0.236)**
Company specific adjustments:	
Listing Costs	*(863)*
Provisions for risks	(114)
Company specific Adjusted Earnings	**(6,574)**
Company specific Adjusted EPS	**(0.205)**
Company specific Adjusted EPS diluted	**(0.188)**

EPRA Earnings

The diluted EPRA EPS is not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

In the item relating to specific adjustments, the Group includes the listing costs and allocations to provisions for risks, considering that they are of a non-recurring nature.

(Euro/000)	31/12/2018
Outstanding shares	*32,030,344*
EPRA Net Asset Value	
Equity	298,316
NAV	**298,316**
Includes:	
Revaluation of investment property	0
Revaluation of inventory	227
Excludes:	
Fair value of derivative financial instruments	968
EPRA NAV	**299,511**
EPRA NAV per share	**9.35**
Fair value of derivative financial instruments	(968)
Fair value of financial debt	(1,309)
EPRA NNNAV	**297,234**
EPRA NNNAV per share	**9.28**

EPRA NAV (Net Asset Value) and EPRA NNNAV (Triple Net Asset Value)

The diluted EPRA NAV and EPRA NNNAV are not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

"Revaluation of inventory" includes the difference between the carrying amount (cost) and its fair value.

"Fair value of derivative financial instruments" represents the net value of derivative instruments recognized in the financial statements, which shows a net negative balance.

The fair value of the financial debt is equal to the difference between the book value and the fair value of the latter, which is negative.

EPRA NIY (Net Initial Yield) and EPRA "topped up" NIY

"Notional rent expiration of rent-free periods" relates mainly to incentives granted to a number of tenants.

Excluding from "Rented Assets" the properties subject to renovation and the properties "to be sold" intended for disposal:

- EPRA NIY would be 4.4%;
- EPRA "topped up" NIY would be 6.7%.

The information in the table refers to the consolidated property assets.

(Euro/000)	31/12/2018
EPRA NIY and 'topped-up' NIY	
Investment property – wholly owned	444,463
Trading property (including share of JVs)	7,127
Less: developments	(139,197)
Completed property portfolio	**312,393**
Allowance for estimated purchasers' costs	12,496
Gross up completed property portfolio valuation	**324,889**
Annualised cash passing rental income	13,045
Property outgoings	(3,481)
Annualised net rents	**9,564**
Add: notional rent expiration of rent free periods or other lease incentives	5,448
Topped-up net annualised rent	**15,012**
EPRA NIY	**2.9%**
EPRA "topped-up" NIY	**4.6%**

EPRA Vacancy Rate

This index is influenced by the properties undergoing renovation. Net of these properties, the vacancy rate would be 18%.

It should be noted that the table takes into account only "Rented Assets", that is, properties held for revenue generation to be kept in the portfolio, excluding properties "to be sold" intended for disposal.

(Euro/000)	31/12/2018
EPRA Vacancy Rate	
Estimated Rental Value of vacant space	11,071
Estimated rental value of the whole portfolio	27,529
EPRA Vacancy Rate	**40.21%**

EPRA Cost Ratio

Costs incurred are capitalized on the book value of the property investment, only when they are likely to generate future economic benefits and their cost can be measured reliably.
Other maintenance and repair costs are booked in the income statement when incurred. For details, reference should be made to the following table showing property related capex.

(Euro/000)	31/12/2018
EPRA Cost Ratios	
Includes:	
Administrative/operating expense line per IFRS income statement	(17,879)
Net service charge costs/fees	1,981
Other operating income/recharges intended to cover overhead expenses less any related profits	164
EPRA Costs (including direct vacancy costs)	**(15,733)**
Direct vacancy costs	(3,481)
EPRA Costs (excluding direct vacancy costs)	**(12,252)**
Gross Rental Income less ground rents – per IFRS	18,798
Gross Rental Income	**18,798**
EPRA Cost Ratio (including direct vacancy costs)	**84%**
EPRA Cost Ratio (excluding direct vacancy costs)	**65%**

Property portfolio - Completed assets

Euro/000								
Information on completed investment properties								
Sub-portfolio	**GLA (sqm)**	**Average rent per sqm**	**Annualised net rent**	**ERV**	**Net rental income**	**Fair Value**	**WALT**	**% of reversion**
Retail	111,336	74	8,275	11,083	7,587	152,730	5.12	33.92%
Office	100,818	45	4,507	5,194	3,077	141,280	1.57	15.26%
Other uses	8,983	29	258	218	156	11,256	0.07	-15.37%
	221,136		**13,040**	**16,495**	**10,820**	**305,266**		

Information on each major completed investment property				
Location	**GLA (sqm)**	**Type of property**	**% of ownership**	**Form of ownership**
Roma - Via Veneziani	16,722	Office	100%	Whole ownership
Milano - San Vigilio	11,921	Office	100%	Whole ownership
Milano - Via Roncaglia 12-14	7,472	Office	100%	Whole ownership
Cinisello Balsamo - Via Gorky	26,174	Office	100%	Whole ownership
Agrate Brianza "Colleoni" Office District – Palazzo Andromeda	16,422	Office	100%	Whole ownership
Catania - Via Etnea	8,162	Retail	100%	Whole ownership
Milano - Via Giulio Richard 3, 5 - Torre C	16,638	Office	100%	Whole ownership
Santa Vittoria d'Alba - Roero Center - Phase B	9,113	Retail	100%	Whole ownership
Trezzano - Via Colombo	9,492	Retail	100%	Whole ownership
Serravalle Retail Park Phases A +B +C1	39,688	Retail	100%	Whole ownership
	161,804			

List of main tenants

Top 10 tenants	**%**
Unieuro	18%
Wind Tre S.p.A.	15%
Huawei Technologies Italia S.r.l.	14%
Coin	11%
Metro Italia	9%
Calzature Pittarello Glg S.r.l.	9%
Peonia Mobili Srl	7%
Cvg Max Genova S.r.l.	6%
Selfitalia S.r.l.	6%
Emmeduepì S.r.l. - Brico	5%

Property portfolio under development

Euro/000

		Breakdown of GLA according to regions		Breakdown of GLA according to usage									
Type of property	GLA (sqm)	Italy (Piedmont)	Abroad	Retail	Productive	Entertainment	Services	Office	Residential	Cost to date (Euro/000)	Cost to completion (Euro/000)	ERV at completion	% of the development which has been let as of 31/12/2017
Retail	169,049	271,054	0	134,503	383	0	953	33,210	0	109,897	306,209	36,722	0.4%
Other	182,219	80,214	0	6,795	108,442	57,684	0	0	9,298	29,300	114,708	n.a.	0%
	351,268	**351,268**	**0**	**141,298**	**108,825**	**57,684**	**953**	**33,210**	**9,298**	**139,197**	**420,917**		

Information on each major development asset

			Breakdown of GLA according to usage (sqm)					
Location	GLA (sqm)	Type of property	Retail	Productive	Entertainment	Services	Office	Residential
Serravalle Scrivia - Praga Business Park	3,146	Retail	1,936	0	0	0	1,210	0
Santa Vittoria d'Alba - Roero Center - Phase C	6,300	Retail	6,300	0	0	0	0	0
Serravalle Retail Park - Phase C2	6,376	Retail	6,376	0	0	0	0	0
Serravalle Outlet Village - Phase 7	4,149	Retail	3,196	0	0	953	0	0
Caselle Designer Village	145,941	Retail	113,941	0	0	0	32,000	0
	165,912		**131,749**	**0**	**0**	**953**	**33,210**	**0**

The value of cost to date shown in the table above coincides with the carrying amount of the properties under development.

Information on each major development asset

Location	Cost to date (Euro/000)	Cost to completion (Euro/000)	ERV at completion	% of the development which has been let as of 31/12/2017	Expected date of completion	% of ownership	Status
Serravalle Scrivia - Praga Business Park	7,490	440	698	20%	n.a.	100%	Town-planning agreement concluded
Santa Vittoria d'Alba - Roero Center - Phase C	1,750	6,402	756	0%	Apr-21	100%	P.d.C. withdrawable
Serravalle Retail Park - Phase C2	6,130	4,678	880	0%	Mar-21	100%	P.d.C. obtained
Serravalle Outlet Village - Phase 7	9,150	16,833	2,155	0%	n.a.	100%	P.d.C. withdrawable
Caselle Designer Village	84,500	277,856	32,233	0%	Apr-22	100%	Preliminary opinions obtained for issue of permits
	109,020	**306,209**	**36,722**				

Like-for-like rental growth

Euro/000					
	Like for Like rental growth				
Sub-portfolio	**Market value 2018**	**Net Rental Income 2017**	**LfL growth**	**Net Rental Income 2018**	**LfL growth %**
Retail	147,700	8,008	-863	7,144	-11%
Office	141,280	5,999	-2,922	3,077	-49%
Other	11,256	138	18	156	13%
	300,236	**14,145**	**-3,767**	**10,378**	**-27%**

The table shows, broadly speaking, a drop in net lease rents in 2018.
The trend is linked mainly to the vacancy (€ -2,089 thousand) of the property located in Via San Vigilio, Milan, as a result of its renovation.

The difference of € 5,030 thousand between market value of the like-for-like portfolio (€ 300,236 thousand) and the total rented portfolio (€ 305,266 thousand) is due mainly to the fair value at 31 December 2018 of the properties acquired during the year, in particular Via Ancona 4 in Milan, Senago (MI) and Gallarate (VA).

Capex

The information refers to the consolidated property assets.

Property related capex	Euro/000
Acquisitions	4,889
Development	4,657
Like for like portfolio	16,803
Total capital expenditure	**26,349**

Capital expenditure includes overheads and operating expenses of € 1,483 thousand, related almost entirely to Development investments.

Investments related to acquisitions refer to the purchase of three retail revenue properties located in Via Ancona in Milan, Senago (MI), Gallarate (VA).

Development capex refers mainly to the projects regarding the Caselle Designer Center and the Serravalle Outlet Village.

Investments on the like-for-like portfolio refer mainly to the Serravalle Retail Park property.

2.7 Property portfolio

Property market trend

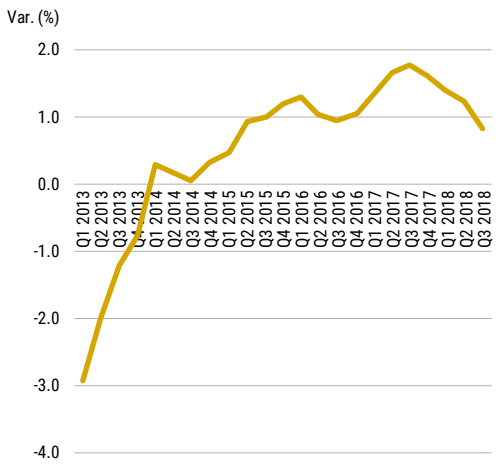
Economic outlook - Italy

The pace of business in Italy at end 2018 reflects the slowdown in global and European growth, dropping into negative territory in the third quarter, a period in which the rate of economic growth recorded an unexpected -0.1%, industrial production in November fell by 1.6% MoM, and the manufacturing SME index dropped below 50.

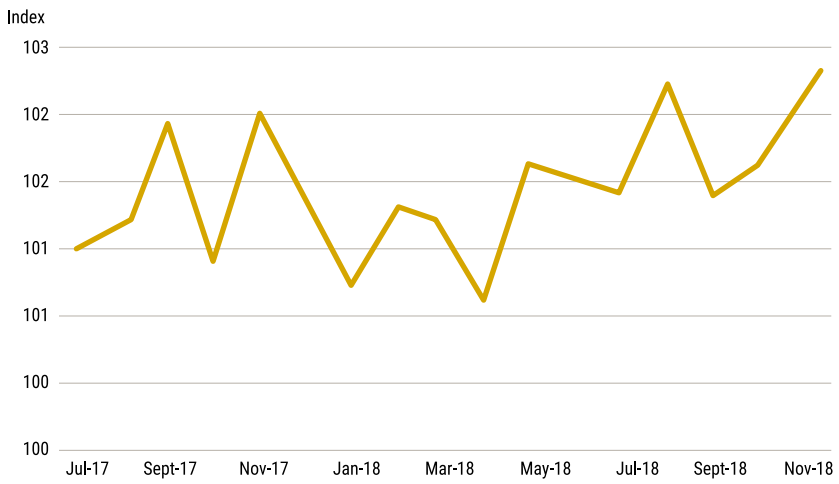
The consumer confidence index remains positive, recovering part of the ground lost in May, thanks to brighter expectations on the overall economic situation and on unemployment. Sales continue to rebound. A few indicators remain steady, though mixed, such as the index of new orders for industrial products. The labour market, on the other hand, shows positive signs, with the employment rate on the rise and the jobless rate down throughout the year; the labour market, however, is delivering a generally delayed response to changes in activity levels. Likewise, GFCF shows a slight increase, while consumption is steady.

The general elections have brought a deep change of direction in the Government's budgetary policies, initially outlining a potential derogation from the debt repayment targets agreed with the European Commission. The concerns sparked by the change of policy generated an increase in the risk premium on sovereign debt and a widening of the BTP-BUND spread of approximately 200 bps in the period April-November 2018. Concurrently, macroeconomic risks have risen, owing to uncertainty arising from the effects of the budget package (on interest rates and credit), as well as to the difficulty of gauging the repercussions of the measures on the level of economic activity. The EPU index (indicator of economic policy uncertainty) for Italy, which had returned to pre-crisis levels in mid 2017, shot up in 2018, reaching levels close to 2011. At the conclusion of a lengthy decision-making process and negotiations with the European Commission, the budget law was changed sufficiently to bring the BTP-BUND spread back well below 300 bps.

EVOLUTION OF ITALIAN GDP



ITALY RETAIL SALES INDEX



Retail - Italy

OFFER

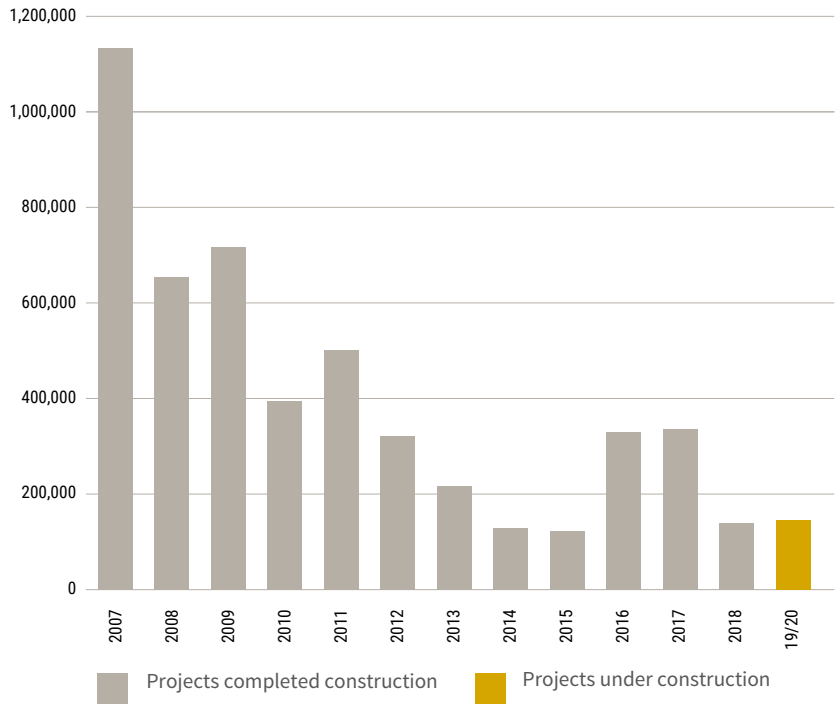
While 2017 witnessed multiple openings and expansions, 2018 was marked by a slower pace in inaugurations across Italy. The slowdown represents one of the strengths of the Italian retail offer, with shopping centers neatly scattered across the country and an average density of sqm/inhabitant positioned half way in the ranking of European countries, giving a good competitive advantage. Despite the weaker momentum, approximately 150,000 sqm were added to the total stock throughout the year, the last quarter marked by the opening of a new shopping center of approximately 27,000 sqm in Brescia.

Several international brands landed on the Italian market during the year. The most notable openings include: Xiaomi Tatras, Boots, Victoria's Secret, Balmain, Origins, V-Grass, Bimba Y Lola and Save The Duck. Catering too, in all its expressions, continues to show an avid interest in Italy, despite the strong national tradition. The brands that landed in Italy during the year include: Starbucks (standard and Roastery formulas), Five Guys, Jollibeee Wagamama (for its first store located downtown). Most of the above brands picked Milan as their first Italian destination, reaffirming the city's national supremacy, followed by Rome and the many other Italian high street locations. Proof of the good performance of the sector are the prime rents that reward Milan and Rome.

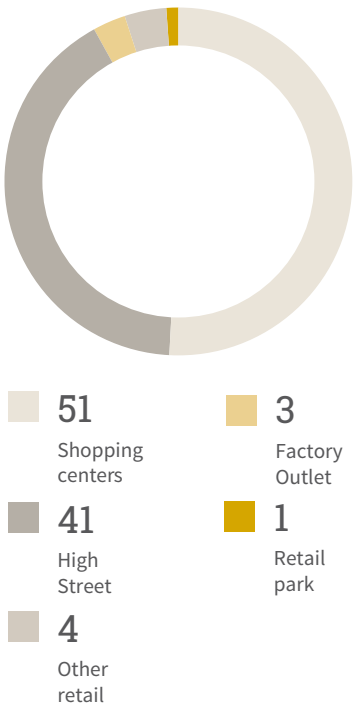
INVESTMENTS

Despite the contraction in investments in Italy, the retail sector managed to stay in line with the performance achieved in 2017. The year ended with a slight drop (-6%) and with investments neatly allocated between shopping centers and the Italian high street. In fact, while the first 9 months saw shopping centers taking the lion's share, the last quarter gave more space to the high street, which accounted for approximately 40% of total retail investment in the year, with a slight preference in the shopping center sector. The most significant retail transactions of the year include: a portfolio worth € 187 million comprising 4 shopping centers, sold by Eurocommercial and purchased by IGD; the sale of the Centro Sicilia shopping center for € 140 million by MI.NO.TER. to GWM; the purchase by the AXA-Pradera JV of the 8 Gallery shopping center in Turin for € 105 million. The two major high street deals were the acquisition of Corso Matteotti 12 for over € 100 million and the Galleria del Corso 4 purchased by Fabrica, part of a portfolio, for an estimated unit value of € 146 million. Investors showed a positive mood, compared to the rest of Europe, which rewards the Italian retail sector, with foreign capital representing approximately 80% of total. The high street prime yield kept steady in the quarter, while prime shopping centers experienced a slight rise in rates.

VOLUME OF NEW DEVELOPMENTS COMPLETED AND UNDER CONSTRUCTION (GLA >10,000 SQM)

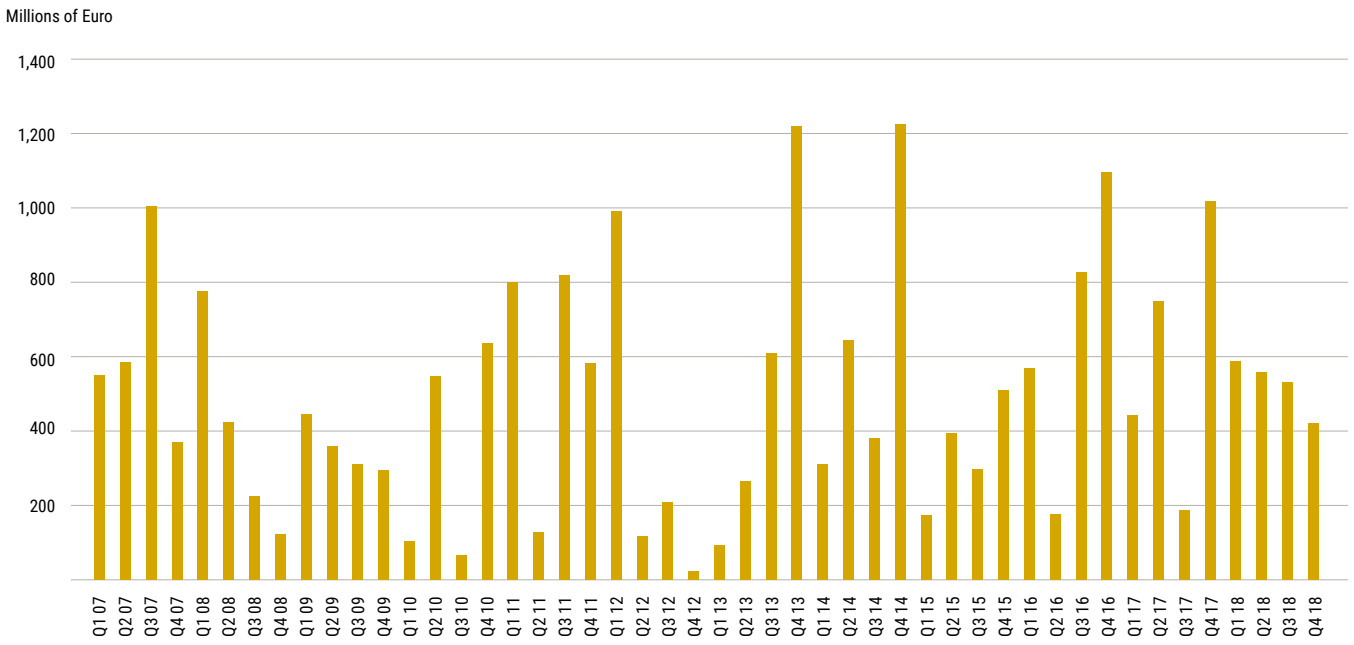


RETAIL INVESTMENTS BY TYPE OF FORMAT 2018



SOURCE: CBRE RESEARCH, 4Q18

RETAIL INVESTMENTS SCENARIO IN ITALY



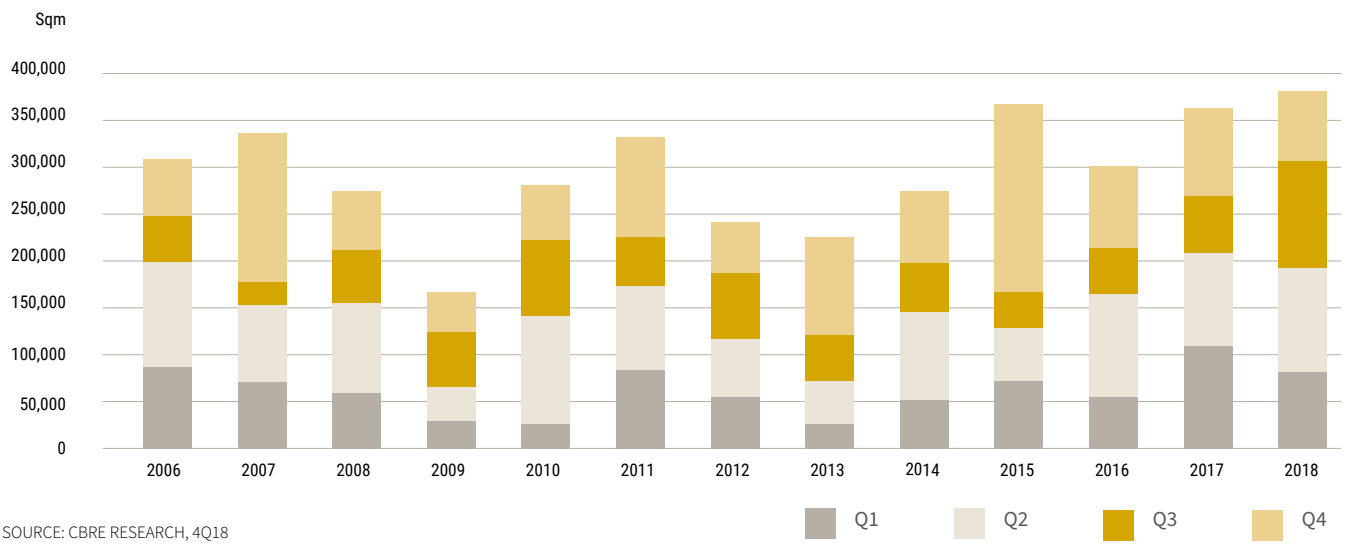
PROPERTY YIELDS IN ITALY, RETAIL

Yields (%)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
High Street Prime	3.15	3.00	3.00	3.00	3.00	3.00
High Street Secondary	4.75	4.50	4.50	4.50	4.50	4.50
Shopping Centre Prime	4.90	4.90	4.90	4.90	4.90	5.00
SC Good Secondary	5.90	5.90	6.00	6.00	6.25	6.25
Retail Park Prime	5.90	5.90	5.90	5.90	5.90	6.00
Retail Park Secondary	6.50	6.50	6.75	6.75	6.75	6.90

Offices - Milan

In the last quarter of the year, the volume of office investments in Milan amounted to € 760 million, up by approximately 31.6% versus the prior quarter. 2018 closes at € 2.078 billion, representing the largest share (60%) of the Italian office market. Still, the context sees a shortage of quality products for both Core and Value Added investors. The downward trend in the average investment ticket (€ 35.8 million) continues, with the concurrent increase in the number of transactions versus the quarter (+25%) and the prior year (+38%). Additionally, Milan reaffirms its multi-centric identity: halfway between the traditional centres such as the CBD (where investors' interest remains high and the prime yield steady at 3.4%), Porta Nuova and the good secondary locations (City Life and Bicocca, where returns are steady at 5.0%); investors are showing a growing interest in upcoming locations that offer great potential for development. Proof of such trend are the former railway stations, especially Scalo Farini and Scalo di Porta Romana, whose yields in recent months have dropped below 4.5%.

QUARTERLY ABSORPTION IN MILAN, Sqm



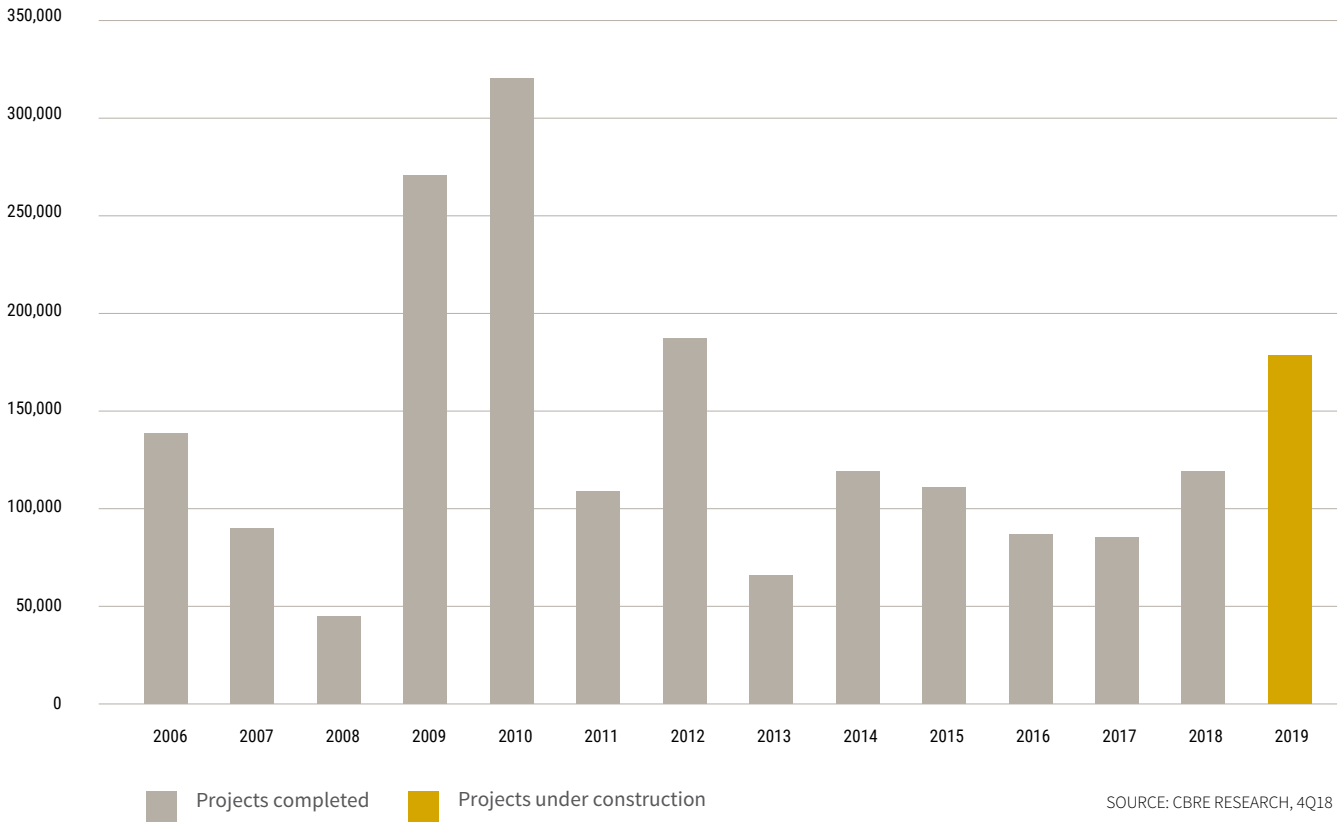
SOURCE: CBRE RESEARCH, 4Q18

- Absorption exceeded 380,000 sqm, beating the record value of 2017. Absorption in Q4 however was approximately 74,900 sqm, down from the prior quarter. The vacancy rate rose slightly to 11.1%.
- The number of transactions closed in Milan in Q4 fell by approximately 25% versus Q3; the YoY trend, however, remains on the rise, up by 11% versus the prior year.
- Take-up was driven by Business Services (34.9%), followed by Manufacturing (22.4%) and Finance (18%). YoY, the Consulting and Co-working sector accounted for over 60% of absorption in the Business Services area.
- The best sub-market performers in terms of sqm absorbed are the Historical Centre (29%) and the Outskirts (24%), while the most coveted sizes by occupiers remain those between 1,000 and 5,000 sqm, which make for 49% of take-up.
- The CBD, Porta Nuova and Hinterland prime rents increased to € 570/sqm/year, € 550/sqm/year and € 210/sqm/year respectively.
- Net prime and good secondary yields kept steady at 3.4% and 5.0% respectively.
- The major completion was the approximately 10,000 sqm of the iconic Cordusio 2.0 development. The Milan pipeline boasts a strong pace, with approximately 330,000 sqm in completion by 2020.
- Milan office investments grew by 31.6% versus Q3. YoY, however, the performance drops by -14% versus the record year of 2017.

KEY INDICATORS IN THE MILAN OFFICE SECTOR

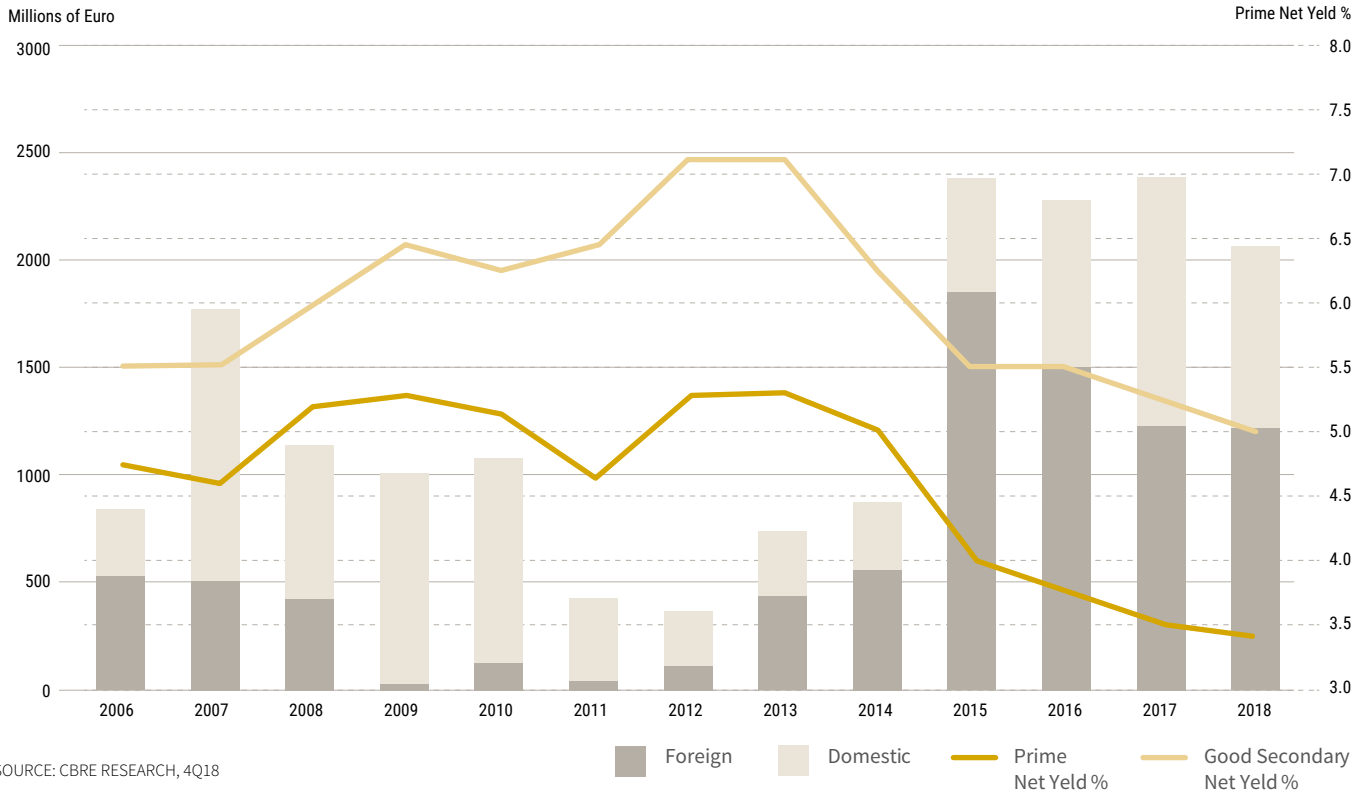
	Q4 2017	2018	Q4 2018
Vacancy rate (%)	11.5	11.1	**11.1**
Take-up (,000 sqm)	94,0	381,8	**74,9**
New stock (.000 sqm) (Excl. Refurbishment)	-	73.5	**-**
Prime rent (€ sqm year)	550	570	**570**
Weighted Average rent (€ sqm per year)	261	309	**313**
Prime net yield (%)	3.50	3.40	**3.40**
Secondary net yield (%)	5.25	5.00	**5.00**
Investment volume, offices (€ mln)	970	2077	**760**

PROJECTS COMPLETED AND UNDER CONSTRUCTION IN MILAN, Sqm



SOURCE: CBRE RESEARCH, 4Q18

INVESTMENTS BY SOURCE OF CAPITAL AND YIELDS FOR OFFICES IN MILAN



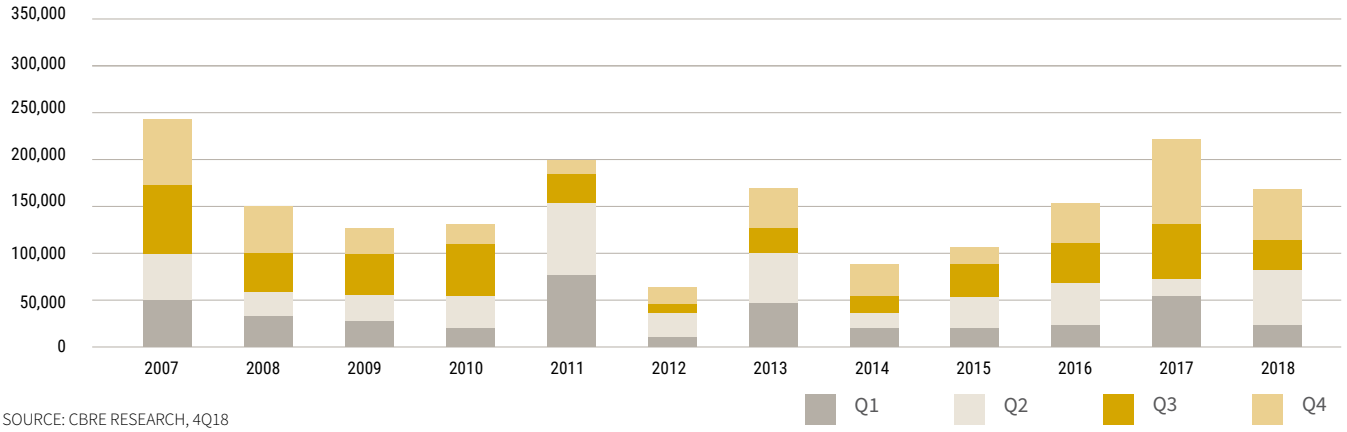
SOURCE: CBRE RESEARCH, 4Q18

Milan, Via Giulio Richard 3

Offices - Rome

In last quarter 2018, office investments gathered huge momentum, recording a record value of € 786.5 million, approximately 15 times higher than the prior quarter. Thanks to this performance, 2018 marked a record year for the Rome office market, beating the volumes recorded in 2017 (+3) with € 1,114 million in investments. In Q4, foreign investors accounted for 54% of investments, but YoY domestic capital captured the lion's share, and accounted for 53% of the total (unlike in 2017 when foreign capital made for 77%). Transactions in the quarter were closed mainly in the sub-markets of EUR Centro (32%), CBD (27.7%) and EUR Laurentina (20.9%). Despite the shortage of prime products and political uncertainty, investors continue to have a strong appetite for both core and opportunistic value-added products. The net prime yield was steady at 3.90%. The outlook for the coming months remains positive.

QUARTERLY ABSORPTION (*) IN ROME, Sqm



SOURCE: CBRE RESEARCH, 4Q18

(*) Absorption figures have been amended for 2014, 2015 and 2016 to reflect changes following the signing of preliminary lease agreements that led to the cancellation of previous agreements. Specifically, this involved: Q414 (-27,000 sqm); Q415 (-33,000 sqm) and Q116 (-50,000 sqm). In 2017, there were pre-lets of 15,600 sqm for the new HQ of a leading hi-tech multinational and 43,000 sqm for that of a leading energy multinational.

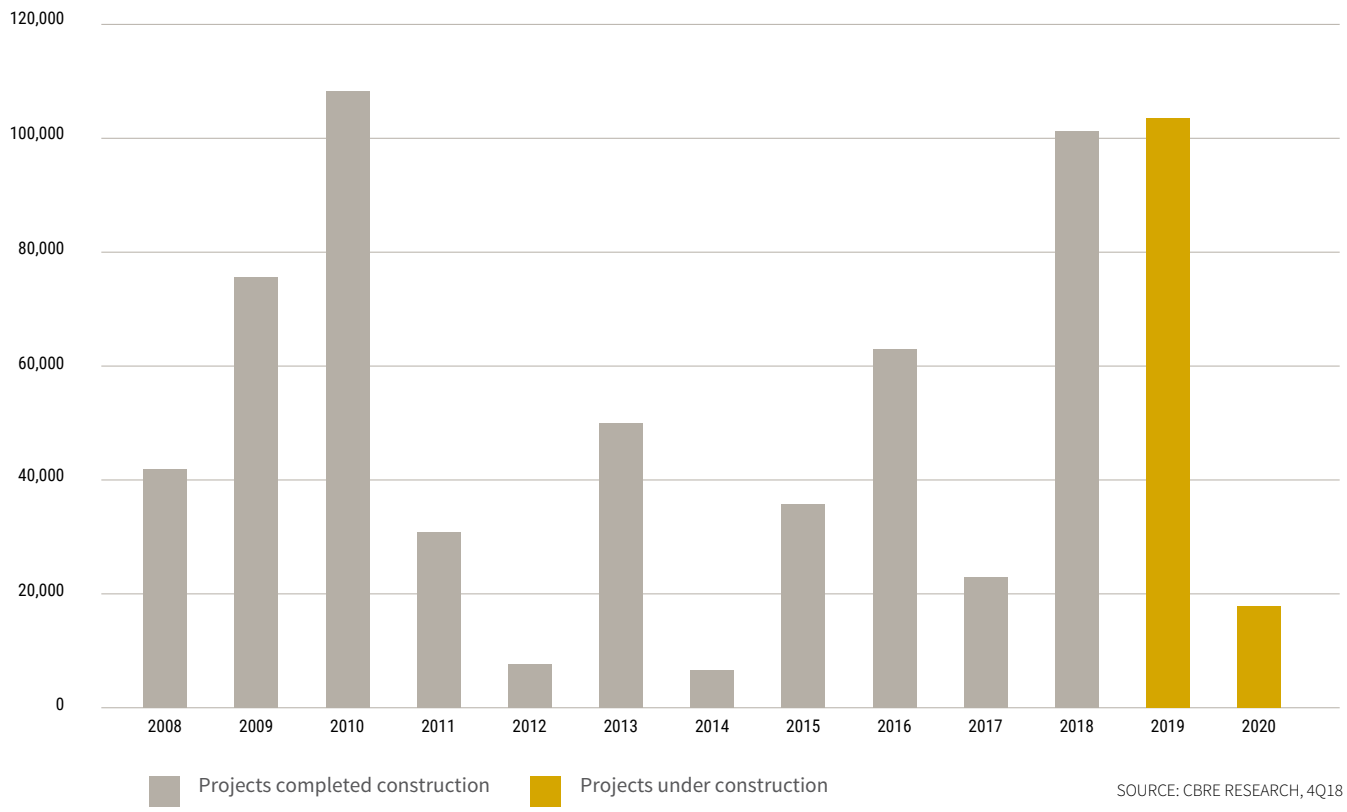
- The last quarter of 2018 saw an absorption of 53,960 sqm, rising sharply (+74.4%) versus the prior quarter.
- An outstanding performance throughout 2018, with 167,808 sqm, confirming the bubbly trend over the last 3 years (if compared to the last 10 years, the result is lower only than 2011 and 2017).
- There were 35 transactions in the quarter versus 31 in the prior quarter. The entire 2018 figure, with 137 transactions, is almost in line (-3%) with the 2017 figure and 17% higher than in 2016.
- Prime rent steady in CBD at € 420 sqm/year and in the EUR at € 340 sqm/year.
- Quarterly absorption was driven by 3 transactions for a total of 34,000 sqm (Central and EUR Laurentina areas), equal to approximately 63% of total quarterly absorption.
- Centro and EUR remain the most dynamic areas with approximately 76% of transactions over the whole year, almost in line (-1%) with 2017. Remarkable performance of the EUR Laurentina sub-market with approximately 33,000 sqm (+313% versus 2017).
- The pipeline of developments was positive, with about 120,000 sqm under construction/ renovation (completion expected between 2019 and 2020); 4 completions in the quarter with approximately 54,000 sqm.
- Record performance of investments with approximately € 786.5 million and net prime yields, steady at 3.90%.

KEY INDICATORS IN THE ROME OFFICE SECTOR

	2017	2018	Q4 2018
Stock (thousand sqm)	7 (*)	7 (*)	**7 (*)**
Vacancy rate (%)	12.5	12.8	**12.8**
Take-up (,000 sqm)	220,6	167,8	**53,9**
Prime rent CBD (€ sqm year)	420	420	**420**
Prime rent EUR (€ sqm year)	330	340	**340**
Prime net yield	4.00	3.90	**3.90**
Investment volume, offices (€ mln)	1,074	1,114.53	**786.58**

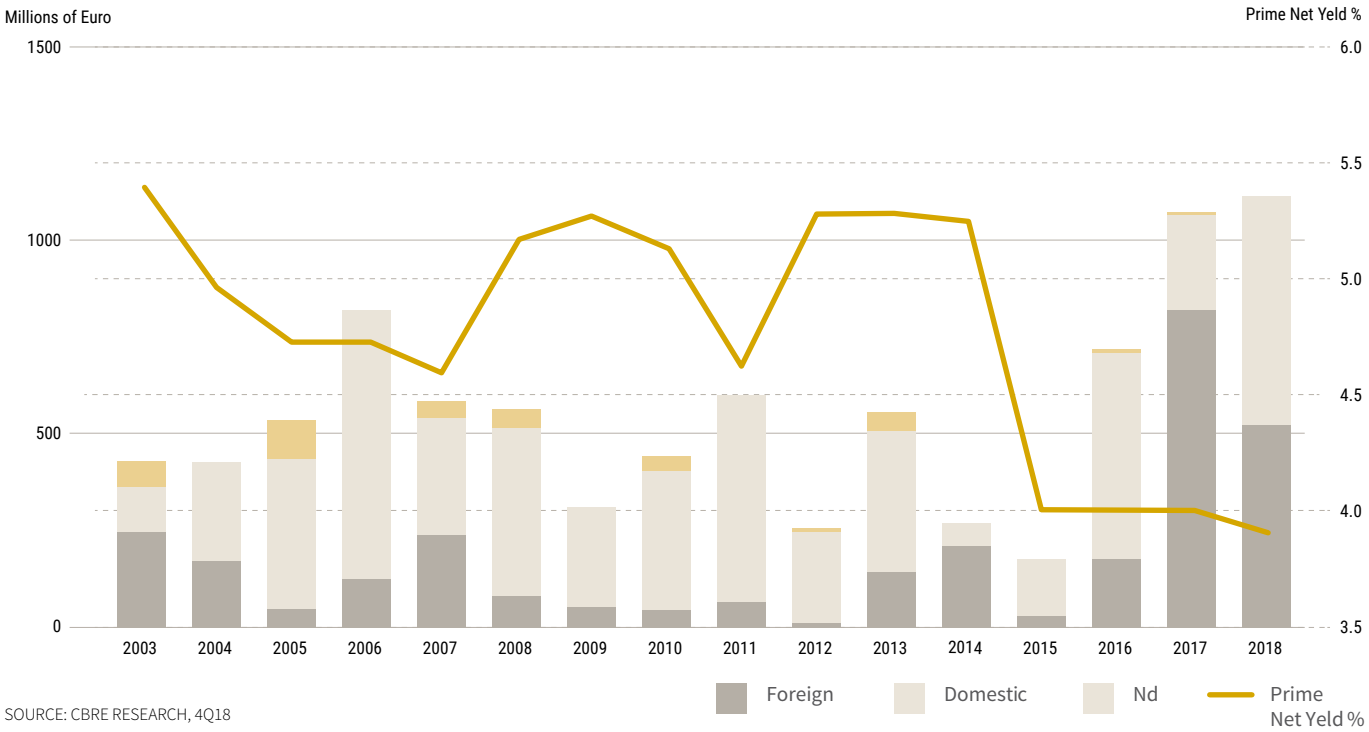
(*) The stock indicated does not include the area owned by the public sector.

PROJECTS COMPLETED AND UNDER CONSTRUCTION IN ROME, Sqm



SOURCE: CBRE RESEARCH, 4Q18

INVESTMENTS BY SOURCE OF CAPITAL AND YIELDS FOR OFFICES IN ROME



SOURCE: CBRE RESEARCH, 4Q18

Roma, Via Carlo Veneziani

Independent expert appraisals

In relation also to Consob Recommendation no. DIE/0061944 of 18 July 2013, for the preparation of the Consolidated Financial Statements at 31 December 2018, the Group appointed CB Richard Ellis as the primary independent expert in order to carry out appraisals of the property portfolio to support the Directors in their assessments.

On completion of the portfolio appraisal process at 31 December 2018, after reviewing the reports prepared by the independent experts, the Company incorporated the relevant results at the Meeting of the Board of Directors held on 6 March 2019.

In performing their analyses, the independent experts adopted internationally accepted methods and standards, using, however, different valuation methods based on the type of asset being analyzed. The criteria can be generally summarized as follows.

- **Comparative method:** this approach is based on the direct comparison of assets under valuation with other "comparable" assets recently subject to sale.

- **Discounted cash flow method:** this approach is based on the determination of future net income (rent revenue net of all kinds of costs), which also envisages any periods of vacancy on relocation and final sale, at a value obtained by capitalizing market rents with capitalization rates *(Exit Cap rate)* that take account of the specific features of the property in the specific market context. Sales costs are deducted from the above final amount. Net flows thus determined, discounted (at a rate that takes account of the risk associated with the specific investment property) and algebraically added, provide the gross value of the property; the Market Value is, instead, obtained by separating the implicit buying and selling costs.

- **Conversion** (or residual) **method:** this approach, used for areas to develop or properties likely to be restructured, consists in estimating the Market Value of the asset by determining the difference between the market value of the "converted" asset and all the conversion expenses (direct and indirect costs, professional costs, unexpected items, agency fees and financial expense), net of the profit that a normal market operator would expect as a return for the risk associated with the conversion and sale (or revenue generation).

The object of the estimation performed by the independent expert is Market Value, as defined by the RICS professional valuation standards, under which Market Value is "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Aedes pursues maximum transparency in the selection and renewal of appointed experts, as well as in the different stages of the valuation process. Internal staff checks the consistency and correct application of the assessment criteria used by the expert, ensuring that the methods used are consistent with commonly accepted practice. Should significant discrepancies arise, such as to materially alter the valuation, the necessary verifications are carried out, including in contradiction with the experts.
The independent valuer is chosen based on professional qualities, nature of the task, and the specifics of the property portfolio valuated. Experts are also chosen taking account of the presence of possible conflicts of interest in order to assess whether their independence may be weakened.

Independent experts are selected by the Company in an alternating fashion to ensure a more objective and independent valuation of property assets.

Owned assets

The real estate portfolio owned by the Aedes Group is split up into two macro-categories:

• Revenue portfolio (or "rented")
Namely existing rented assets or project developments intended to maintain revenue. This category includes the following product segments:

- *Retail:* comprising rented assets and revenue developments for commercial use (mainly stores, parks and shopping centres);
- *Offices:* comprising rented assets and revenue developments intended for tertiary-office use;
- *Other Uses:* comprising rented assets and revenue developments, with intended use other than the previous, including hotels;

These investments can also be classified, depending on the development stage, in:

- "rented assets" and
- "revenue developments" (o "development for rent"), namely property development projects intended to build up the rented assets portfolio.

• "To be sold" portfolio
This category consists of assets intended for sale in the short/medium term. It is split up into the following segments:

- *Properties for sale (or assets to be sold)*: comprising existing property expected to be sold in bulk or piecemeal;
- *Areas to sell (or "land to be sold")*: areas and land sold at any stage of the production cycle, from the status of agricultural land until the obtaining of different kinds of authorizations and permits.

The Company holds investment property in the revenue portfolio or to be sold portfolio mainly directly or through subsidiaries and within the scope of the Group, i.e., through non-controlling equity interests in vehicle companies (so-called "SPV" or "special purpose vehicles") and real-estate funds.

In the following table it is reported a representation of the consolidated property assets, by product implementation phase, as at December 31, 2018:

	GAV		NAV	
Euro/000	**Consolidated**	**% on Consolidated Portfolio**	**Consolidated**	**% on Consolidated Portfolio**
Retail	152,730	33.8%	94,768	30.2%
Office	141,280	31.3%	89,655	28.6%
Other Uses	11,256	2.5%	6,761	2.2%
Rented asset	**305,266**	**67.6%**	**191,184**	**61.0%**
Retail Development for Rent	109,897	24.3%	93,388	29.8%
Other Uses Development for Rent	27,700	6.1%	21,562	6.9%
Development for Rent	**137,597**	**30.4%**	**114,950**	**36.7%**
Subtotal Portfolio Rented/for Rent	**442,863**	**98.0%**	**306,134**	**97.7%**
Office	-	0.0%	-	0.0%
Other Uses	8,954	2.0%	7,196	2.3%
Subtotal Portfolio to be sold	**8,954**	**2.0%**	**7,196**	**2.3%**
Total Group Portfolio	**451,817**	**100.0%**	**313,331**	**100.0%**

At December 31, 2018 the consolidated GAV (Gross Asset Value) owned by the Aedes Group stood at a market value of € 451.8 million.

The Group has rental agreements for a total of € 18.5 million on an annual basis.

Regarding the property portfolio held by the Parent and by subsidiaries, additional details are shown as follows*:

(*) Under Consob Recommendation no. 9017965 of 26 February 2009.

Euro/000	Criterion	Book value	Market Value
Investment property: properties for investment	IAS 40 - Fair Value	305,266	305,266
Rented Assets		**305,266**	**305,266**
Fixed assets: Properties under development	IAS 40 - Fair Value	137,597	137,597
Development for Rent		**137,597**	**137,597**
Subtotal Portfolio Rented/for Rent		**442,863**	**442,863**
Inventory	IAS 2	7,127	7,274
Investment property: properties under development	IAS 40 - Cost	1,600	1,680
Subtotal Portfolio to be sold		**8,727**	**8,954**
Total Portfolio		**451,590**	**451,817**

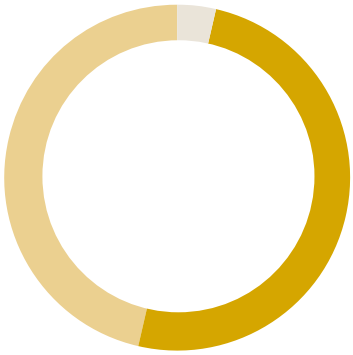
"Revenue" Portfolio - Rented Assets

At 31 December 2018, the rented asset portfolio at market value amounted to € 305.3 million and represents 67.6% of the consolidated portfolio.
The breakdown by use, on the consolidated Rented portfolio, shows 50.0% of Retail properties, 46.3% of Office properties and 3.7% for Other Uses.

The duration of the investments in revenue properties is medium-long term and is aimed at maximizing rental profits through new leases or renegotiations in line with market rents and, consequently, with the increase of the intrinsic value of the property assets.

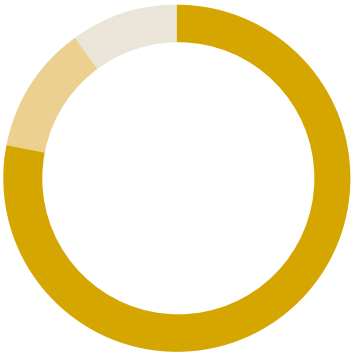
The geographical breakdown of Rented Assets investments are: 78.3% in Northern Italy, 11.7% in the South and 10% in the Centre.

RENTED BY USE



50.0 Retail
46.3 Office
3.7 Other uses

GEOGRAPHIC BREAKDOWN



78.3 North
11.7 South
10.0 Center

Left: Via Etnea 116-124, Catania, Aedes SIIQ S.p.A.

Right: Serravalle Scrivia (AL),
Serravalle Retail Park – Novipraga SIINQ S.p.A.

Below: Caselle Open Mall, Caselle Torinese (TO)
- Satac SIINQ S.p.A.

The leverage on revenue properties is 37.4% on average, in line with the targets set by the Group for the core investments of the SIIQ model.

Revenue portfolio - Development for Rent

The revenue portfolio segment named Development for Rent consists in development areas intended mainly for commercial use, which envisage the development of a number of initiatives and subsequent revenue generation.

During the year, development work continued in Caselle Torinese (TO) on the COM project "Caselle Open Mall", which led to the obtaining of all the preliminary opinions necessary for the issue of the qualifying certificates for construction.
The portfolio denominated Development for Rent, equal to € 137.6 million as at 31 December 2018, consists of development areas, mainly for commercial use, which are expected to be developed in the short term and subsequently generate income.

The leverage on revenue properties is 16.5% on average, which is lower compared to rest of portfolio.

The chart below shows the status of the main revenue development initiatives, which fall in the scope of consolidation.

Asset	Spv	Location	Intended use	Planned town-planning building capacity (sqm)	Administration and implementation status
Serravalle Outlet Phase 7	Pragaundici SIINQ S.p.A.	Serravalle S. (AL)	Commercial	4,510	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licences obtained. Positive outcome of environmental audit. Process for obtaining building permits completed.
Roero Retail Park - Phase C	Aedes SIIQ S.p.A.	S. Vittoria d'Alba (CN)	Commercial	6,396	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licenses obtained. Positive outcome of environmental audit. Building permits application submitted (currently ready to be issued).
Caselle Open Mall	Satac SIINQ S.p.A.	Caselle T. (TO)	Commercial/ Offices	153,000	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licenses obtained. Positive outcome of environmental audit. Building permits application submitted. All the opinions required to obtain the qualifying certificates for construction obtained.

"To Be Sold" Portfolio

The "To Be Sold" portfolio includes existing properties (properties for sale or assets to be sold) expected to be sold at any stage of the production cycle, from the status of agricultural land up to full attainment of various kinds of authorizations and permits, without carrying out the relevant development as well as the remaining volumes resulting from the completed and/or ongoing developments.

The Portfolio to be sold is owned 100% directly or through subsidiaries. Leverage at end 2018 stands at an average 19.6%.


Milan, Via San Vigilio

2.8 Business outlook

In 2019, the Company reaffirms its willingness to continue along the path embarked on in 2016, opting for the SIIQ regime, leading to the dimensional growth of rental revenue through i) the enhancement of the value of the assets held in the portfolio, including through normal rotation of the assets on the market where potential opportunities can be seized, and ii) the sale and purchase of investments that are not consolidated to date, with the aim again of increasing the Rented portfolio. Attention remains high as well as the actions to be taken - where market conditions are ripe - on capital strengthening (of the Company or its subsidiaries), as emphasized in the Listing Prospectus, which would allow a more solid and timely growth of the Rented property portfolio in the second half of the year.

2.9 Significant events

Company events in the year

On 13 November 2018, the Board of Directors of Aedes SIIQ approved the proposal for the appointment of the new board of Sedea SIIQ, now Aedes SIIQ, the beneficiary of the demerger.

On 12 December 2018, the deed of partial and proportional demerger of Aedes SIIQ S.p.A. was signed in favour of Sedea SIIQ S.p.A.

On 13 December 2018, the shareholders of Augusto S.p.A., majority shareholder of Aedes SIIQ with 51.204%, signed two new shareholders' agreements to regulate the Corporate Governance rules of Sedea SIIQ, now Aedes SIIQ, (the beneficiary company) and Aedes SIIQ, now Restart SIIQ (the demerged company).

On 28 December 2018, Sedea SIIQ S.p.A. changed its name to Aedes SIIQ S.p.A. and was listed on the MTA, organized and managed by Borsa Italiana.

Transactions in the period on the SIIQ pre-demerger complex

On 28 February 2018, in line with a framework agreement concluded in December 2017, Aedes SIIQ signed the lease contract for the entire Tower located in Viale Richard 3, Milan, with WPP Marketing Communications (Italy) S.r.l., a company of the WPP Group – a leading international communications corporation whose parent WPP PLC is listed on the NYSE. The lease will have a 9-year term, renewable for a further 6 years, with an annual rent of € 1.8 million.

On 16 May 2018, Aedes SIIQ inaugurated the "Nuovo Ramo Trasversale" road system in Serravalle Scrivia, as envisaged in the project to expand the Serravalle Retail Park.

On 14 June 2018, Aedes SIIQ inaugurated the renovated and expanded Serravalle Retail Park, following acquisition by Aedes SIIQ in 2017. Thanks to the opening of "Phase C", the Serravalle Retail Park reaches a total GLA of approximately 40,000 sqm, an occupancy rate of over 80% and annual rents for a total of approximately € 4.3 million.

On 25 June 2018, Aedes SIIQ announced that on 22 June 2018, Sator Immobiliare SGR S.p.A., management company of the Petrarca Real Estate Fund, in which Aedes holds 100% of the shares, signed the final contract for the sale of the property located in Viale Umbria 32, Milan. The property was sold to Abitare In Development 3 s.r.l., a wholly-owned subsidiary of Abitare In S.p.A., listed on the AIM Italia market, at a price of € 3.7 million, in line with the fair value of the property at 31 December 2017.

On 29 June 2018, Aedes SIIQ signed a contract with a top institutional investor for the sale of the property located in Via Agnello 12, Milan, at a price of € 50.75 million, equal to a Net Cap Rate of approximately 3.3%.
On 31 October 2018, the bond of € 15 million and the shareholder loan granted by the controlling shareholder Augusto S.p.A. of € 10 million were extended for a further 18 months, expiring on 30 April 2020.

On 8 November 2018, Aedes SIIQ and Maxi Sport signed the business lease contract on the property, 100% owned by Aedes SIIQ, located in Brescia.
On 10 November 2018, Aedes SIIQ and Conforama Italia signed the business lease contract on the property, 100% owned by Aedes SIIQ, located in Trezzano sul Naviglio.

Transactions in the period on the SIIQ post-demerger complex

On 28 December 2018, Aedes SIIQ completed the purchase of three leased commercial properties (small supermarkets) for a total value of approximately € 4.8 million.

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Consulting and coordination: **Ergon Com S.r.l.**
Graphic design: **Vertigo Design**

AEDES SIIQ
COMMERCIAL PROPERTIES