EPRA

European Public Real Estate Association

BEST PRACTICES

POLICY RECOMMENDATIONS

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SPECIAL ISSUE

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EPRA News

POLICY RECOMMENDATIONS

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POLICY RECOMMENDATIONS

INTRODUCTION

Attached please find a set of revised policy recommendations from EPRA's Best Practices Committee. These recommendations include major changes and additions compared to our recommendations from January 2003. They are the result of many discussions amongst EPRA members European-wide and they have been approved by the EPRA members on 2 December 2003. We hope that the recommendations continue to advance EPRA's efforts to make the financial statements of public real estate companies in Europe clearer, more transparent and comparable across Europe.

As you review this, it is important to be aware of the context in which EPRA is recommending best practices.
In order to facilitate compliance by real estate companies, the Best Practices Recommendations follow the general structure of annual accounts:

1 **General items:** EPRA is neither an accounting body nor a valuation body. As from 2005, EPRA-members will have to report in accordance with International Financial Reporting Standards (IFRS). The Best Practices Recommendations provide a framework for:
- Specific additional guidance for real estate companies within the IFRS framework;
- Uniform performance reporting and presentation between real estate companies;
- Additional disclosure guidance.

2 **Accounting and valuation principles:** for all areas where IFRS is not specific enough for real estate companies, the Best Practices Recommendations provide tailored guidance, aiming for uniform accounting and valuation principles amongst our members.

3 **Presentation of accounts:** as IFRS, to some extent, is "format free" regarding the presentation of the balance sheet, profit & loss accounts and cash flow statements, the Best Practices Recommendations propose standard formats for the presentation of these accounts.

4 **Notes and additional disclosure:** making the performance of real estate companies insightful requires additional notes and disclosure items, based upon uniform recommended standards.

5 **Draft recommendations:** at current, several areas for which EPRA wishes to issue recommendations, need further research and consulting of EPRA members as well as of the IASB before final recommendations can be issued.

These recommendations are effective for annual accounts for accounting periods ending after 1 January 2004. Earlier adoption is recommended, but will depend upon compliance with local requirements. The previous set of Best Practices Recommendations encouraged the inclusion of a supplemental " EPRA-page" to be included in the financial statements. As of 1 January 2005 this recommendation is no longer valid; the Best Practices Recommendations are compliant with IFRS.
Compliance with the recommendations will be a basis for EPRA's Best Annual Report award sponsored by PGGM.

We recommend that each EPRA member utilising these recommendations refer readers to the EPRA web page for additional background on the Best Practices Recommendations.
The Best Practices Recommendations are a "live document"; additional issues must be addressed by EPRA's Best Practices Committee, and changes in IFRS need to be incorporated as they occur. We need the feedback of our members to continue to make these recommendations relevant and reflective of the views of EPRA's membership.

Thank you to the many people who have contributed their thoughts as to areas of improvement to last year's recommendations.

Hans Grönloh
Chairman
Best Practices Committee
January 2004

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1 GENERAL ITEMS AND NARRATIVE

1.1 STATUS AND APPLICATION OF BEST PRACTICES RECOMMENDATIONS

Issue:
- As from the financial year 2005, EPRA-members will have to report in accordance with International Financial Reporting Standards (IFRS).
- For financial reporting until 2005, EPRA-members will have to report according to local GAAP.
- It may be impossible for EPRA-members to comply with all Best Practices Recommendations for their financial reporting until 2005.

Rationale:
- The purpose of EPRA's Best Practices Recommendations is to enhance transparency, uniformity and comparability of financial reporting by real estate companies.
- EPRA is not an accounting body and as such cannot dictate specific accounting treatment or valuation approaches. For real estate companies, EPRA's Best Practices Recommendations provide IFRS-guidance for industry-specific issues and choice-items, as well as additional industry-specific information to be provided in financial reporting.

Recommendation:
- EPRA's Best Practices Recommendations provide guidance in addition to IFRS, and with IFRS as basis.
- EPRA's Best Practices Recommendations are effective for financial reports with accounting periods ending after 1 January 2004. Earlier adoption is recommended, but will be dependent upon compliance with local requirements.
- Real estate companies should include a statement in their accounts, indicating to which extent the accounts comply with the EPRA Best Practices Recommendations. If there is no (full) compliance, real estate companies are recommended to specify the reasons of non-compliance for the specific areas.

1.2 EXEMPTIONS FOR COMPLIANCE WITH BEST PRACTICES RECOMMENDATIONS

Issue:
- In specific circumstances, compliance with the Best Practices Recommendations may be impractical.

Rationale:
- Compliance with EPRA's Best Practices Recommendations should not lead to substantial additional costs for real estate companies, and should not cause conflicts with laws and regulations. Irrelevant information should also be avoided.

Recommendation:

- Real estate companies do not have to comply with one or more Best Practices Recommendations in the following circumstances:
  - When compliance with a recommendation would lead to substantial additional costs in gathering the information required.
  - When a recommendation relates to an amount or item that is of immaterial significance for the specific company.
  - When local GAAP (until 2005) or regulations are in conflict with a recommendation (as discussed in BPR 1.1).

1.3 MANAGEMENT REVIEW AND NARRATIVE - GENERAL

Issue:

- For financial statements, IAS 1.8 encourages enterprises to include a (financial) review by management, which describes and explains the main features of the enterprise's financial performance and financial position.

Rationale:

- The financial performance and position of real estate companies requires substantial additional narrative information.

Recommendation:

- In their financial statements, real estate companies should include a management review and narrative including the elements as described in IAS 1.8.
- Additional elements to be included are discussed in BPR 1.4, 1.5 and 1.8.

1.4 MANAGEMENT REVIEW AND NARRATIVE – STRATEGY INFORMATION

Issue:

- Information of strategic nature is highly valuable if it is comparable between companies, but some strategic information may be sensitive and confidential.

Rationale:

- EPRA's recommendation is that disclosure be increased to clearly inform shareholders and users of financial accounts as to what the company intends to do, how it intends to do it, and to back it up clearly with relevant information and statistics. The strategy statement should also include detail on the prior reporting year's strategy and achievements.

Recommendation:

- Real estate companies should include a "strategy segment" in their management review and narrative (as discussed in BPR 1.3). This segment should at least cover the following elements and subjects*:
  - Corporate vision/ mission
  - Review of the strategy for the year under review, such as:
    - Review of activities for the year under review
    - Review of strategy statement from the prior reporting year
    - Success in following prior reporting years' strategy
    - Problems in year under review
    - Any key personnel changes and impact on strategy
    - Discussion of activities regarding principal properties
  - Current Position, such as:
    - Position in current principal markets
    - What is the principal nature of the business? How will that change?
    - Discussion of principal asset classes (locations – countries/ cities; property types; activity types such as investment, trading, facilities management, etc.)

* Items listed in the sub-bullets have been included for illustrative purposes

- Discussion of service activities – current & proposed
- Market Outlook, such as:
  - Principal issues
  - How do economic and market conditions impact on business?
- Strategy for coming reporting year(s), such as:
  - Principal developments, and stage of development
  - General strategic direction
  - What are the company's principal financial objectives (e.g. maximise asset value, return on equity, earnings per share)?
  - What is the company looking to do with properties: trade, invest, manage, etc?
  - Is the company expanding/selling – any specific sales planned?
  - How do activities tie in with financial objectives?
  - Discussion of principal asset classes
  - Any corporate activities planned? (e.g. mergers, acquisitions, disposals)
  - Funding objectives – types of funding, gearing levels, rating objectives.
  - Any key personnel changes proposed and likely impact on strategy.
  - Human Resources Strategy
- Challenges envisaged in the coming reporting year(s).

1.5 MANAGEMENT REVIEW AND NARRATIVE – SUPERVISORY BOARD AND EXECUTIVE BOARD INFORMATION

Recommendation:

- Real estate companies should provide additional information on the members of the Supervisory Board and Executive Board.
- For each of the members of the Executive Board, the following information should be provided:
  - Name
  - Age
  - Sex
  - Nationality
  - Expiration of current term
  - Title/ Role
  - Are they on the audit/ remuneration committee?
  - Other interests/ directorships
  - Photograph
- For each of the members of the Supervisory Board and non-Executive Directors, the following information should be provided, in addition to the information as set out in the previous bullet:
  - Main employment
  - Relevant work history, including prior directorships and any relationships with major shareholders

1.6 LANGUAGE OF FINANCIAL REPORTING

Issue:

- IFRS do not prescribe financial statements to be issued in a specific language.

Rationale:

- There is a constant need to broaden the industry's access to capital.
- English is increasingly utilised as the international business language. Communication issued simultaneously with a company's domestic language will strongly encourage non-local investors to feel that they are able to understand developments equally with local investors. EPRA will leave it to its members to decide upon the use of their domestic language.

Recommendation:
- Financial reports and associated management statements, footnotes and tables/exhibits of real estate companies should at least be issued in English. English should also be used on relevant web sites and on press releases.

1.7 TIMING OF ANNUAL AND INTERIM FINANCIAL REPORTING

Issue:
- To enhance comparability and usefulness of financial reporting by real estate companies, this information should be provided within a limited timeframe.

Rationale:
- The timeframe should be short enough for the information to be useful, and long enough for the enterprise to prepare the information.
- A period of 60 days is considered as an appropriate timeframe for interim reports, but for annual reports, this period may be too short.

Recommendation:
- Real estate companies should publish their financial reports within 90 days after the close of the reporting period for annual reports and within 60 days for interim reports.
- A minimum of five working days' notification should be provided of forthcoming earnings announcements. Announcement of results should be made prior to the opening or after the closing of the stock market. Any preliminary announcements should include as much of the detail included in these recommendations as possible

1.8 MANAGEMENT REVIEW AND NARRATIVE – FINANCIAL RISK MANAGEMENT POLICIES

Recommendation:
- Real estate companies should provide a clear description of their policies for managing financial risks, including:
  - A description and sensitivity analysis of the aggregate effect of interest rate changes on a company's interest and other financial expenses
  - A description of the group's policy in relation to fixed vs. floating interest rate exposures
  - A description of the group's policy in relation to interest rate maturity dates
  - A description of the group's policy in relation to managing currency positions

1.9 DEVELOPMENT ASSETS

Issue:
- Development activities comprise a greater financial risk to a company than the ownership of existing rented assets. How should development assets be accounted for and disclosed?

Rationale:
- The valuation of development assets is described in IAS 16.
- Additional information on development assets is required to obtain a good understanding of the related risks.

Recommendation:
- Real estate companies should include the following information in their management narrative on development assets:
  - Information on sub-portfolios as appropriate: (e.g. appropriate sector, region or city):
    - Development costs, including costs to date, costs to completion and capitalised interest
    - Breakdown of lettable area according to regions and usage (e.g. office, residential, etc)

- The following information should be provided for each development project:
  - Address
  - Type of property (e.g. the respective proportion of office/retail/residential/storage/etc.)
  - Lettable building space
  - Expected date of completion
  - Percentage of ownership (and commentary on control provisions)
  - Status (e.g. planning permission/under construction/letting status, etc.)

1.10 INVESTMENT ASSETS

Recommendation:

- Real estate companies should include the following information on investment assets in their management narrative or in an exhibit:
  - Information on sub-portfolios as appropriate: (e.g. appropriate sector, region or city):
    - Area in square metres
    - Average rent per square metre
    - Annualised net rent based on current rent roll
    - Market rents (ERV) if fully leased at current market rents
    - Cash flow
    - Operating profit
    - Fair Market Value
    - Vacancy by area and rent
    - Description of lease expiration profile
    - Top 10 tenants by rental income
    - Rental income breakdown by tenant business sector
  - A list of the major properties owned, containing the following information for each major property/building in the portfolio:
    - Address
    - Land Area
    - Lettable building space
    - Type of property (e.g. the respective proportion of office/retail/residential/storage, etc.)
    - Occupancy rate
    - Acquisition Date
    - Percentage of ownership (and commentary on control provisions)
    - Form of ownership (e.g. fee or leasehold ownership)
    - Year of construction completion/major refurbishment

1.11 LIKE-FOR-LIKE RENTAL GROWTH REPORTING

Issue:

- Headline rental growth in general is a poor indicator of the performance of real estate company's portfolio, as many of the changes in headline growth may stem from acquisitions or from completion of development projects.

Rationale:

- Information on the growth in rental income other than from acquisitions, allows stakeholders to arrive at an estimate of organic growth. This can be used to measure whether the reversions feed through as anticipated, and whether the vacancy rates are changing.
- Like-for-like rental growth compares the growth of the rental revenues of the portfolio that has been consistently in operation, and not under development, during the two full preceding periods that are described. 2004 like-for-like income growth thus compares the rental income of the stabilised portfolio with exactly the same portfolio in 2003.
- Rental income growth may be derived from several categories, including:
  - The effect of indexation to inflation or another price index;
  - The effect of an increase/decrease in the vacancy rate of the stabilised portfolio;
  - The effect of renegotiating rents with existing or new tenants.

Recommendation:

- Real estate companies should disclose the like-for-like rental growth for each significant sector of the portfolio and each geographical business segment at least twice a year.
- To enhance comparability, growth figures should be calculated year-on-year and not H2 on H1. Real estate companies should publish the growth in absolute amounts as well as on a percentage basis.
- In addition, real estate companies should describe the size, in value, of the total portfolio or investment portfolio on which the like-for-like rental growth is based.

Additional comment:

- The subject of like-for-like rental growth reporting requires further consideration. For that goal, EPRA will establish a working group related to performance reporting, to come to a possible refined or further detailed recommendation. Reference is made to paragraph 5.4.

2 ACCOUNTING AND VALUATION PRINCIPLES

2.1 INVESTMENT PROPERTY – ACCOUNTING BASIS

Issue:
- IAS 40.24 allows real estate companies to choose either the fair value model or the cost model as their accounting policy for its investment properties.

Rationale:
- It is EPRA's Best Practices Recommendations' aim to encourage uniform and comparable performance reporting by real estate companies. Fair value accounting will enhance uniformity, comparability and transparency of financial reporting by real estate companies.
- Fair value accounting is an appropriate approach to calculate NAV.
- Cost accounting is based upon historical events and decisions. Fair value accounting is future-focused.
- Fair value accounting allows performance benchmarking with direct property market indices, such as IPD.

Recommendation:
- Real estate companies should account for their property investments based upon the fair value model.
- Where real estate companies decide not to follow the above recommendation and instead account for their investment properties based upon the depreciated cost model, the rationale for this should be clearly explained in the notes to the accounts.

2.2 INVESTMENT PROPERTY – VALUATION STANDARD

Issue:
- The description of and disclosure on the valuation standard applied by real estate companies should enable improved comparability of their financial statements.

Rationale:
- It is EPRA's aim to encourage the credibility of the valuation of investment property.
- EPRA is not in a position to make unequivocal recommendations on the use of specific valuation methodologies.

Recommendation:
- Valuation - the valuation of investments property held by real estate companies should be at market value, assessed in accordance with International Valuation Standards (IVS), as set out by the IVSC. The valuation should be aggregated on an ungeared basis to include all property and related interests held, and should be performed by an external valuer meeting the definitions as

laid down by IVS. Where local regulations impose a departure from IVS, the difference should be explained and quantified. If the value accounted for deviates materially from the value as assessed by the external valuer, this fact and the rationale behind should be disclosed.
- Timing - synchronisation of asset valuations as at the company's year-end is essential for a clear and fully consistent statement of portfolio value.
- Reporting - the full-ungeared portfolio value should be reported as a minimum, in addition to a note of confirming compliance with IVS and any departures or additional assumptions employed.
- Disclosure - real estate companies should disclose the valuation standard applied (e.g. open market value existing use, net of purchasers costs), and specify (on an average basis for each sector of the portfolio) the quantitative elements and assumptions applied in valuing the investments property. For instance, when a DCF approach is used, the average growth rates, costs, discount rates and exit yields should be quoted.
- Balance Sheet - the valuation of assets for the entire portfolio, and sub-portfolios, should directly and transparently tie to a company's balance sheet. A reconciliation of the movements in the value of investment properties from the prior year should be provided in the notes to the accounts. Where there is a change in the valuation standard this should be explained and quantified.
- Joint Ventures and Partnerships may have different annual or semi-annual valuations. In that case, the last approved valuation (as adjusted for material acquisitions, divestments and capital expenditure) should be used for accounting purposes. This fact should be disclosed.

2.3 BORROWING COSTS

Issue:
- An allowed alternative treatment, IAS 23.11 allows capitalization of borrowing costs attributable to the construction of a qualifying asset, such as development projects.

Rationale:
- Borrowing costs are an essential element of real estate development projects.
- If a development project is acquired at the moment of completion, borrowing costs are reflected in the transaction price.

Recommendation:
- Real estate companies undertaking (re)development projects or refurbishments should capitalize borrowing costs during the development period as follows:
  - Start: at the beginning of the project, e.g. when expenses for the project are being made.
  - End: at completion of (the construction of) the project (delivered by the constructor or practical completion). No interest is to be capitalized for the period in which the real estate is finalized, but not (fully) let.
  - Rate: the borrowing costs to be capitalized (with disclosure of the rate used) should be either:
    - The average borrowing costs of the company
    - The marginal borrowing costs if the project moves the company to a different rate for its last tranche of debt
    - The specific borrowing costs of the project when a specific (mortgage) loan for the project has been obtained.
- In addition, EPRA recommends that companies provide a description of the group's policy regarding the capitalization of interest including interest rate assumptions and the criteria for capitalization.

3 PRESENTATION OF ACCOUNTS

3.1 PROFIT & LOSS ACCOUNTS

Issue:
- EPRA should recommend a format for the profit & loss accounts.

Rationale:
- The recommended format should do justice to real estate specific performance characteristics.
- The recommended format should be IFRS-compliant.
- EPRA has been seeking to develop a pro forma profit and loss account statement and a draft proposal is included in paragraph 5.1 as a recommendation in progress. However, this format currently is not fully compliant with IFRS and further discussion on this area is required.

Recommendation:
- Until a new format is established that meets all requirements and the industry needs, real estate companies should present their profit & loss accounts in a format, which resembles the one presented on the next page.

Definitions on items in recommended format for profit & loss accounts
- Net proceeds on sale of trading properties: proceeds after deduction of transaction fees, registration taxes and brokerage fees.
- Carrying value of trading properties sold: the book value as reported at the previous balance sheet date.
- Gains on disposals: the net proceeds on sale of investment properties less the book value of these assets as reported at the previous balance sheet date.
- Losses on disposals: the net proceeds on sale of investment properties less the book value of these assets as reported at the previous balance sheet date, for all cases in which this results in a negative amount.

Additional comment:
- As stated above, the development of a pro forma profit & loss account statement that both meets the industry-specific aspects as well as the IFRS-requirements, requires further consideration. For that goal, EPRA will establish a working group, to come to a possible refined or altered recommendation. Reference is made to paragraph 5.1.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003			
In thousands of euro	***Note***	**2003**	**2002**
Revenues			
Gross rental income from operating leases	*1*	22,723	19,446
Gross proceeds from sale of trading properties		9,424	7,491
Gain on sale of investment property		2,491	1,366
Unrealised gain on revaluation of property investment		4,329	3,109
Total revenues from property investments		38,967	31,412
Earnings from development activities		5,509	4,487
Management fees	*1*	1,366	1,509
Interest received on finance lease assets		411	982
Earnings from other operating activities	*3*	790	165
Total revenues		47,043	38,555
Expenses			
Carrying value of trading properties sold	*18*	8,976	7,117
Loss on sale of investment property		6,253	306
Unrealised loss on revaluation of property investment		558	6,497
Property operating expenses	*4*	9,971	10,651
Administrative expenses		7,409	5,857
Other operating expenses	*6*	2,175	636
Total expenses		35,342	31,064
Net operating income		11,701	7,491
Other income (expense)			
Income from associates		467	349
Net financing costs	*7*	(849)	(1,196)
Net income before tax		11,319	6,644
Income tax	*8*	(3,344)	(1,756)
Deferred income tax on revaluation result		(1,131)	(1,036)
Other deferred income tax		-	
Net income (including unrealised gains, deferred income taxes)		6,844	3,852
Net income (excluding unrealised gains, deferred income taxes)		3,646	1,779
Net income (including unrealised gains, deferred income taxes) Per Share			
Net income (excluding unrealised gains, deferred income taxes) Per Share			

ACCOUNTING AND VALUATION PRINCIPLES

3.2 SERVICE COSTS

Issue:

- There is need for guidance on how to account for income and expenses related to “service costs”.

Rationale:

- For real estate companies, generally two structures for service costs are possible:
  - The company acts as an agent, recharging service costs on a 1 to 1 basis to its tenants;
  - The company acts as a principal, bearing the risk of over-/undercharging service costs to its tenants.
- Under IFRS revenue recognition is strictly defined (IAS 18.7-8, IAS 18.34).

Recommendation:

- Real estate companies should account for income and expenses related to service costs as follows:
  - For service costs where the company acts as an agent, the net result is nil. Both expenses and recharges should not be accounted for separately in the profit and loss accounts.
  - For service costs where the company acts as a principal, there will be a net result. Both expenses and recharges should be accounted for separately in the profit and loss accounts.
  - For recharges for which uncertainty arises about the collectability of outstanding receivables, the amount should be expensed under property management expenses. This relates to service costs in the case of acting as an agent as well as acting as a principal.
  - Service costs related to voids will be for account of the company. These costs should be accounted for under property management expenses.

3.3 BALANCE SHEET

Issue:

- EPRA should recommend a format for the balance sheet.

Rationale:

- The balance sheet should present all relevant real estate investment assets.

Recommendation:

- Real estate companies should present their balance sheet according to the structure and elements presented on the next page.

CONSOLIDATED BALANCE SHEET

As at 31 December 2002

In thousands of euro	*Note*	2002	2001
Assets			
Investment property	*9*	25,96	14,141
Development projects	*10*	4,211	10,003
Property, fixtures and fittings	*11*	5,57	5,603
Pre-paid operating lease payments	*12*	1,945	2,319
Finance lease receivables	*13*	8,222	8,744
Investments in associates	*14*	2,025	1,558
Other investments	*15*	3,637	3,379
Goodwill	*16*	1,041	1,282
Deferred tax assets	*17*	143	432
Total non-current assets		52,484	47,461
Trading properties	*18*	18,965	15,399
Investments		243	568
Income tax receivable		81	228
Other receivables	*19*	19,538	21,532
Cash and cash equivalents	*20*	2,415	1,85
Total current assets		41,487	39,717
Total assets		93,971	87,178
Equity			
Issued capital		15,045	14,55
Share premium		4,613	3,5
Reserves		942	942
Retained earnings		19,722	14,121
Total equity	*21*	40,322	33,113
Minority interest		1,196	820
Liabilities			
Interest-bearing loans and borrowings	*23*	20,942	17,116
Employee benefits	*24*	1,907	1,73
Provisions	*25*	910	400
Deferred tax liabilities	*17*	2,914	373
Total non-current liabilities		28,135	21,119
Bank overdraft		334	282
Interest-bearing loans and borrowings	*23*	4,39	6,476
Other payables	*26*	18,834	24,168
Provisions	*25*	760	1,2
Total current liabilities		24,318	32,126
Total liabilities		52,453	53,245
Total equity, minority interest and liabilities		93,971	87,178

3.4 CASH FLOW STATEMENT

Issue:

- should recommend a format for the cash flow statement.

Rationale:

- IAS 7.18 allows choosing between the direct and the indirect format for the cash flow statement.
- The direct format provides the most useful information, but is not easy to prepare.
- The indirect format is easy to prepare (can be derived from the balance sheet movements), but provides less useful information.
- In current practice, almost all real estate companies prepare an indirect cash flow statement.

Recommendation:

- Real estate companies using the direct method should present their cash flow statement according to the structure presented on the next page.
- Real estate companies using the indirect method should present their cash flow statement according to the structure presented on the page after.

CONSOLIDATED STATEMENT OF CASH FLOWS - DIRECT FORMAT

For the year ended 31 December 2002

In thousands of euro	*Note*	**2002**	**2001**
Operating activities			
Cash receipts from tenants		21,917	18,704
Cash receipts from finance lease debtors		933	1,413
Cash receipts from other customers		1,147	922
Cash paid to suppliers and employees		-18,038	-12,982
Cash generated from operations		5,959	8,057
Interest paid		-1,255	-1,734
Interest received		145	238
Income taxes paid		-514	-1,048
Cash flows from operating activities		4,335	5,513
Investing activities			
Proceeds from the sale of investment property		8,223	1,235
Dividends received		200	291
Acquisition of property, fixtures and fittings	*11*	-588	-449
Acquisition of investment property	*9*	-7,953	-
Acquisition of other investments		-2,298	-
Development expenditure	*10*	-3,751	-3,101
Cash flows from investing activities		-6,167	-2,024
Financing activities			
Proceeds from the issue of share capital	*21*	1,63	-
Proceeds from the issue of convertible notes	*23*	5	-
Proceeds from the issue of redeemable preference	*23*	2	-
Proceeds from other non-current borrowings		200	-
Repurchase of own shares		-	-280
Repayment of borrowings		-4,397	-1,5
Payment of finance lease liabilities		-531	-562
Payment of transaction costs		-302	-
Dividends paid	*21*	-1,243	-520
Cash flows from financing activities		2,357	-2,862
Net increase in cash and cash equivalents		525	627
Cash and cash equivalents at 1 January		1,568	966
Effect of exchange rate fluctuations on cash held		-12	-25
Cash and cash equivalents at 31 December	*20*	2,081	1,568

CONSOLIDATED STATEMENT OF CASH FLOWS - INDIRECT FORMAT

For the year ended 31 December 2002			
In thousands of euro	*Note*	**2002**	**2001**
Operating activities			
Net operating income		7,144	11,113
Unrealised valuation results		1,924	-3,271
Realised gains/losses disposals		-1,991	-2,242
Depreciation and amortisation		-	-
Movement in receivables		2,005	1,800
Movement in payables		-2,683	657
Movement in provisions		-440	-
Cash generated from operations		5,959	8,057
Interest paid		-1,255	-1,734
Interest received		145	238
Income taxes paid		-514	-1,048
Cash flows from operating activities		4,335	5,513
Investing activities			
Proceeds from the sale of investment property		8,223	1,235
Dividends received		200	291
Acquisition of property, fixtures and fittings	*11*	-588	-449
Acquisition of investment property	*9*	-7,953	-
Acquisition of other investments		-2,298	-
Development expenditure	*10*	-3,751	-3,101
Cash flows from investing activities		-6,167	-2,024
Proceeds from the issue of share capital	*21*	1,63	-
Proceeds from the issue of convertible notes	*23*	5	-
Proceeds from the issue of redeemable preference shar	*23*	2	-
Proceeds from other non-current borrowings		200	-
Repurchase of own shares		-	-280
Repayment of borrowings		-4,397	-1,5
Payment of finance lease liabilities		-531	-562
Payment of transaction costs		-302	-
Dividends paid	*21*	-1,243	-520
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Cash and cash equivalents at 1 January		1,568	966
Effect of exchange rate fluctuations on cash held		-12	-25
Cash and cash equivalents at 31 December	*20*	2,081	1,568

4 NOTES AND ADDITIONAL DISCLOSURE

4.1 EXECUTIVE AND SUPERVISORY BOARD COMPENSATION

Issue:
- Information on compensation of both the Executive Board as well as the Supervisory Board provides insight to the stakeholders on possible management incentives and drivers.

Rationale:
- It is EPRA's goal to maximise disclosure of Executive and Supervisory Board compensation.

Recommendation:
- As a note to staff expenses, real estate companies should disclose the following information on their Executive and Supervisory Board compensation, for each member individually:
  - Remuneration; emoluments including taxable expenses:
    - Basic Salary
    - Bonus
    - Fees (description)
    - Benefits
    - Total
  - Contract duration
  - Pensions and other retirement benefits
  - Share options:
    - Number
    - Date of Grant
    - Exercise Price
    - Exercise Period
    - Conditions for Exercise
  - Holdings of ordinary shares (including related individuals, where relevant)
  - For Supervisory Board members: the nature and amount of compensation payments (e.g. aggregate payments to directors or past directors for loss of office)

4.2 INVESTMENT PROPERTY – APPRAISER FEE BASIS

Issue:
- The description of and disclosure on the procedures agreed with the external appraiser(s) should lead to an increase of the credibility of external valuations.

Rationale:
- The credibility of external valuations will increase when the external appraiser is independent and objective.
- Appraiser-fees that are dependent upon the outcome of the appraisal, are in conflict with independency and objectivity of the appraiser.

Recommendation:
- Real estate companies should agree upon a fee basis for their external appraisers that is independent of the outcome of the valuation process, e.g. independent upon the appraised value.
- Real estate companies should disclose:
  - The basis for appraiser fees (fee based upon hours spent, as a result of appraised value or fixed amount);
  - The amount of annual non-valuation fees that have been paid to the appraiser(s);
  - Whether the fee for each appraiser accounts for more than 10% of that appraiser's turnover.

4.3 JOINTLY CONTROLLED ENTITIES – GENERAL AND OPERATIONAL INFORMATION

Issue:
- IAS 31.45-47 do not prescribe disclosure of additional (operational) information of jointly controlled entities in which the company has an interest.

Rationale:
- Additional (operational) information of jointly controlled entities in which the company has an interest, is essential to gain a better understanding of the activities of the company. This information is currently being provided by many companies on a voluntary basis.

Recommendation:
- For all the jointly controlled entities in which real estate companies have an interest, the following (additional) information should be disclosed, subject to not violating confidentiality clauses or agreements with partners:
  - Name
  - Description of business activity
  - Foundation date
  - Shareholding (% owned and shareholding form and loans)
  - Accounting period (if different from the reporting company)
  - Material restrictions on repayments
  - Dividend schedule (if applicable)
  - Details of debt and extent to which there is recourse to the company
  - Relationship with other partners (who are the partners, what are the respective share-holdings, are there any pre-emption rights, are there any relative control provisions)
    - Short narrative on the performance of the jointly controlled entity, if it is material, meeting the following criterium: the share of net assets, profit or turnover of the real estate company in any jointly controlled entity is greater than 10% of the total of net assets, profit or turnover of the company.

4.4 JOINTLY CONTROLLED ENTITIES – FINANCIAL INFORMATION

Issue:
- IAS 31.45-46 prescribes that a company having an interest in a jointly controlled entity (then being a "venturer") should separately disclose the aggregate amount of contingent liabilities and capital commitments related to its jointly controlled entities.
- IAS 31.47 prescribes that a venturer should disclose, related to its interest in jointly controlled entities, the aggregate amounts of:
  - Current assets
  - Long-term assets
  - Current liabilities
  - Income
  - Expenses

Rationale:

- The current disclosure requirements of IAS 31 are much less in scope than the requirements of certain national GAAPs. In addition, in many cases the development of disclosures of joint venture interests have advanced beyond the specific GAAP requirements, with summarized profit and loss accounts and balance sheets being provided for all joint venture interests.
- The requirements and voluntary disclosures result from the aggregate amounts, often reflecting a substantial part of the total of the company's assets and performance.

Recommendation:

- Real estate companies should disclose the information described in IAS 31.45-47 on a non-aggregated basis for jointly controlled entities (i.e. for each joint venture entity) when one of the following criteria are met:
  - The share of net assets, profit or turnover of the real estate company in any jointly controlled entity is greater than 10% of the total of net assets, profit or turnover of the real estate company;
  - The share of net assets, profit or turnover of the real estate company in all jointly controlled entities is greater than 15% of the total of net assets, profit or turnover of the real estate company. In that case, the information is disclosed for the largest jointly controlled entities, until the aggregate amounts for the remaining jointly controlled entities are less than 15% of the total of net assets, profit or turnover of the real estate company.

4.5 FINANCING AND DEBT POSITION

Issue:

- IAS 32 and 39 provide a number of detailed disclosure requirements in respect to an entity's financing

Rationale:

- The requirements of IAS 32 and 39 are very detailed and in many cases require significantly more information than is currently being required under national GAAPs. Some of this information is quite onerous to obtain.
- There are concerns that the current hedging arrangements on interest payments undertaken by many real estate companies will not qualify to be accounted as a hedge and kept out of the profit and loss account.

Recommendation:

- EPRA-members will have to comply with the requirements of IAS 32 and IAS 39; this will provide thorough analytical information on an entity's debt. However, due to the complexities of the requirements of those two standards, it is also recommended that so as to enable readers to fully understand key those elements of their accounts, entity's should provide full narrative explanation of:
  - The components of the net finance charge in their accounts;
  - Explanations of the market valuations of their hedging instruments and/or debt.
- In addition real estate companies should provide a clear description of their debt profile, at least including information on:
  - Proportion of debt that is secured by specific assets versus unsecured;
  - Weighted average cost of debt.

4.6 HISTORICAL FINANCIAL RESULTS

Issue:
- IFRS do not prescribe the extent of historical financial information to be provided in annual accounts.

Rationale:
- Historical financial information should provide investors with a good understanding of a company's track record without proving to be over burdensome to the company.

Recommendation:
- In their annual accounts, as well as on their website, real estate companies should include key financial data on a consolidated basis for each of the last five financial years. Preferably, this information should be restated and reported on a consistent accounting basis

4.7 DEFINITIONS

Issue:
- Terms and statistics used in financial and real estate reporting can vary between companies and can be subject to unintended interpretation differences.

Rationale:
- Uniform terms and statistics will increase comparability and uniformity of financial reporting.
- Clarification and definition of the terms and statistics used in financial reporting will minimize the risk of unintended differences in interpretation.

Recommendation:
- Real estate companies should include a glossary of terms and statistics used in their annual accounts. A standard set of definitions is included on the following pages.

GLOSSARY OF TERMS

Annualised net results
- Gross rents plus, where rent reviews are outstanding, any increases to estimated rental value (as determined by the Company/Group's external valuers), less any ground rents payable under head leases.

Book value
- The amount at which assets and liabilities are recorded in the accounting records.

Cash rent
- The value of invoiced rent to tenants in the period, excluding any amounts for earlier periods.

Developments
- Newly acquired property under development and existing investment properties being redeveloped with a view to sale. (See also "Redevelopments").

Development surplus
- Excess of latest valuation over the total development cost.

Equivalent yield
- A weighted average of the initial yield and reversionary yield. This represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Company/Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' costs.

Estimated rental value (ERV)
- The external valuers' opinion as to the open market rent, which on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property

Estimate to complete (ETC)
- Costs still to be expended on a development or redevelopment to practical completion (not to complete letting), including interest.

Initial yield
- The annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development and redevelopment properties.

Latent capital gains tax
- Capital gains tax that would be realised upon the sale of assets, on a non-discounted basis.

Lettable space
- Any part of a building or adjacent space that can be leased to a tenant, expressed in units per type of lettable space.

Like-for-like
- Information on the completed property portfolio that was in place for the whole of the current and prior year period.

Market value
- The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion

Net rental income
- The rental income receivable in the period after payment of ground rents and net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from backdated rent reviews, adjustments for operating lease incentives and net property outgoings.

Over-rented
- Space that is let at a rent above its estimated rental value.

Passing rent
- The annual rental income receivable which may be more or less than the estimated rental value (see over-rented and reversionary).

Pre-let
- A lease signed with an occupier prior to completion of a development.

Property expenses
- The expenses directly relating to a property of a certain period of time for the account of the landlord including service charges not recoverable because of vacancy.

Redevelopments

- Existing investment properties being redeveloped, intended to be used for continued future use as investment property.

Reversion

- The estimated increase in rent at review where the gross rent is below the estimated rental value.

Reversionary or under-rented

- Space where the passing rent is below the estimated rental value.

Reversionary yield

- The anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Securitisation

- A financing technique where the income stream of an asset is used to service the interest and principal repayments on the relevant debt instruments.

Service charges

- The amounts (pre)paid by the landlord relating to lettable space for which it has been agreed in the lease that the landlord will recover these from the tenants periodically.

Tenant investments

- The refurbishment expenses to (re)let vacant space, to relet space becoming vacant at the expiry date of a lease or to renew a lease.

Total development cost

- All capital expenditure on a project including the opening book value of the property on commencement of development, together with all finance costs.

Turnover rent

- The rent to be received on the basis of the turnover of a tenant.

Vacancy rate

- The estimated rental value of vacant properties expressed as a percentage of the total estimated rental value of the portfolio, excluding development properties.

Value of developments on completion

- Calculation in today's terms of developments and redevelopments if they were complete assuming current rental values and yields.

Void

- Vacant space.

5 DRAFT RECOMMENDATIONS

5.1 PROFIT & LOSS ACCOUNTS

Issue:

- EPRA has been seeking to develop a pro-forma profit and loss account statement that meets the industry-specific aspects. This format currently is not fully compliant with IFRS and further discussion on this area is required.
- The current proposed format is presented on the following page, for illustrative purposes.

Action:

- EPRA will establish a working group, to come to a possible refined or altered recommendation. In the meantime, EPRA recommends the format as presented in paragraph 3.1.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002 *In thousands of euro*	*Note*	2002 Total	2002 Realised	2002 Unrealised	2001 Total	2001 Realised	2001 Unrealised
Gross rental income	*1)*	22.723	22.238	485	20.451	20.014	437
Interest received on finance lease assets		411	411		370	370	
Ground rents		(460)	(460)		(414)	(414)	
Service charge income on principal basis	*3)*	3.458	3.458		3.112	3.112	
Service charge expenses on principal basis	*3)*	(3.216)	(3.216)		(3.260)	(3.260)	
Property operating expenses	*4)*	(9.971)	(9.971)		(8.974)	(8.974)	
Net rental income	*2)*	12.945	12.460	485	11.285	10.848	437
Net proceeds on sale of trading property		9.424	9.424		-	-	
Carrying value of trading properties sold		(8.976)	(8.976)		-	-	
Trading result		448	448		-	-	
Other income items (if major):							
- management fees		1.366	1.366		1.229	1.229	
- project development		5.509	5.509		4.958	4.958	
- other		790	790		711	711	
Admin expenses		(7.409)	(7.409)		(6.668)	(6.668)	
Other expenses (overhead)		(1.715)	(1.715)		(1.544)	(1.544)	
Gains on disposals		2.491	2.491		2.242	2.242	
Losses on disposals		(500)	(500)		-	-	
Result on disposals		1.991	1.991	-	2.242	2.242	-
Valuation gains		4.329		4.329	3.896		3.896
Valuation losses		(6.253)		(6.253)	(625)		(625)
Valuation movements		(1.924)	-	(1.924)	3.271	-	3.271
Total revenues		50.501	45.687	4.814	36.969	32.637	4.333
Total operating expenses		(38.500)	(32.247)	(6.253)	(21.485)	(20.860)	(625)
Net operating income		12.001	13.440	(1.439)	15.485	11.777	3.707
Income from associates		200	200		180	180	
Dividend income		267	267		240	240	
Net financing costs		(849)	(400)	(449)	(764)	(360)	(404)
Income before tax		11.619	13.507	(1.888)	15.141	11.838	3.303
Income tax		(3.344)	(3.344)		(3.010)	(3.010)	
Deferred tax on revaluation		(1.131)		(1.131)	(1.018)		(1.018)
Other deferred tax		-	-		-	-	
Profit after tax		7.144	10.163	(3.019)	11.113	8.828	2.285
Minority interest		-	-	-	-	-	-
Net income		7.144	10.163	(3.019)	11.113	8.828	2.285
Net exploitation income (net realised income excluding deferred income taxes and gains/losses on disposals)		7.724			6.586		
Net income per share (in Euro)		0,71			1,11		
Net exploitation income per share (in Euro)		0,77			0,66		

5.2 BUSINESS SECTOR INFORMATION

Issue:
- Based upon IAS 14, publicly listed companies should disclose segmental information relating to significant sectors they operate in to enable understanding of the business areas operated in. There is need for EPRA guidance on this.

Rationale:
- The sectors to report information upon will always be dependent upon specific company characteristics, and the details of IAS 14. However, a minimum level of disclosure will be provided by EPRA. Preferably, this information should be linked to like-for-like growth information.

Suggested recommendation:
- As a minimum, real estate companies should provide information per geographical area as well as on the following sectors (if applicable):
  - Offices
  - Retail
  - Industrial
  - Residential
  - Any other sectors a company considers significant to understand its operations

Action:
- This recommendation has not been included in the December 2003 Best Practices Recommendations, as it may need further refinements. The issue is that if full compliance with IAS segmentation is required, then the cost of implementing would be prohibitive, because most real estate companies will not have systems designed to give full profit and loss analysis by sector. This could lead this section to be one area where non-compliance becomes the norm.
- EPRA will establish a working group, to come to a possible refined or altered recommendation.
- Also additional items for which the (additional) sector information should be provided, will be taken into consideration. In addition to IFRS-requirements, the following items can be brought up as an example:
  - Property values
  - Net asset values

5.3 ADJUSTED NAV CALCULATION

Issue:
- EPRA should define pro-forma calculation methods for NAV, NNNAV, EPS et cetera, to ensure uniformity. Big issues and questions are:
  - Adjust out IFRS19 deferred tax if not payable in reality?
  - Un-mark to market hedges that work economically but not under IFRS39?
  - Does IFRS give a choice of marking debt to market or not – which do we recommend?

Action:
- EPRA will establish a working group, to come to a possible refined or altered recommendation.

5.4 PROPERTY PERFORMANCE REPORTING

Issue:

- Additional information and disclosure on property statistics is useful for investors and analysts. Where real estate companies currently provide such disclosures, it is often not consistent in format with other companies and measures are calculated in different ways resulting in lack of comparability of data.
- In order to be useful for investors and analysts, additional property statistics information should be comparable between real estate companies providing this information.
- Strategic or competitive reasons may prevent real estate companies from publishing additional information. The extent to which a company may wish to publish additional information should remain a management decision.

Action:

- EPRA encourages additional information and disclosure on property statistics, and will establish a working group, to come to a possible refined or altered recommendation.
- As a first initiative, and to obtain comments from all EPRA members, a suggestion for the additional information to be provided is presented on the following pages.

RECONCILIATION OF PRIMARY STATEMENTS TO "VALUATION" AND "RENTAL INCOME"

These reconciliations pull together "rent" and "value" as those terms are understood in the industry and provide reconciliation totals for the tables that follow.

Elements of value included in:-

	"Investment property"			
	Completed property €m	Redevel projects €m	Development projects €m	**Total** €m
Land				x
Buildings				x
Finance lease receivables				x
Property residual values				x
Other				x
Un-booked revaluation adjustment		x	x	x
Properties at open market value	A	C	E	X

Elements of (gross) rental income included in:-

	Completed property €m	Redevel projects €m	Development projects €m	**Total** €m
Rental income				x
Interest income				x
Finance lease receipts				x
Other				x
Rental income	B	D	F	X

COMPLETED PORTFOLIO - RENTAL STATISTICAL DATA

								Lease expiry data		Lease review data	
SEGMENT (example)	Valuation	Valuation movement	Passing rent	Rental income	Cash rent	ERV	Ground rent	Cash lease income expiring in (yr 1-5)	ERV of cash lease income expiring in (yr 1-5)	Cash lease income reviewing in (yr 1-5)	ERV of cash lease income reviewing in (yr 1-5)
France - offices											
France - retail											
Segment 1 - France											
Germany - offices											
Germany - industrial											
Segment 2 - Germany											
UK - offices											
UK - retail warehouses											
Segment 3 - UK											
Segment etc											
TOTAL PORTFOLIO	A			B							

COMPLETED PROPERTY - OTHER STATISTICAL DATA

SEGMENT (example)	Average lease length to break	Average lease length to term	No of properties	Lettable area	Void %	Initial yield	Reversionary yield
France - offices							
France - retail							
Segment 1 - France							
Germany - offices							
Germany - industrial							
Segment 2 - Germany							
UK - offices							
UK - retail warehouses							
Segment 3 - UK							
Segment etc							
TOTAL PORTFOLIO							

COMPLETED PROPERTY - LIKE FOR LIKE DATA

SEGMENT (example)		No of properties	Valuation	Passing rent	Rental income	ERV	Void %	Initial yield	Reversionary yield %
			For current period, prior period, absolute change and % change						
			€	€	€	€	%	%	
Segment 1	LFL								
Segment 2	LFL								
Segment 3	LFL								
Segment etc	LFL								
Total L-F-L portfolio									
Total other completed assets									
TOTAL COMPLETED PORTFOLIO			A		B				

MOVEMENTS IN NON L-F-L PORTFOLIO	No of properties	Valuation	Passing rent
		€	€
At start of prior period			
Transactions last year			
purchases			
sales			
transfers to devel / redevel			
transfers from devel / redevel			
other movements			
At start of current year			
Transactions this year			
purchases			
sales			
transfers to devel / redevel			
transfers from devel / redevel			
other movements			
At end of current year			

This table gives information about developments. NB that redevelopment projects will be carried at (re) valuation and development ones at cost or "frozen" valuation

DEVELOPMENT & REDEVELOPMENT PROJECTS

SEGMENT (example)	Carrying value of developments	Redevelopments at valuation	Market value of developments	Valuation surplus already recognised on redevelopments	Current period rental income
main schemes (list)					
others in total					
Segment 1 - France					
main schemes (list)					
others in total					
Segment 2 - Germany					
main schemes (list)					
others in total					
Segment 3 - UK					
Segment etc					
TOTAL DEVEL / REDEVEL PROJECTS	E	C			D+F

<u>**Year - to - year movements**</u>	Carrying value of developments	Redevelopments at valuation	**Total**
At start of period			
Purchases			
Transfers from completed assets			
Construction costs in period			
Interest capitalised in period			
Transfers to completed assets			
Sales			
Revaluations	n/a		
Other movements			
At end of period	E	C	

(CONTINUED FROM PREVIOUS PAGE)

SEGMENT (example)	ETC (estimate to complete) - construction cost							ETC-Interest	Forecast total cost	Forecast completion date	Lettable area	% let	Current notional ERV on completion	Current notional value on completion
	yr 1	yr 2	yr 3	yr 4	yr 5	later	Total construction ETC							
main schemes (list)														
others in total														
Segment 1 - France														
main schemes (list)														
others in total														
Segment 2 - Germany														
main schemes (list)														
others in total														
Segment 3 - UK														
Segment etc														
TOTAL DEVEL / REDEVEL PROJECTS														

INFORMATION ABOUT INDIVIDUAL PROPERTIES AND MAJOR TENANTS

1 List all properties in the portfolio, above a de minimis value, banded by value and give the following information

Location	use type	description	number of leases	lettable area	date built / last refurbished	% ownership

2 For all properties accounting individually for more than 5% of total portfolio value, give the following ADDITIONAL information

Location	value	rental income	passing rent	ERV	names of principal tenants	vacancy %

3 Give the following details about all individual tenants accounting for more than 5% of total rent roll:

Tenant	rent roll	average lease duration

4 Analyse total rent roll by tenant industry sector - show individual sectors accounting for more than 5%

NET ASSET VALUE

Net asset value as reported	x	
Revaluation surplus on development projects	x	
Provision for final dividend	(x)	
Deferred tax provided on revaluation surplus	x	
Revaluation surplus/deficit on hedges	x/(x)	(Where debt has not also been marked to market)
Adjusted pre-tax NAV	x	

Net asset value as reported	x	
Revaluation surplus on development projects (net of tax)	x	
Provision for final dividend	(x)	
Impact of tax planning	x	(Quote on conservative basis - consider indication and commentary on range of possible outcomes)
Mark to market on debt (net of tax)	x	
Triple net NAV	x	

Also provide both figures on a per share basis, basic and diluted