ARCONA CAPITAL

ARCONA PROPERTY FUND N.V.

ANNUAL REPORT 2017

ARCONA PROPERTY FUND N.V.

Incorporation
Arcona Property Fund N.V. [“**the Fund**”] is an investment company with variable capital within the meaning of article 76a of Book 2 of the Dutch Civil Code. The Fund was incorporated on 27 November 2002 by a notarial deed executed before Prof. D.F.M.M. Zaman, civil-law notary in Rotterdam.

Registered Office and entry in Trade Register
The Fund is registered in Amsterdam and is entered in the Trade Register of the Chamber of Commerce under number 08110094.

Office Address
Kollenbergweg 56
1101 AR Amsterdam
the Netherlands
Tel: +31(0)20 82 04 720
E-Mail: info@arconacapital.com
Website: www.arconapropertyfund.nl

Supervisory Board
The Supervisory Board of the Fund comprises:
Mr H.H. Kloos (chairman)
B. Vos M.Sc.

The members of the Supervisory Board have chosen domicile at the offices of the Fund.

H.H. Kloos, RBA, was born in Nijmegen (NL) on 1 September 1957. Mr. Kloos has been appointed in 2014 and is a former director of VVAA Groep B.V. and FBS Bankiers N.V. Mr. Kloos is currently owner of Kloos Consultants B.V. and was appointed on an interim basis as managing director of several companies such as Robein Bank, Middle Europe Investments N.V., Palmer Capital Fondsenbeheer B.V., De’ Medici Vermogensbeheer B.V. and Auragenix N.V. Mr. Kloos is currently managing director a.i. of Mayflower Project [USA], chairman of the commission of Investment Analysts with DSI and member of the Advisory Board with De’ Medici Vermogensbeheer.

B. Vos M.Sc. is currently also Chairman of MEI-Middle Europe Opportunity Fund N.V. i.l., Middle Europe Opportunity Fund II N.V., Middle Europe Opportunity Fund III N.V. and Chairman of the Supervisory Board of Kempen Capital Management N.V..

Managing Board
The Fund is managed by Arcona Capital Fund Management B.V. Arcona Capital Fund Management B.V. [“**ACFM**” or “**Managing Board**”] was incorporated under the name Midden-Europa Fondsenbeheer B.V. (subsequently changed into MEI-Fondsenbeheer B.V.) on 10 June 2002 by a notarial deed executed before Mr. C.E.M. van Steenderen, public notary in Rijswijk. By a notarial deed executed before Mr. J.G.R.C. Prinsen, public notary in Deventer on 8 June 2012 the name of the Managing Board has been changed to Palmer Capital Fondsenbeheer B.V. By a notarial deed executed before Mr J.G.R.C. Prinsen, public notary in Deventer in April 2016 the name of the Managing Board has been changed to Arcona Capital Fund Management B.V.

Arcona Capital Fund Management B.V. currently has the following directors:
G.St.J. Barker LLB FRICS
P.H.J. Mars M.Sc.
H.H. Visscher

The Managing Board has chosen domicile at the offices of the Fund. More information can be found on the website: http://www.arconapropertyfund.nl.

Stichting Prioriteit
Stichting Prioriteit ["**the Foundation**"] of the Fund is managed by a managing board consisting of two members:
G.St.J. Barker LLB FRICS
H. H. Visscher

Auditors
Deloitte Accountants B.V.
Gustav Mahlerlaan 2970
1081 LA Amsterdam
the Netherlands

Legal Advisor
Loyens & Loeff N.V.
Blaak 31
3011 GA Rotterdam
the Netherlands

Listing and Paying Agent
NIBC Markets N.V.
Gustav Mahlerlaan 348
1082 ME Amsterdam
the Netherlands

Administrator
KroeseWevers Accountants B.V.
Colosseum 1
7500 AC Enschede
the Netherlands

Depositary
Infintax Fund Services B.V. (to 10 April 2017)
Claude Debussylaan
SOM 2 building, level 2
1082 MC Amsterdam
the Netherlands

TCS Depositary B.V. (from 11 April 2017)
Woudenbergseweg 11
3953 ME Maarsbergen
the Netherlands

Financial Calendar 2018

Publication of trading update of 1st quarter 2018	9 May 2018
General Meeting of Shareholders	24 May 2018
Publication of semi-annual report 2018	30 August 2018
Publication of trading update of 3rd quarter 2018	8 November 2018

Identification codes
The ISIN code is NL0006311706
The REUTERS code is ARCPF
The BLOOMBERG code is ARCPF:NA

Arcona Capital Fund Management B.V. holds a license to manage Investment Institutions in the sense of Section 2:65 Wft.

1 LETTER FROM THE MANAGING BOARD

The strategic repositioning of the Arcona Property Fund delivered tangible positive results in 2017. In Poland three neighbourhood shopping centres and a modern office building were added to the portfolio. Two non-core assets, in Slovakia and Czech Republic, were sold at prices well in excess of appraised value Overall, this transactional activity grew the Fund from € 83 million to € 99 million over the course of the year, whilst significantly increasing presence in the important Polish market.

Improvement of results continues
The underlying operational performance of the Arcona Property Fund continued to improve in 2017. The operational result for the year was € 2.13 million compared to the March 2017 forecast of € 1.7 million. The overall result after tax was + € 5.56 million compared to -/- € 292.000 in 2016, reflecting valuation uplifts, falling vacancy levels and accelerating profit growth. Results overall were positively impacted by the integration of the 8 neighbourhood shopping centres acquired in Poland in December 2016, which contributed over the entire year. The Managing Board anticipates that the additional investments made in Poland in the course of 2017 should continue these positive trends in 2018.

Higher dividend
The stated aim of the Arcona Property Fund is to distribute 35% of the annual operational result to shareholders. In August 2017 an interim dividend of € 0,10 was paid out in cash. To maintain the trend of increasing dividends, and reflecting the current volume of shares in issue (3.17 million), the Managing Board is recommending a final dividend of € 0.14 for 2017, payable in cash.

Share liquidity improves
The liquidity of the shares in the Arcona Property Fund showed further improvements over the year. The number of shares traded on Euronext Amsterdam increased by 118%, from 195,150 in 2016 to 424,778 in 2017. The discount of the share price to the net asset value per share also decreased over the year, narrowing from 54% to 44%. These positive trends are expected to continue in 2018. To give a further impetus to share liquidity, efforts are continuing to achieve a second listing of the Fund on the Prague Stock Exchange.

Strong economic outlook
The Fund´s balanced expansion in 2017 creates a good platform for the future. Against the background of strong economic forecasts for Central and Eastern Europe over the next three years, the Managing Board is actively seeking further opportunities to grow the fund and to increase distributions to shareholders.

Growth accelerates
In the opinion of the Managing Board, a further expansion of the Fund is important both for the liquidity of the stock and for the enhancement of the dividend to shareholders. The target is to achieve a fund volume of € 500 million by 2022, with a dividend of 8% on the prevailing stock price. The Board is optimistic that further significant steps towards this goal can be achieved in 2018.

The focus for acquisitions is currently on the Czech and Polish markets, targeting shopping centres, retail parks and office buildings with lot sizes between € 5 million and € 15 million. These markets, particularly outside the capital cities, continue to offer an attractive combination of quality and yield. The overall economic fundamentals for the two countries are particularly positive and Arcona Capital has the advantage of locally-based asset management teams recently adjudged best in class for real estate investment management across the region[1].

[1] Construction and Investment Journal Awards 2017

Alongside these acquisition plans, work is under way on the upgrade and expansion of 5 existing assets within the portfolio, with the aim of creating more value for shareholders from current holdings.

Overall, for the coming year, the Managing Board sees potential to expand the Fund by up to € 50 million through acquisitions and redevelopment.

Profit forecast 2018

For 2018 the Managing Board expects the Fund to achieve an operational result of EUR 2.4 million from the existing portfolio. The aim is to distribute 35% of this result to shareholders.

CONTENTS

2 ARCONA PROPERTY FUND IN BRIEF

General
Arcona Property Fund N.V. [“**the Fund**”] is an investment company with variable capital incorporated under Dutch law and registered in Amsterdam. The shares have been listed on Euronext Amsterdam since 2003. The Fund invests in commercial real estate in Central and Eastern Europe.

The Fund offers several important features that distinguish it from other real estate funds:
- The focus on Central and Eastern Europe;
- Local representation of Arcona Capital with its own offices in Amsterdam (Netherlands), Munich (Germany), Prague (Czech Republic) and Warsaw (Poland);
- Access to regional property management knowledge and facilities;
- Long-term management experience in Central Europe (since 1992).

Managing Board
Arcona Capital Fund Management B.V. is the Managing Board/Fund Manager of the Fund. On 24 January 2006, it obtained from the AFM a permit under the Act on the Supervision of Investment Institutions (“Wft”).

Fund Structure and tradability
The Fund is a closed-end investment institution and shares are tradeable daily on Euronext Amsterdam.

Strategy
The Fund Manager’s vision is to position the Fund as the benchmark listed property vehicle for the CEE region, providing regional market exposure for both private and institutional investors. The Fund should provide capital preservation and a high dividend yield through a diversified and liquid vehicle managed by property specialists with a fiduciary mind-set. This is a key differentiation from the other listed stocks in the region, which are either very sector-specific or are primarily development-focused with a higher risk profile.

The long-term target Fund size is € 500 million, with between 30 and 50 assets. Geographical allocations are planned as follows:
- Poland 40% (to € 200 million);
- Czech Republic 20% (to € 100 million);
- Slovakia 10% (to € 50 million); and
- Other CEE 30% (to € 150 million).

Of the above, Poland and the Czech Republic are seen as the Fund’s core markets in the long term.

Foreign institutional investors targeting the region tend to focus on single-leased properties in capital cities or retail centres above € 50 million lot size, assets for which the resulting competition has driven pricing to excessive levels. The Fund, in contrast, focuses on modern high-yielding commercial property with multiple tenants in regional locations, where Arcona Capital’s local platform delivers both market access and asset management presence. As a Western European based “institutional” purchaser the Fund has a competitive advantage through better access to financing in these regional markets over local purchasers.

This acquisition strategy will target edge-of-town retail parks, supermarkets, regional office properties and multi leased logistic centres, with individual lot sizes in the € 5 million to € 15 million range.

Expansion of the Fund will be primarily undertaken through portfolio acquisitions and individual asset transactions. Despite positive market conditions and ongoing asset price inflation, the region continues to offer some very attractive acquisition opportunities which would fit the above strategy, further enhance the financial performance of the Fund and continue to improve its overall risk/return profile.

After two sales in 2017, some further assets in Košice, Slovakia, which currently make a relatively low contribution to the net operating income of the Fund, will be sold out of the portfolio within the next two years.

The current portfolio in the Czech Republic and Slovakia still retains some older office properties with poor insulation and energy conservation ratings (reflecting the date and style of construction). An intensive programme of capital investment into the better-located examples of these assets is focussing on improving energy efficiency, e.g. boiler upgrades, window replacements and façade insulation or replacement. The two Kriva assets in Kosice have recently been fully refurbished in this manner and plans are now being prepared for the equivalent upgrade of the Sujanovo namesti property in Brno.

In summary, the Fund is executing its growth strategy by focussing on the following:

Portfolio acquisitions in targeted sectors
The Fund will acquire high-yielding modern commercial properties in the CEE region by portfolio acquisitions and individual purchases. These acquisitions will be funded by a combination of senior debt and cash generated by operations, non-core asset sales, bond and share issues.

Continued strong focus on operations
The Fund continues to reduce operational costs and improve occupancy levels in the existing portfolio. The Fund will continue to identify and realise opportunities to add value to the existing portfolio by redevelopment and refurbishment.

Portfolio management through selective investments and disposals in core markets
Going forward, the Fund has a clear strategy for its core markets, focusing on regional sectors with above-average growth potential and limited international competition. The Fund may seek selectively to enter new markets in the region where the Fund Manager’s local presence can identify and secure high quality income producing assets at favourable prices.

The Fund will continue to dispose of assets that are not aligned with its strategic focus if favourable opportunities for completing such disposals arise.

Maintaining a prudent financial strategy that supports growth
The Fund intends to maintain its prudent financial strategy of conservative leverage, targeting a Loan-to-Value ratio in the range of 45% - 50% (as at 31 December 2017: 52.7% including the outstanding convertible bonds), although a Loan-to-Value percentage of up to 60% is possible.

The Managing Board has regard to the need for flexibility, in particular the ability to sell real estate from the portfolio without incurring high debt finance breakage costs. The Fund prefers to use several different financiers, so as not to be dependent on just one party.

Investor relations and information supply
The Fund strives to achieve open, timely and clear communication with private and institutional investors, asset managers and other interested parties, and endeavours to configure its public and investor relations’ policy accordingly. Currently the Fund’s investors are largely private investors and asset/wealth managers.

Corporate Governance
Clarity and transparency in supervision and accounting is considered by the Fund to be the cornerstone of good management and entrepreneurship. The Fund aims for a sound system of corporate governance, with its strategy and investment objectives clearly defined and its operations effectively monitored by the Managing Board, Supervisory Board and independent external parties.

Fund governance
ACFM endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association (DUFAS). Following these Principles, ACFM will act in the interests of investors of

the funds ACFM manages. In case of a possible conflict of interest, transactions will be submitted to the Supervisory Board for approval.

DUFAS principles of fund governance are presented on the website of DUFAS.

Portfolio and historical returns

As at 31 December 2017, the Fund's real estate portfolio comprises 24 properties[2], located in two cities in the Czech Republic, three cities in Slovakia and seven cities in Poland. The majority of the rentable area is designated as modern suburban retail space or flexible secondary office space and the remainder is mostly ho(s)tel space and student accommodation. The fair value of the 24 properties as at 31 December 2017 was € 89.80 million, a 20.0% increase compared to € 74.81 million for the portfolio of 22 properties ultimo 2016.

Table 1 – Development of the annual return on Net Asset Value per share

	2017	**2016**	**2015**	**2014**	**2013**
Return* (in	15.2	** -/- 1.3	2.3	-/-0.9	-/-3.2

** including shareholder distributions*

*** based on comparable Net Asset Values corrected for shares issued.*

[2] Considering the Drahobejlova 27 property is held for sale

3 KEY FIGURES

Balance sheet statement (x € 1,000)

	2017	2016	2015	2014	2013
Investment properties	89,798	74,806	53,272	52,080	57,068
Other non-current assets	1,385	1,548	1,523	837	1,609
Current assets	7,660	7,598	1,408	5,719	2,030
Total assets	**98,843**	**83,952**	**56,203**	**58,636**	**60,707**
Shareholders' equity	42,036	36,452	28,569	28,554	26,814
Deferred tax liabilities	5,157	4,177	4,271	4,004	4,709
Other non-current liabilities	43,942	25,195	21,010	22,183	9,023
Current liabilities	7,708	18,128	2,353	3,895	20,161
Total equity and liabilities	**98,843**	**83,952**	**56,203**	**58,636**	**60,707**
Loan-to-Value (in %)	52.7	49.3	41.0	46.6	47.5

Profit and Loss statement (x € 1,000)

	2017	2016	2015	2014	2013
Direct result before tax	3,161	-/- 325	707	801	1,450
Indirect result before tax	3,250	-/- 208	-/- 6	-/- 96	-/- 1,446
Total result before tax	**6,411**	**-/- 533**	**701**	**705**	**4**
Income tax expense	842	-/- 241	263	-/- 419	137
Total result after tax	**5,569**	**-/- 292**	**438**	**1,124**	**-/- 133**
Occupancy[3] (in %)	84.0	80.7	78.0	75.0	73.7
Rentable area (in m^2)	104,186	100,673	80,754	91,727	109,335

Issued capital

	2017	2016	2015	2014	2013
Ultimo outstanding shares	3,165,149	3,165,149	1,438,704	1,438,704	1,339,707
Basic earnings per share (in €)	1.76	-/- 0.14	0.25	0.64	-/- 0.08

Data per share

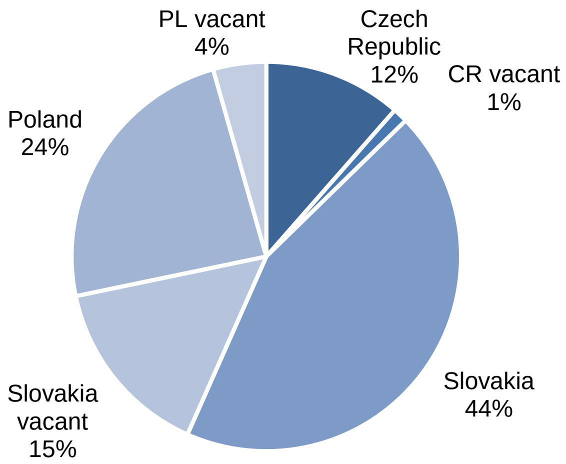
	2017	2016	2015	2014	2013
(Interim-) dividend	0.10	n.a.	0.35	0.30	-
NAV conform EPRA	13.37	11.69	20.30	20.24	20.42
Avg. monthly turnover (in €)	231,240	102,192	387,413	163,926	284,227
Highest price	7.40	8.15	9.51	7.05	7.96
Lowest price	5.20	5.00	6.84	5.87	5.93
Ultimo price	7.40	5.40	8.35	6.96	6.99

[3] End of year occupancy weighted based on property fair value

KEY GRAPHICS

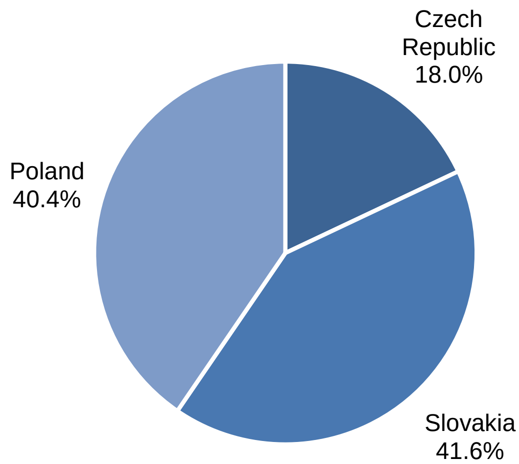
Portfolio occupancy (space) rate per country

The vacancy in the Slovak portfolio is high in relation to other markets. This reflects the nature and occupational use of the assets located there.



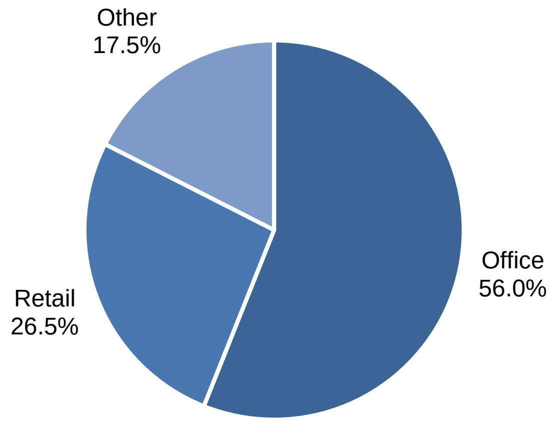
Fair value per country real estate portfolio[4]

The Fund strategy aims for a distribution of Poland 40%, Czech Republic 20%, Slovakia 10%, other CEE 30%, this based on a target € 500 million portfolio. In 2017 progress was made towards this distribution.



The use of space within the total real estate portfolio

The physical space distribution within the portfolio shows space use as (1) office, (2) retail and (3) other uses like student accommodation.



[4] Excluding asset held for sale

4 PRE-ADVICE OF THE SUPERVISORY BOARD

To the general meeting of shareholders

This annual report of Arcona Property Fund N.V. ["the Fund"] has been prepared by the Managing Board. This report contains the financial statements for the period from 1 January to 31 December 2017. The financial statements are audited and have been approved by Deloitte Accountants B.V. The auditor's report is presented on pages 137 - 141. The Supervisory Board has received notice of this approval.

The Supervisory Board recommends the financial statements for the year 2017 to the General Meeting for approval. The proposal by the Managing Board is to distribute 14 cents per share as a final dividend for 2017.

Meetings and activities of the Supervisory Board

During 2017, the Supervisory Board had four meetings. During these meetings, the Supervisory Board discussed the (administrative) organization, the investment strategy, the commercial strategy and financial reporting. These meetings were attended by the Managing Board. On 21 March 2018 the Supervisory Board met with Deloitte Accountants B.V. regarding the 2017 audit of the Fund.

Dividend policy

The current dividend policy is to pay out ca. 35% of the annual net operational result as dividend, with the aim of achieving an annual 8% dividend yield within a period of two to three years. A combination of cash dividends for shareholders and retention of a portion of earnings to reinvest in physical assets and enhance tenant retention should ultimately yield the highest overall return. In the current highly -competitive regional real estate market, it is crucial to maintain an adequate level of capital expenditure across the portfolio. It is the intention of the Managing Board that the shareholder distribution will normally be paid on two occasions per year: an interim distribution after the end of the half year and a final distribution at the end of the year.

Closing distribution 2017

In line with this prevailing dividend policy, the Fund proposes a distribution in cash charged to the share premium reserve of the Fund.

Finally

The Supervisory Board would like to express its appreciation for the efforts made during the year by the Managing Board and staff.

Amsterdam, 6 April 2018

Supervisory Board
H. Kloos, chairman
B. Vos M.Sc.

5 REPORT OF THE MANAGING BOARD

The Managing Board hereby presents the annual report of 2017 of Arcona Property Fund N.V. The reporting period is from 1 January 2017 to 31 December 2017.

5.1 SUMMARY OF EVENTS DURING 2017

Table 2 – Total Return on share price and Net Asset Value during 2017

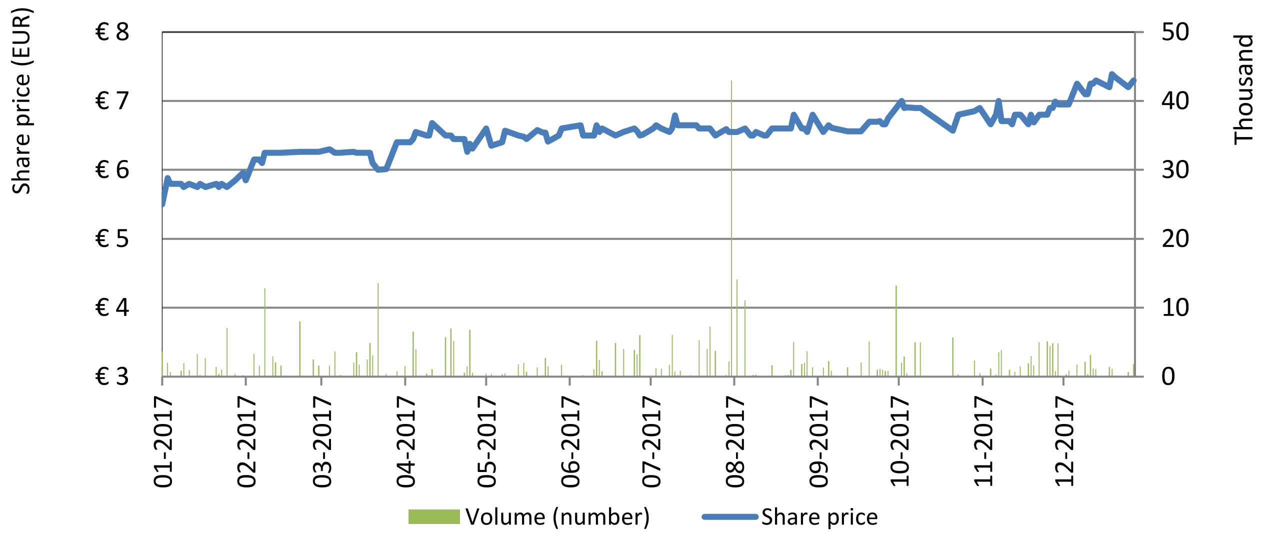
	Based on share price		Based on NAV	
	In €	In %	In €	In %
Start period	5.40		11.69	
End period	7.40		13.37	
Return	2.00		1.68	
Distribution to shareholders	0.10		0.10	
Total Return	**2.10**	**38.9**	**1.78**	**15.2**

5.1.1 DEVELOPMENTS DURING 2017

Key events during the reporting period were the acquisitions of the three remaining properties of the Polish retail portfolio and of the modern Szczecin office property. The Gemerská property in Košice and the Drahobejlova office property in Prague were sold, with the latter making a significant positive contribution to the year´s financial performance.

The annual bank debt service increased from € 2.62 million to € 3.21 million. The total LTV ratio increased from 49.3% to 52.7%. The weighted occupancy over the reporting period increased from 80.7% to 84.0%. The annual net rental and related income increased to € 4.80 million as at 31 December 2017 (€ 3.02 million in 2016) (see also chapter 8). The net asset value increased by € 5.86 million to € 42.31 million. The Fund concluded the period with a net asset value (NAV) per share of € 13.37 at 31 December 2017. During the same period the price per share on the stock exchange increased by 37.0% from € 5.40 to € 7.40. The change in comparable NAV per share was the net result of four components: the operational result, the sale result, the higher property valuation and exchange rate movements.

Figure 1 – Development of the Fund's stock market price per share during 2017



The following events took place during the reporting period:

Rental contract Slovak Telekom prolonged (20 January 2017)
The Fund announced that the lease with Slovak Telekom in the Žilina asset in Slovakia is prolonged by 18 months to 30 June 2018. After this period the contract will be for an indefinite period with a notice period of three months. Slovak Telekom leases 1,713 m^2 at an annual rent of € 105,000.

Arcona Property Fund N.V. completes Polish acquisition (3 March 2017)
The Fund completed its acquisition of the 11 unit Polish retail portfolio originally announced in 2015. The final stage of the acquisition involved the purchase of the shares in a corporate structure holding three shopping centers - in Bydgoszcz, Torun and Lodz - constructed on leasehold land. The purchase price of these three centers amounted to approximately € 4.7 million. The value was appraised by CBRE on 1 October 2016 at approximately € 6.2 million. The purchase has been financed with a vendor loan of € 4.7 million with a maturity of two years and an interest rate of 1.0%.

Arcona Property Fund N.V. renews rental contract in Gdansk (24 March 2017)
On 24 March 2017 the Fund extended the lease contract with Biedronka (a Polish supermarket chain) in Gdańsk for a period of 10 years until May 2027. Biedronka now rents 748 m^2, an increase of 38 m². The rental price per m² remains unchanged. The total annual rent is € 83,000.

Publication of the Q1 figures 2017 (10 May 2017)
The figures of Q1 2017 showed that the Fund realized in Q1 2017 a profit after tax of € 1,382,000, which is € 1,124,000 more than the same period in 2016. The gross rental income for the period increased to € 1.98 million, 34.2% higher than the same period of the previous year.

Arcona Property Fund sells the Gemerská property in Slovakia (21 June 2017)
The Fund announced that in Slovakia the sale of the Gemerská property in Košice was agreed. The sale price is € 1,465,000, 2% above the previous valuation.

New lease for 685 m2 in the Karlin office in Prague (3 July 2017)
On 3 July, the Fund concluded a rental contract with DVI, a.s., a subsidiary of Czech Railways (ČD), for the Karlín office building in Prague. DVI provides training and education for CD staff. DVI leases 685 m^2 (approximately 20% of the total available space) for a period of five years, without break options. The total rent per year is € 67,500. The space is renovated for approximately € 90,000. In September 2017 DVI moved into the building.

Highlight 1 – Example of creating value in Karlin property in Prague: make basement rentable


Before (550 m^2 unrentable space)


After (550 m^2 rentable fitness area)

Acquisition of office building in Szczecin in Poland (6 July 2017)
On 6 July the Fund. has purchased the office building Maris in the Polish city of Szczecin. The external appraisal value of the building amounts to € 9.129 million and the operating result before tax is € 428,000 on an annual basis. The entity is acquired for € 1,000, the existing shareholder loans for another € 1,809,000. DNB Nordbank has provided a bank loan of € 7.05 million to the acquired entity. The loan will run until November 2019. The office building consisting of six floors, was built in 2006 and has a lettable area of 5,455 m² and 119 underground parking spaces. The building is located in the center of the city. The office building is let to 11 tenants, including Intive, Mobica and Prudential insurance.

Figure 2 – Maris office property 9 Holdu Pruskiego Sq., Szczecin, Poland

Distribution of Interim dividend (3 August 2017)
Arcona Property Fund N.V. pays an interim dividend of € 0.10 per share in cash, in anticipation of the publication of the final half-year figures.

Extensions of leases with Piotr i Paweł in Poland (27 September 2017)
An agreement with the Polish retailer Piotr i Paweł has been reached on the renewal of the lease contracts for four locations in Poland. Piotr i Paweł is the largest tenant within the portfolio. For the locations in Toruń (1,305 m²) and Głogów (1,562 m²), the lease with Piotr i Pawel was extended from 31 December 2022 to 31 December 2027. The rent increases slightly as of 1 January 2018.

The lease for the location in Bydgoszcz (1,621 m²) has been extended from 31 December 2022 to 31 December 2024. Thereafter, the contract is automatically extended by three years until December 31, 2027, at the moment that the expiring leasehold contract with the municipality is extended in 2024. Here too, the rental price increases slightly as of 1 January 2018.

For the Inowroclaw Lecia location (1,450 m²), agreement was reached with Piotr i Pawel to extend the expiring lease until the end of September 2024. The extension is accompanied by a reduction of the rent, which will be implemented in two phases.

Drahobejlova office building sold 100% above appraisal value (27 November 2017)
On 27 November the Managing Board has reached agreement on the sale of the Drahobejlova 27 building in Prague to the Czech Medical Chamber (CLK). The sales price amounts to CZK 96.96 million (€ 3.79 million), approximately 100% above the external appraisal value at year-end 2016 of CZK 50.85 million (€ 1.90 million).

External valuation of property portfolio (29 December 2017)
The Fund implemented the updated external valuation of the portfolio end 2017 at € 89.68 million, an increase of 3.7% compared to the value of the comparable portfolio at the end of 2016 and the purchase value of the four purchased buildings in Poland. The value of the four Czech real estate properties rose by 5.7% in 2017 and that of the eight Slovak properties by 2.8%. The value of the twelve properties in Poland fell by 0.2%. The overall appreciation in 2017 can be explained by the improved market conditions in Slovakia and the Czech Republic - with high demand and limited supply.

5.1.2 NET ASSET VALUE PER SHARE AND SHARE PRICE DEVELOPMENT

The following tables shows the development of the Fund's Net Asset Value during the period 1 January 2017 to 31 December 2017.

Table 3 – Development of the share price per quarter in 2017

Quarter	**Opening price Start of quarter** in €	**Closing price End of quarter** in €	**Volume** pieces
1st Quarter 2017	5.20	6.40	102,896
2nd Quarter 2017	6.40	6.60	85,257
3rd Quarter 2017	6.55	6.90	151,738
4th Quarter 2017	6.95	7.40	84,887
Average per quarter			*106,195*

The above table shows an average trading volume of 2,574 (2016:1,394) shares per trading day during 2017. Not only did the traded volume increase, by 118%, to 106,195 shares per quarter, but the average turnover also increased, by 126%, to € 0.69 million per quarter (2016: € 0.31 million per quarter). Improving the liquidity on the stock market is a priority for the Fund. The stock price traded at the end of 2017 at € 7.40, which represents a 44% discount to the net asset value (2016: 54%).

Table 4 – Comparative statement of the NAV per share

	31-12-2017	**31-12-2016**
Shareholders' equity (in € 1,000)	42,036	36,452
50% of the deferred tax liabilities concerning revaluation gains on investment property (in € 1,000)	279	560
Shareholders equity in accordance with EPRA (in €1,000)	42,315	37,012
Number of ordinary shares in issue	3,165,149	3,165,149
Adjusted EPRA-NAV (in €)	**13.37**	**11.69**
Return on NAV YTD (in %)*	14.4	

** excluding the shareholder distributions*

5.2 PERFORMANCE RELATED REMUNERATION

The annual return on NAV per share before performance related remuneration (PRR) for 2017 was 16.2%. This is above the 12% total return threshold level set for performance related remuneration. The Managing Board receives a performance-based payment which is based on the Fund´s total annual return. The total return is defined as the difference between the Net Asset Value per share at the start and at the end of the financial year, increased with the dividends distributed during the financial year, expressed as a percentage of the NAV at the start of the year (see prospectus 2016). Based on the total return of 16.2% the Managing Board will receive a performance based payment of € 346,196.

5.3 FUND STRATEGY AND OBJECTIVE

The aim of the Managing Board is to position the Fund as the leading quoted vehicle investing in income-generating real estate in Central and Eastern Europe. Implementation of the revised strategy to achieve this aim, as presented by the Managing Board in 2012 to the shareholders, is proceeding according to plan. The next steps are to increase the level of dividends within a period of two to four years to 8% per annum and to grow the volume of invested assets to approximately € 500 million.

Distributions to shareholders recommenced in 2015 and have increased progressively. The acquisition of the most recent three Polish retail properties and the Maris office property has grown the Fund to close to €100 million total assets and improved diversification across countries and sectors. Further steps to grow the Fund in accordance with the detailed strategy as set out below are in full progress.

The Fund objectives are:

- Increasing the dividend yield to 8% per year over a period of two to four years.
    - Long-term fund size of € 500 million with approximately 30 to 50 assets and a geographic distribution as follows: Poland: 40% (€ 200 million)
    - Czech Republic: 20% (€ 100 million)
    - Slovakia: 10% (€ 50 million)
    - Other countries in the region of Central and Eastern Europe: 30% (€ 150 million)
- Acquisition focus on modern high-yielding, multi-tenanted real estate across the region, purchasing portfolios or individual properties.
- Loan to value between 45% - 50% (including convertible bonds).

During 2017 the geographic distribution improved to more closely reflect the Fund’s long term objectives. The Polish portfolio is currently at 40% (2016: 28%), the Czech portfolio is at 18% (2016: 22%) and the Slovak portfolio is at 42% (2016: 50%). The loan to value is currently 52.7%.

5.4 DIVIDEND POLICY

Following the successful expansion of the portfolio in 2017, the dividend policy of the Fund going forward will be to distribute, based on the annual results, ca. 35% of the net operating result to shareholders. The intention is to pay an interim dividend with the half year results, followed by a final dividend after year-end, both in cash. Dividend proposals will, however, need to reflect considerations including expected future capital requirements, growth opportunities available to the Fund, net cash generation and regulatory developments.

5.5 OUTLOOK

Several of 2017’s growth drivers remain in place in 2018, promising well for another year of robust economic activity. Strong labour market dynamics, accommodative monetary policies and a favourable external backdrop should support strong growth in the CEE region in 2018. However, the rate of expansion is set to slow modestly as inflation picks up and monetary policies turn slightly less accommodative than last year. Growth is seen being largely unaffected by political uncertainties, which are nevertheless a notable downside risk to the outlook. Regional GDP is seen growing 3.6% in 2018.

The Polish investment market is expected to continue to grow. However occupiers are expected to take advantage of the strong competition in the development market and demand favourable lease terms. The overall outlook for the Polish office and retail market for 2018 remains positive[5].

Czech Republic’s investment market and economy is expected[6] to remain strong in 2018. Although wage costs are rising, companies are continuing to expand, which is good news for the office and industrial sectors. Currently, the retail sector in the Czech Republic enjoys a favourable period.

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[5] CBRE 2018 Europe Real Estate Market Outlook
[6] Also RICS Commercial Property Monitor, Sept 2017

Slovakia's investment market is expected to continue to benefit from the same forces that drive the whole regional economy: strong western European demand and robust domestic consumption. The solid growth that Slovakia has been experiencing over the past three years should continue in 2018 and possibly even more in 2019 when the Jaguar Land Rover plant in the Nitra region will start producing at full capacity.

With the acquisition of the Maris office property in Szczecin (Poland) on 6 July 2017, the Managing Board continues to take suitable opportunities to grow the Fund further and to increase the levels of distributions to shareholders.

The Managing Board is currently reviewing further acquisitions across the region. Continuing growth in Fund asset volume is one of the methods aimed to improve the trading liquidity of the Fund's stock, which is a priority of the Managing Board.

The Managing Board is working on the possible secondary listing of the Fund on other stock exchanges, such as Prague.

5.6 FINANCIAL RESULT

5.6.1 BALANCE

Table 5 – Balance statement

	31-12-2017 in € 1,000	**31-12-2016** in € 1,000	**Change** in € 1,000
Investment property	89,798	74,806	14,992
Non-current assets	1,504	1,548	-/- 44
Current assets	7,660	7,598	62
Total assets	**98,962**	**83,952**	**15,009**
Shareholders' equity	42,313	36,452	5,861
Deferred tax liabilities	5,040	4,177	0,863
Long-term loans and borrowings	43,930	25,195	18,735
Total current liabilities	7,679	18,128	-/- 10,449
Total shareholders' equity and liabilities	**98,962**	**83,952**	**15,010**

The € 14.99 million change in "Investment property" reflects the acquisition of the retail portfolio of three retail assets in Poland, one office asset in Poland, the sale of the Gemerská property in Košice, the sale of the Drahobejlova 27 property in Prague and the fair value adjustment of the real estate portfolio. See also 12.31.1.

"Non-current assets" decreased due to less deferred tax assets (see 12.34).

The increase in "Current assets" relates to some net changes in trade and other receivables (see 12.35).

Shareholders' equity increased by € 5.86 million due to the addition of the 2017 profits (see 12.46).

The increase in "Long-term loans and borrowings" of € 18.74 million relates to the reclassified Raiffeisen bank loan in Poland and the addition bank financing of the DNB bank for the Szczecin office property.

The € 10.45 million decrease in "Total current liabilities" relates in particular to the debt financing from Raiffeisen Bank in Poland, reclassified from a current liability to a long-term loan.

5.6.2 RESULT

The profit for 2017 after tax (see table 6 and chapter 8) amounted to € 5.57 million (2016: -/- € 0.29 million) and can be divided into the direct result and the indirect result. A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in chapter 7 and in the following paragraphs.

Table 6 – Overview of result

	1-1-2017 until 31-12-2017	**1-1-2016 until 31-12-2016**	**Change in**
	€ 1,000	like-for-like	€ 1,000
Direct result before tax	3,161	-/- 325	3,486
Indirect result before tax	3,250	-/- 208	3,458
Result before tax	**6,411**	**-/- 533**	**6,944**
Tax	842	-/- 241	1,083
Result after tax	**5,569**	**-/- 292**	**5,861**

The *direct result* before tax in the amount of € 3.16 million is largely due to additional income from the larger real estate portfolio and the sale result from the Drahobejlova 27 sale in Prague and the Gemerská sale in Košice. The sale result of Drahobejlova made with € 2.2 million a significant contribution to the direct result before tax.

The *indirect result* of € 3.25 million is related to the revaluation of the real estate portfolio (see 12.31). The higher valuation is market-wide. For more information about the property valuations see 12.31.1.

Ongoing Charges Figure
In 2017 the Ongoing Charges Figure [“**OCF**”] increased as a result of increase of costs to about 13.02%. In 2017 the Ongoing Charges Figure increased as a result of an increase of the total expenses (including “Other operating expenses”) by about 28%, in conjunction with the increase of the average shareholders’ equity by about 26%. Without non-regular costs, such as “Costs of funding and acquisition” (see section 12.66.1) and “Performance-related remuneration” (see section 12.65.2) the OCF would be 11.71% (31 December 2016: 9.32%) (see also 12.69). The “fund expense ratio” concerns the fund costs such as management fee, audit fees and marketing costs related to the average shareholders’ equity. The difference with the OCF is that operating costs, such as maintenance costs, are not in the “fund expense ratio”.

Table 7 – Ongoing Charge Figure

	2017	**2016**	**2015**	**2014**
	in %	in %	in %	in %
Ongoing Charges Figure	13.02	12.82	9.91	10.65
OCF excluding one-off and refinancing costs	11.71	9.32	8.84	9.31
Fund expense ratio	4.50	3.93	3.51	4.57

Fund operating expenses
The total fund operating expenses of € 2.25 million contain € 0.24 million incidental expenses related to the acquisitions during 2017 and € 0.35 million performance related remuneration. The “Due diligence” relates to technical, valuation and legal due diligence for the acquisition of the four Polish assets. See also 12.66.

Financial expenses
The financial expenses are € 1.72 million (2016: € 1.37 million), of which € 1.65 million is related to interest expense on loans and convertible bonds. The rest relates to other financial expenses that can be seen at 12.59 (“Financial Expenses”).

5.6.3 CASH FLOW

The net cash flow of the Fund after operating, investment and financing activities was € 435,000 (2016: € 742,000). The table below provides a summary of the cash flow (see chapter 11).

Table 8 – Consolidated cash flow statement

	2017	2016
	in € 1,000	in € 1,000
Cash flow from operating activities	6,395	-/- 5,489
Cash flow from investing activities	-/- 432	-/- 21,969
Cash flow from financing activities	-/- 5,528	28,200
Net increase / decrease (-/-) in cash and cash equivalents	**435**	**742**

The "Cash flow from operating activities" is impacted by the change in trade and other receivables.

The "Cash flow from investing activities" concerns the net expense of € 0.43 million for capital expenditures to improve the assets in respectively Slovakia and the Czech Republic.

Highlight 2 – Study to improve the portfolio : renewing the VUP property façade in Brno

Current facade

New façade option

The "Cash flow from financing activities" concerns the net proceeds from new loans and borrowings (€ 2.00 million), the repayment of loans and borrowings (€ 7.21 million) and distributions to shareholders (€ 0.32 million). See chapter 11 for more information ("Consolidated statement of cash flow").

Table 9 – Statement of recognised income and expense

	2017	2016
	in € 1,000	in € 1,000
Equity component convertible bonds	-	144
Foreign currency translation differences on net investment in group companies	394	-/- 272
Income tax on foreign currency translation differences on net investments in group companies	-/- 63	-
Income tax on equity component convertible bonds	-	31
	331	-/- 241
Net gain/ (loss) recognised directly in equity	**331**	**-/- 97**
Profit for the period	5,846	-/- 292
Total recognised income and expense for the period	**6,177**	**-/- 389**

5.6.4 BANK LOANS

Table 10 – Overview of interest-bearing loans and borrowings

	31-12-2017	**31-12-2016**
	in € 1,000	in € 1,000
Secured bank loans	34,424	19,268
Convertible bonds	4,427	5,786
Subtotal	**38,851**	**25,054**
Other long-term liabilities	4,710	67
Total long-term interest-bearing loans and borrowings	**43,561**	**25,121**
Current portion of secured bank loans *	2,127	16,702
Current portion other long-term liabilities	2,000	-
Current portion of convertible bonds	1,417	-
Total short-term interest-bearing loans and borrowings	**5,544**	**16,702**
Total interest-bearing loans and borrowings	**49,105**	**41,823**
Debt Service**	**3,205**	**2,617**

** see 12.48.1 "Analysis of interest-bearing loans and borrowings"*

*** end of year annual scheduled amount of contractual interest and instalments related to bank loans*

Table 11 – Overview of secured bank loans

	31-12-2017	**31-12-2016**
	in € 1,000	in € 1,000
DNB Bank	6,346	-
Slovenská Sporiteľňa	10,569	11,483
Sberbank	7,876	7,785
Raiffeisen Polbank	9,633	-
Total long-term interest-bearing loans and borrowings	**34,424**	**19,268**
DNB Bank	447	-
Slovenská Sporiteľňa	930	919
Sberbank	381	380
Raiffeisen Polbank*	369	10,530
Subtotal	**2,127**	**11,829**
Raiffeisen Polbank (VAT loan)	-	4,873
Total short-term secured bank loans	**2,127**	**16,702**
Total secured bank loans	**36,551**	**35,970**

** see 12.48.1 "Analysis of interest-bearing loans and borrowings"*

Over the past twelve months the total loan-to-value ratio (LTV) of the portfolio has increased from 49.3% to 52.7% (see also 12.40). The Managing Board intends to target the total LTV-ratio of the portfolio in the range 40% – 50%, although a Loan-to-Value percentage of up to 60% is possible. At the end of the reporting period the bank loans had an average maturity of 2.63 years and a weighted average interest rate of 2.92% (see 12.48.3). At the same time the convertible bonds had an average maturity of 2.60 years and a weighted average interest rate of 6.29%.

See section 12.48.3 ("Pledges to banks and bank covenants") for more information on statement of financial position's date with the secured bank loans.

5.6.5 CURRENCY EXCHANGE RATE

	31-12-2017	31-12-2016	31-12-2015
Czech Koruna (EUR / CZK)	25.53500	27.02100	27.0230
% change	*5.5%*	*0.0%*	*2.6%*
Polish Zloty (EUR / PLN)	4.1770	4.4103	4.2639
% change	*5.3%*	*-3.4%*	*0.2%*
Pound Sterling (EUR / GBP)	0.88723	0.85618	0.73395
% change	*-3.6%*	*-16.7%*	*5.8%*

Source: European Central Bank (ECB)

At the beginning of April 2017 the Czech National Bank (CNB) announced an exit from the exchange rate commitment for the Czech Crown (the currency cap) originally put in place in November 2013. The Czech Crown has subsequently appreciated by about 6% against the Euro, increasing the purchasing power of Czech consumers.

5.7 DEVELOPMENTS IN THE MARKET AND PORTFOLIO

After a strong 2017, the Managing Board continues to be positive about the prospects for the real estate markets in which the Fund is active. Increased confidence in the fundamentals of the CEE economies will continue to support investment volumes, whilst regional political developments are not expected to affect sentiment negatively .

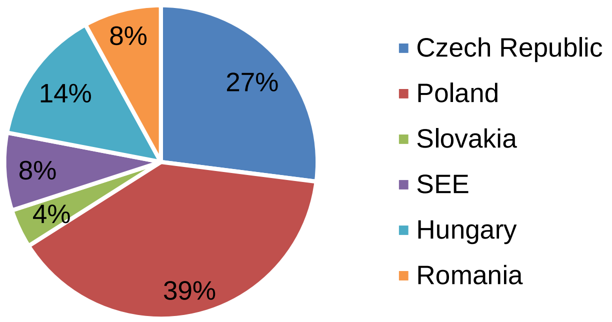
5.7.1 ECONOMIC BACKGROUND AND REAL ESTATE MARKET

In 2017, regional GDP growth soared to an 11-year high. The Central and Eastern European (CEE) economy is expected to have grown at the fastest annual rate since 2006, touching 4.5%. Expansionary fiscal policy, buoyant sentiment and tight labour markets fuelled a spending spree across the region, and private consumption also is projected to have grown at the fastest rate in over a decade. In addition, strong inflows of EU development funds and low interest rates caused investment to rebound, while the recovery of growth elsewhere in the Eurozone area, the region´s biggest trading partner, boosted exports. The CEE economy's notable expansion came even against political uncertainty last year. In Poland, controversial government policies caused the country to clash with EU officials and sparked fears that it was regressing on rule of law. In the Czech Republic, the pro-European Union CSSD lost power in the country´s autumn general election, being replaced by a minority government currently dependent on the support of anti-EU parties. More broadly, several countries have clashed with other European Union members over policies, especially concerning the bloc's migration policies.

In the real estate sector, 2017 transactions totalled approximately € 12.98 billion, a 3.3% increase over 2016 (€ 12.56 billion) and, for the second year running, set a new record transaction volume for the CEE region. Continued appetite from investors for the full range of assets across the entire region was registered[7].

[7] JLL – latest news from Property Forum

Figure 3 – CEE investment volume[8] by country in 2017



The full year 2017 breakdown of transaction volumes saw Poland and the Czech Republic each record new second best ever volumes with a regional share of 39% and 27% respectively. These were followed by Hungary (14%), Romania (8%) South Eastern Europe (SEE) markets (8%) and Slovakia (4%). With a solid pipeline of deals set for 2018, another strong year is expected. Real estate advisory firms like JLL and CBRE expect investor demand to increase through 2018 as new capital tries to enter the CEE market, encouraged by the positive yield differential to Western European markets.

The **Czech real estate** investment market was again strong in 2017, with investment volumes remaining robust with a total volume of € 3.54 billion. The most notable development during the year was the growing influence of domestic Czech capital. Investment volumes by Czech institutions made up 31% of the total investment volume, the highest on record and the highest level of domestic activity across Central and Eastern Europe. Supported by a strong economic outlook, the positive market sentiment is expected to continue through 2018.

The **Polish real estate** investment market, which saw € 4.54 billion traded in 2016, continued to perform strongly in 2017, with € 5.03 billion traded. This volume was comparable to the best result for country investment volumes from 2006, equal to € 5.05 billion. The sector split comprised 41.2% in retail, 31.4% in offices, 18.7% in warehousing, 6.8% in hotels and the rest including residential 1.9%. Poland remains one of the most sought-after investment destinations in the region. Robust internal consumption, a positive trade balance and the well qualified work force are the main foundations of the Polish economy. Low CPI inflation, a tightening labour market and easing social policy also act to boost consumption. Current issues in the Polish retail market include:

- Aging, with ca 50% of schemes being over 10 years old, which indicates the need for refurbishment;
- Planned regulatory changes, like the progressive tax on large-format retailers;
- The requirement for integration of e-commerce with traditional retail, by taking advantage of ‘webrooming’;
- Aggressive competition in the food retailing sector, driving consolidation among larger tenants.

The **Slovak real estate** investment market recorded just under € 0.52 billion of investment volume. Slovakia is enjoying a positive evolution of market conditions in both industrial and office markets with low vacancy levels and a healthy development pipeline. The overall attractiveness of the investment market has been boosted by increased demand from local as well as international investors, although secondary assets still suffer from weak liquidity in comparison to the prime segment.

[8] JLL, Property Forum

5.7.2 REAL ESTATE PORTFOLIO DEVELOPMENT

Table 12 – Comparative statement of the real estate portfolio

	31-12-2017	31-12-2016	change	%
Fair value (in € 1,000)	89,797	74,806	14,991	20.0
Number of properties*	24	22	2	9.1
Rentable area (in m²)	104,186	100,673	3,513	3.5

* excluding asset held for sale | 4 assets acquired and 2 assets sold during 2017

** weighted based on fair value

The fair value as at end 2017 is € 15.0 million higher than a year before, and is the net result of an expansion by 4 properties in Poland and the disposition of the Gemerská property in Slovakia and the disposition of the Drahobejlova 27 property in the Czech Republic.

Table 13 – Statement of changes in investment properties

	2017	2016
	in € 1,000	in € 1,000
Balance as at 1 January	**74,806**	**53,272**
Purchases and additions	13,671	21,944
Exchange rate differences	971	1
Fair value adjustments	3,744	-/- 208
Balance as at 31 December (including assets held for sale)	**93,192**	**75,009**
Reclassification	-/- 3,394	-/- 203
Balance as at 31 December	**89,798**	**74,806**

The “Purchases and additions” during 2017 are related to the acquisition of four real estate properties in Poland and two office property sales in respectively Slovakia and Czech Republic.

Table 14 – Comparative statement of real estate income within portfolio

	2017	2016	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	8,426	5,841	2,585	44.3
Service cost income	2,103	784	1,319	168.2
Total income	**10,529**	**6,625**	**3,904**	**58.9**
Service costs	-/- 2,939	-/- 1,951	-/- 988	50.6
Operational costs	-/- 2,794	-/- 1,653	-/- 1,141	69.0
Net rental income	**4,796**	**3,021**	**1,775**	**58.8**

The increase in net rental income in the amount of € 1.78 million shows the additional operational income related to the larger Polish portfolio. This is offset by the income decrease related to the sold Gemerská and Drahobejlova properties.

Table 15 – Comparative statement of real estate income within like-for-like[9] portfolio

	2017 in € 1,000	2016 in € 1,000	Change in € 1,000	Change In %
Gross rental income	7,442	5,841	1,601	27%
Service cost income	1,632	784	848	108%
Total income	**9,074**	**6,514**	**2,560**	**39%**
Service costs	-/- 2,577	-/- 1,951	-/- 626	32%
Operational costs	-/- 2,384	-/- 1,653	-/- 731	44%
Net rental income	**4,113**	**3,021**	**1,092**	**36%**

Like-for-like the net rental income corresponding to the twenty-two properties in the portfolio at ultimo 2016 increased by € 1.1 million. This increase is mostly related to the rental income related to the eight Polish retail properties acquired end 2016 and which now fully contribute in 2017. The like-for-like net rental income is 36 % higher compared to the same period in the previous year (€ 3.02 million). This increase is related to the occupancy increase in the portfolio and the service costs increase related to additional repair and maintenance costs.

5.7.3 CONTINUED EXPANSION OF THE FUND PORTFOLIO

The Fund continues to implement its expansion strategy, with multiple acquisitions in Poland during 2016 and 2017. This expansion, which will continue during the coming year, improves the key ratios, diversification and resilience of the Fund. Table 16 shows how the key ratios of the Fund improved for the years 2016 and 2017, resulting in the very good performance of the Fund in 2017.

Table 16 – Comparative statement of the real estate portfolio based on indicators

	31-12-2017	31-12-2016	Change	%
Fair value per asset (in € 1,000)	3,742	3,400	342	10.1
Number of properties (annual average)	24.3	18.0	6.3	35.0
NOI per asset (in € 1,000)	198	168	30	17.9
Occupancy* (in %)	84.0	80.7	3.3	4.1
Total loan-to-value (in %)	52.7	49.3	3.4	6.9
Discount Share price to NAV (in %)	44.0	54.0	-/- 10.0	-/- 18.5
Solvability (in %)***	75.7	76.7	-/- 1.0	1.3

* weighted based on fair value

*** defined as equity / liabilities x 100%

These ratios show a continued improvement in most areas, despite a slight decrease in solvability related to the additional external financing related to the four acquisitions in Poland.

5.8 RISK MANAGEMENT

For a description of the main risks and uncertainties, we refer to the Risk paragraph 12.72 and the notes to the consolidated financial statements.

5.9 CORPORATE GOVERNANCE

Arcona Property Fund N.V. is a listed company, which as an investment institution is not required fully to apply the Corporate Governance Code preserved in law. However, the Managing Board and Supervisory Board of the Fund consider the principles of accountability and transparency, which underlie the Corporate Governance

[9] When compared to same portfolio as at end 2016

Code, to be of direct relevance to the Fund. Accordingly, they will seek to apply the principles and best practice provisions set out in the Corporate Governance Code as fully as possible to the operation of the Fund.

5.10 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL

The Managing Board has reviewed all elements of the administrative organization during the reporting period. We consider that the administrative organization and internal control as prescribed by Article 121 of the Bgfo ("Besluit gedragstoezicht financiële ondernemingen"), meets the requirements prescribed by the Financial Supervision Act (Wet op het financieel toezicht, the "Wft") and related regulations. Pursuant to this, we declare as the Managing Board of Arcona Property Fund N.V. that the Company possesses a description as prescribed by Article 121 of the Bgfo, which meets the requirements as prescribed by the Bgfo. In addition, the Managing Board declares with a reasonable degree of certainty that the administrative organization and internal control function effectively and in accordance with this description.

Amsterdam, 6 April 2018

The Managing Board, Arcona Capital Fund Management B.V.
G.St.J. Barker LLB FRICS, Managing director
P.H.J. Mars, M.Sc., Managing director
H.H. Visscher, Managing director

6 THE REAL ESTATE PORTFOLIO

As at 31 December 2017 the Fund's portfolio comprised twenty-four properties. The following section gives an overview of each property in the portfolio. The properties are located in three Central European countries: four in the Czech Republic, eight in Slovakia and twelve in Poland. All these countries currently have strong economic fundamentals.

Figure 4 – Locations of the real estate properties within the portfolio

1: Prague - Na Zertvach 34
2: Prague - Prvniho pluku 621
3: Prague - Politickych veznu 10
4: Brno - Sujanovo nam.3, Brno
5: Bratislava - Záhradnicka 46
6: Žilina - A. Rudnayova 21
7: Kosiče - Krivá 18
8: Kosiče - Krivá 23
9: Kosiče - Prazka 2
10: Kosiče - Prazka 4
11: Kosiče - Kysucka 16
12: Kosiče - Letna 45
13: Piotrkow Trybunalski - 137 Wajska Polskiego
14: Lodz - 107 Kardynala Wyszynskiego St.
15: Kalisz - 80- 82 Graniczna
16: Glogow - 1 Plutona
17: Inowroclaw - 8 Laubitza
18: Inowroclaw - 800-lecia Inowroclawia 27
19: Torun - 216 legionow St.
20: Bydgoszcz - 20 Grzymaly Siedleckiego St.
21: Grudziadz - 82 Kalinkowa
22: Gdansk - 1 Krzemowa
23: Slupsk - 6 Wolnosci
24: Szczecin - 9 Holdu Pruskiego Square

6.1 THE REAL ESTATE PORTFOLIO IN POLAND

The Fund portfolio as at 31 December 2017 comprises eleven modern retail centres in regional cities across Poland and one modern office building, in Szczecin. The properties are all multi tenanted. The main characteristics of each property are briefly summarised below:

8 Laubitza, Inowroclaw (Laubitza)	
Type	Retail
Rentable Surface (in m²)	1,749
Occupation Rate (in %)	100.0
Fair value (in € m)	2.489

The property is located in Inowroclaw, within Stare Miasto district, at 8 Laubitza Street, close to Dworcowa Street. The area is mostly commercial in nature. The retail building, completed in 2001, comprises one floor above ground of 1,749 m^2 of total lettable area and 41 parking spaces situated at the east, south and west sides of the property. The roof of steel construction is covered with metal trapezoid sheet and rock wool. The convenience shopping centre is finished with suspended ceilings, tiles on the floor, skylights and painted walls. During 2017 the last vacant 149 m^2 was rented by a small chain of shoes shops, one of the kiosk tenants was extended by 5 years.

800-lecia Inowroclawia 27, Inowroclaw (Lecia)	
Type	Retail
Rentable Surface (in m²)	2,548
Occupation Rate (in %)	94.0
Fair value (in € m)	3.097

Inowrocław Lecia is located in the central part of Poland near to Bydgoszcz and Toruń. The city has approximately 75,000 inhabitants. The site is located on the south-eastern edge of the city, in a residential area comprising apartment blocks and single family houses. The immediate area is served by seven bus lines providing convenient access to the property for customers using public transport. The centre provides 100 parking places located in front and to the side of the property. The lease contract with anchor tenant "Piotr and Paweł" has been extended by 5 years.

1 Krzemowa, Gdansk (Krzemowa)	
Type	Retail
Rentable Surface (in m²)	1,598
Occupation Rate (in %)	99.0
Fair value (in € m)	3.135

Gdańsk – Sopot-Gdynia (750,000 inhabitants) conurbation is located in the northern part of Poland, on the Baltic coast. The property is situated in the southern part of Gdańsk, within the city's most densely populated 40 district, Chelm (50,000 inhabitants). To the north-east it borders the Srodmiescie district, home of the medieval old town. To the west and east, it adjoins the residential districts of Orunia, Ujescicko Lostowice, Wzgórze Mickiewicza and Siedlce.

Surrounded by multifamily residential buildings, the property benefits from high volumes of passing traffic, with Gdansk's city centre reachable by car within less than 10 minutes. The site, which is freehold, has two entry points, provides 46 parking spaces and extends to 5,122 m². During 2017 the lease with the anchor tenant, Biedronka, was extended by 10 years. Prolongation agreements with existing tenants "Plastuś" (toys), "DMG" (tea, coffee), "Inmedio" (kiosk) were signed.

1 Plutona, Glogow (Plutona)

Type	Retail
Rentable Surface (in m²)	1,825
Occupation Rate (in %)	100.0
Fair value (in € m)	2.064

Glogow is a developing medium-sized town in the south-east part of Poland, with a current population of nearly 70,000. The property is located in the city’s largest housing estate, Kopernik, with a population of 22,500. High-rise residential buildings dominate the property’s direct surroundings. Direct access to the car park is on the eastern side of the site, from Plutonowa Street, which connects the property to the main road, Galileusza Street. This nearby road junction is served by bus lines, allowing convenient access to the retail centre by public transport. There is a parking area with 62 parking places. The plot extends to 5,367 m². The lease contract with anchor tenant "Piotr and Paweł" has been extended by 10 years until 2027 and agreement with kiosk “Inmedio” was extended by 5 years.

82 Kalinkowa, Grudziadz (Kalinkowa)

Type	Retail
Rentable Surface (in m²)	2,558
Occupation Rate (in %)	89.0
Fair value (in € m)	2.976

Grudziadz is a city with nearly 100,000 inhabitants, located in the north of Poland. The property is located in the south-western part of Grudziadz in a densely populated residential area. It is bordered by the Strzemiecin housing estate with its 12-storey blocks of flats to the north and the Kopernika housing estate with its medium-density dwellings to the north-east. The site extends to 8,213 m² and is predominantly held freehold. Part of the parking area (1,300 m²) is held under a leasehold agreement signed with the municipality of Grudziadz. The parking area overall has 126 parking places.

137 Wajska Polskiego, Piotrkow Trybunalski (Wajska)

Type	Retail
Rentable Surface (in m²)	2,650
Occupation Rate (in %)	99.0
Fair value (in € m)	3.800

Piotrków Trybunalski is located in the central part of Poland near to Łódź. The city has approximately 75,000 inhabitants. The city’s main competitive advantage is its location in central Poland on the main transport artery providing fast connections to the country’s major towns and cities. With recent improvements in the national road and transport infrastructure the city has become one of the most important distribution locations in Poland. The property is located on Wojska Polskiego Street, the main road connecting Piotrkow city centre with the north-western peripheries. Its neighbourhood comprises residential areas to the north and business facilities to the south. Because of its prominent location on the main road and its distinctive signage, the retail centre is highly visible. Extensive new residential developments are under way adjoining the site to north-west which will add to the centre’s catchment area. The property has 95 parking places. During 2017 the lease contract with "Piotr I Paweł" was concluded and as at mid-2018 will be replaced by the new anchor tenant, food operator "Biedronka". Prolongation agreements with “Rossmann”, “Morion” (jewellery), travel office, “Inmedio” (kiosk) were concluded in 2017.

6 Wolnosci, Slupsk (Wolnosci)

Type	Retail
Rentable Surface (in m²)	1,872
Occupation Rate (in %)	100.0
Fair value (in € m)	1.501

Slupsk is an historic town in north-western Poland, located just 18 km away from Ustka, a popular seaside resort on the Baltic coast. The current population is 95,000 inhabitants. The property is located in the northern part of the city and its immediate surroundings comprise high density mid-rise residential developments. The Old Town is within 10-minutes' walk. Two bus stops are located directly in front of the property with several others within walking distance. The property has 48 parking places. The lease agreements with 'Inmedio' (kiosk) and bakery "Wenta" were prolonged.

80-82 Graniczna, Kalisz (Kalisz)

Type	Retail
Rentable Surface (in m²)	3,070
Occupation Rate (in %)	0.0
Fair value (in € m)	1.710

The City of Kalisz, with 104,000 inhabitants, is located in Western Poland, some two hours' drive from Warsaw. The property is located in the western part of Kalisz, 4km from the historical town centre, in one of its most populous, affluent and dynamically developing residential districts. The immediate surroundings of the property are high-density residential. The property is held freehold and offers 108 parking places.

The property was built in 2010 as a neighbourhood retail centre anchored on a supermarket and with 18 smaller retail units around a central atrium. This concept failed and the property is now vacant. The Fund plans to convert the centre to a food-anchored retail park with a maximum of four occupiers

216 Legionow St., Torun (Torun)

Type	Retail
Rentable Surface (in m²)	2,229
Occupation Rate (in %)	100.0
Fair value (in € m)	2.785

This single-storey retail building, completed in 2001, comprises 2,229 m^2 of total lettable area and 64 parking spaces. The property is located in Torun, Chelminskie Przedmiescie district, at 216 Legionow St., close to Wielki Row St. The area is predominantly residential in nature. There is direct access to the building from Legionow and Kozacka Sts. Car parking is located from the north (Wielki Row St.), west (Legionow St.) and south sides of the property and consists of 64 over ground car spaces. Public transport is secured with 2 bus lines that have stops at Wielki Row St. and 4 bus lines that have stops at Legionow St. During 2017 the lease contract with anchor tenant "Piotr and Paweł" has been extended by 10 years until 2027, as well as an agreement with a confectionery "Wislana" was prolonged for another 5 years.

20 Grzymaly Siedleckiego St., Bydgoszcz (Bydgoszcz)

Type	Retail
Rentable Surface (in m²)	1,793
Occupation Rate (in %)	100.0
Fair value (in € m)	1.559

This retail building, completed in 2001, provides 1,793 m^2 of lettable area on ground and part mezzanine levels and 64 parking spaces situated on the south part of the site (from Wojska Polskiego Ave.). The convenience shopping centre is finished with suspended ceilings, tiles on the floor and painted walls. The property is located in Bydgoszcz, Wyzyny District, at 20 Grzymaly Siedleckiego St., close to Wojska Polskiego Ave. The area is predominantly residential in nature. Public transport is secured with 6 bus lines and 2 tram lines that have stops at Wojska Polskiego Ave. about 170 and 210 m respectively from the property. The lease contract with anchor tenant "Piotr and Paweł" has been extended by 5 years until 2024.

107 Kardynala Wyszynskiego St., Lodz (Lodz)	
Type	Retail
Rentable Surface (in m²)	1,580
Occupation Rate (in %)	100.0
Fair value (in € m)	2.000

This single-storey retail building, completed in 2001, provides 1,580 m^2 of total lettable area and 60 parking spaces situated in the north and east sides of the property. The property is located in Lodz, Polesie District, at 107 Kardynala Wyszynskiego St., close to Popieluszki St. The area is predominantly residential in nature. Car access to the building is provided from Kardynala Wyszynskiego St. Wyszynskiego St. is currently being modernised. Public transport is secured with 7 bus lines that have stops to the west of the property at Popieluszki St. Prolongation agreement with "Pamso" (butchery) have been concluded in 2017.

9 Holdu Pruskiego Square, Szczecin (Maris)	
Type	Office
Rentable Surface (in m²)	5,974
Occupation Rate (in %)	83.0
Fair value (in € m)	9.159

This office building, completed in 2005, comprises six floors above ground and three underground levels (with 119 parking spaces) and is located in the city centre opposite Szczecin´s iconic new concert hall. The total rentable area is 5,974 m^2. The property is currently multi-leased, with 11 tenants. During 2017 a new lease agreement with Jinni (132 m^2) was concluded and the existing tenant Intive increased their leased space by a further 300 m^2.

6.2 THE REAL ESTATE PORTFOLIO IN THE CZECH REPUBLIC

The portfolio comprises four commercial properties located across the Czech Republic. The portfolio generally consists of multi storey office buildings located within Prague, with the exception of one property which is located in Brno, the Czech Republic's second largest city. The properties vary in construction, specification and tenant mix however all are multi tenanted and are primarily used as office accommodation with some providing ground floor retail units. Below the main characteristics of each property are summarised.

Sujanovo namesti.3, Brno (VUP)	
Type	Office & Storage
Rentable Surface (in m²)	5,023
Occupation Rate (main building) (in %)	92.2
Fair value (in € m)	2.506

This administrative complex, constructed in the 1970´s, is located 1,200 meters southeast of the Brno city centre, in an improving commercial and residential area. The accessibility by car and public transport is excellent. The total gross area is 6,077 m². During the previous reporting period the light manufacturing space located behind the main building was sold. Although currently securely leased, this property offers scope for refurbishment and upgrade, with several options now being appraised by Management. The economic prospects for Brno are very positive and it is important for the Fund to retain a competitive asset in the city.

Na Zertvach 34, Prague 8 (Palmovka)	
Type	Office
Rentable Surface (in m²)	2,187
Occupation Rate (in %)	68.0
Fair value (in € m)	2.769

The modern office building is located in Prague near the Palmovka metro station in a fast developing area on the border of the Prague districts of Karlin, Libeň and Vysočany. The total rentable area is 2,187 m². The accessibility by road is good and by public transport excellent. The building dates from 1998-1999 and has 28 underground parking spaces. A major tenant vacated part of these premises during 2017 and efforts are now under way to fully re-lease the property, which should be achieved by mid- 2018.

Prvniho pluku 621, Prague 8 (Karlin)	
Type	Office
Rentable Surface (in m²)	4,031
Occupation Rate (in %)	82.0
Fair value (in € m)	5.369

This office complex comprises two adjoining 4- storey buildings. It is located in Karlin, Prague 8, close to the city centre. One of the buildings was recently refurbished to modern standards and the other building was constructed in 2002. The total rentable space (predominantly office space) is 4,031 m². There is sufficient parking capacity, with 35 parking spaces in the courtyard. The derelict basement space in the older part of the complex, comprising 550 m² rentable area, has recently been fully refurbished and leased to a gymnasium and fitness operator, increasing the total rentable space to 4,031 m² and the rental value by € 28,000. Accordingly, the capital value of this property increased by 35% in 2017, to € 5,369,000.

Politickych veznu 10, Prague 1	
Type	Office
Rentable Surface (in m²)	2,374
Occupation Rate (in %)	90.8
Fair value (in € m)	5.486

This representative office building is located in Prague’s city centre, near Wenceslas Square. The main building has eight floors and the total rentable space is 2,374 m². The whole complex has partly been reconstructed with additional parking spaces. The property is close to the Wilsonova arterial road through Prague city centre and within 5 minutes’ walk of the central railway station. There is scope to extend the lettable area of this property by the construction of additional floors at the rear and negotiations are currently under way with the Prague planning authorities to obtain the necessary consents.

6.3 THE REAL ESTATE PORTFOLIO IN SLOVAKIA

The Fund portfolio comprises eight commercial properties located across Slovakia. The portfolio generally consists of multi storey B-/C class office blocks of concrete frame structure and flat roof construction, situated in urban locations. The properties are all multi tenanted and are primarily used as office accommodation. Some properties provide retail, student accommodation or storage space. The main characteristics of each property are briefly summarised below:

Záhradnicka 46, Bratislava (Záhradnicka)	
Type	Office
Rentable Surface (in m²)	3,755
Occupation Rate (in %)	70.0
Fair value (in € m)	4.500

The underground floors and first four upper storeys of this modernised property are used for office or retail purposes. The building is located on a side road close to the business centre of Bratislava. It has six stories and two underground floors in total, providing 3,755 m² of rentable area. The building has 28 parking spaces.

Krivá 18, Kosiče (Krivá 18)	
Type	Office
Rentable Surface (in m²)	6,058
Occupation Rate (in %)	70.0
Fair value (in € m)	3.280

This ten-storey commercial building occupies an accessible location approximately 500 metres south east from the city centre. The premises are used primarily as offices. The total rentable space of Krivá 18 is 6,058 m². There are 111 parking places available. During the reporting period the façade was fully refurbished.

Pražská 4, Kosiče (Pražská 4)	
Type	Office
Rentable Surface (in m²)	6,088
Occupation Rate (in %)	64.0
Fair value (in € m)	2.530

The two 10 -story Pražská buildings are located in the Terasa residential area, approximately 1,5 km west from the historical centre of Košice. The premises can be used for office, business and short-stay accommodation purposes. The total space of Pražská 4 is 7,670 m² of which 6,088 m² is rentable. There are 71 parking spaces available. Following the successful refurbishment and façade upgrade of the Kriva assets, these two Pražská buildings are also now being prepared for refurbishment and upgrade

Pražská 2, Kosiče (Pražská 2)	
Type	Office
Rentable Surface (in m²)	6,024
Occupation Rate (in %)	79.0
Fair value (in € m)	2.870

As with Pražská 4, the 10-storey Pražská 2 property can be used for office, business and short-stay accommodation purposes. The total space of Pražská 2 is 7,723 m² of which 6,024 m² is rentable.

Krivá 23, Košiče (Krivá 23)	
Type	Office
Rentable Surface (in m²)	7,318
Occupation Rate	70.0
Fair value (in € m)	3.280

This ten-storey commercial building occupies an accessible location approximately 500m south east from the city centre. The premises are used primarily as offices. The total space of Krivá 23 is 9,034 m² of which 7,318 m² is rentable. There are 111 parking places available. During the reporting period the façade was fully refurbished.

Letná 45, Košiče (Letná)	
Type	Office
Rentable Surface (in m²)	11,229
Occupation Rate (in %)	91.0
Fair value (in € m)	10.200

This office building (the biggest in the portfolio) is prominently situated on Festival Square, approx. 1 km north west from the historical centre of Košice. There is an ongoing refurbishment programme to increase accessibility, aesthetics and tenant facilities. The building is easily accessible by car or public transport as it is near the outer city ring road. There are 70 parking places and 14 garages available. The main tenant, AT&T, is steadily expanding their usage of the property, with a further lease expansion, on 495 m², recently agreed.

Kysucká 16, Košiče (Kosmalt)	
Type	Office/hostel
Rentable Surface (in m²)	10,712
Occupation Rate (in %)	57.0
Fair value (in € m)	6.010

Two storeys with a total of 1,787 m² are used for administrative purposes and retail. The remaining eleven storeys are used as long-stay (hostel) apartments. The building is suited for tenants who specifically need affordable living space such as students and employees of large corporations. The building is easy to reach and is located just 1 km west from the historic centre. This property has a volatile occupancy rate, reflecting its specific use, and requires dedicated management services. It also has very high operating costs relative to its income. Accordingly, it may be an appropriate asset for sale within the next 36 months.

A. Rudnayova 21, Žilina (Vural)	
Type	Office
Rentable Surface (in m²)	9,825
Occupation Rate (in %)	74.0
Fair value (in € m)	4.630

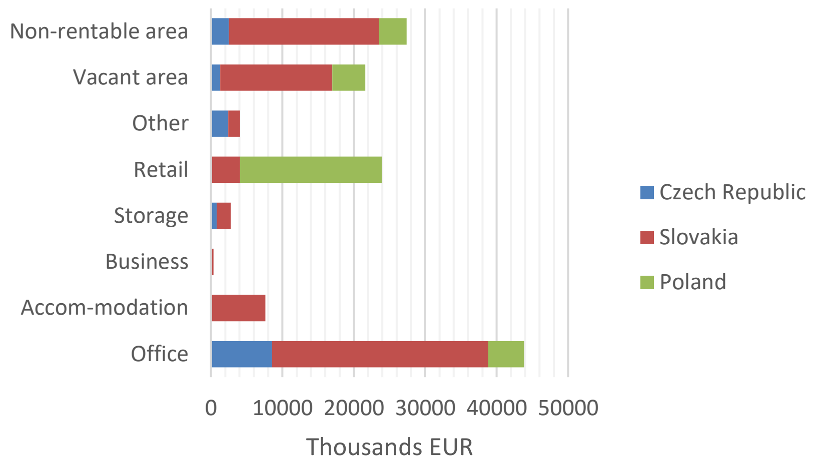
This is a relatively large office building on a 6,200 m² plot. It is located in an accessible location in Žilina, a major city in northern Slovakia some 200km north-east of Bratislava. The building is well recognized in the local office market (telecom company T-Com, software company Kros). There is sufficient parking, currently over 100 spaces with possibilities to expand. The building is expected to benefit from recent regional economic developments.

6.4 PORTFOLIO OVERVIEW

OVERVIEW OF BUSINESS CATEGORIES: GROSS AREA IN M²

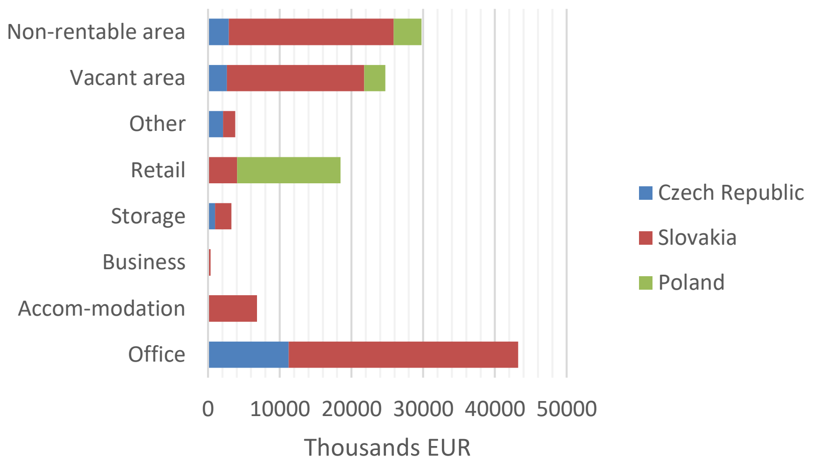
2017

	Office	Accom-modation	Business	Storage	Retail	Other	Vacant area	Non-rentable area	Gross area
Czech Republic	8,575	51	0	776	141	2,403	1,278	2,500	15,724
Slovakia	30,262	7,547	365	2,005	3,929	1,679	15,728	21,009	82,523
Poland	5,001	0	0	0	19,851	0	4,596	3,884	33,331
Total	**43,838**	**7,598**	**365**	**2,781**	**23,921**	**4,082**	**21,602**	**27,393**	**131,579**



2016

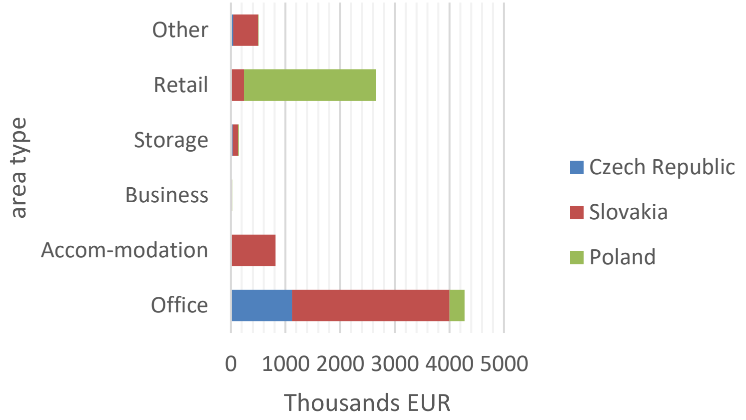
	Office	Accom-modation	Business	Storage	Retail	Other	Vacant area	Non-rentable area	Gross area
Czech Republic	11,240	51	-	999	141	2,092	2,621	2,885	**17,144**
Slovakia	32,015	6,771	365	2,279	3,929	1,679	19,144	22,976	**66,182**
Poland	-	-	-	-	14,410	-	2,937	3,884	**17,347**
Total	**43,255**	**6,822**	**365**	**3,278**	**18,480**	**3,771**	**24,702**	**29,745**	**100,673**



OVERVIEW OF BUSINESS CATEGORIES: GROSS RENTAL INCOME

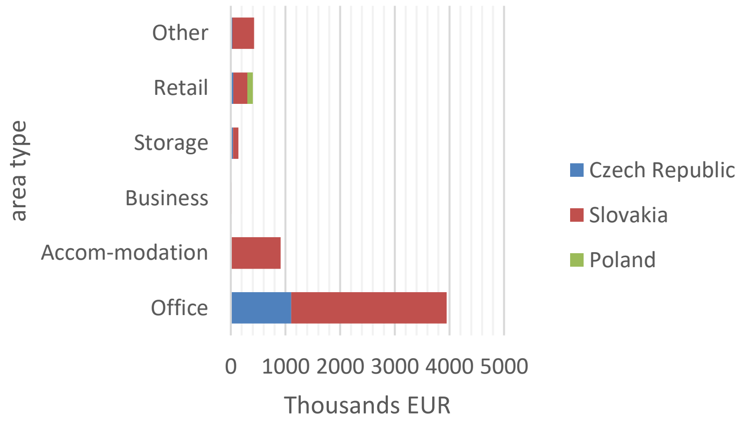
2017

In € 1,000	Office	Accom-modation	Business	Storage	Retail	Other	Total
Czech Republic	1,123			36		47	**1,206**
Slovakia	2,878	817	16	97	236	454	**4,498**
Poland	274		11	15	2,419	3	**2,722**
Total	**4,275**	**817**	**27**	**148**	**2,655**	**504**	**8,426**



2016

In € 1,000	Office	Accom-modation	Business	Storage	Retail	Other	Total
Czech Republic	1,104	2	-	38	43	30	**1,217**
Slovakia	2,847	911	14	102	263	394	**4,531**
Poland	-	-	-	-	93	-	**93**
Total	**3,951**	**913**	**14**	**140**	**399**	**424**	**5,841**



CONSOLIDATED FINANCIAL STATEMENTS 2017

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7 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

After proposal result appropriation	***Notes***	**31-12-2017** In € 1,000	**31-12-2016** In € 1,000
Assets			
Investment property	*12.31*	89,798	74,806
Other investments	*12.32*	6	20
Deferred tax assets	*12.34*	1,000	891
Trade and other receivables	*12.35*	10	-
Prepayments and lease incentives	*12.36*	69	-
Cash and cash equivalents	*12.37*	300	637
Total non-current assets		**91,183**	**76,354**
Other investments	*12.32*	-	70
Current tax assets	*12.38*	76	4,936
Trade and other receivables	*12.35*	4,432	468
Prepayments and lease incentives	*12.36*	533	155
Cash and cash equivalents	*12.37*	2,619	1,766
Assets held for sale	*12.39*	-	203
Total current assets		**7,660**	**7,598**
Total assets		**98,843**	**83,952**
Shareholders' equity[1]	*12.40*		
Issued capital	*12.41*	15,826	15,826
Share premium	*12.42*	16,110	16,426
Revaluation reserve	*12.43*	7,196	4,524
Reserve for currency translation differences	*12.44*	2,304	1,973
Equity component convertible bonds	*12.45*	266	266
Retained earnings	*12.46*	334	-/- 2,563
Total shareholders' equity (attributable to parent company shareholders)		**42,036**	**36,452**
Liabilities			
Loans and borrowings	*12.48*	43,561	25,121
Trade and other payables	*12.49*	71	45
Deferred income and tenants deposits	*12.50*	310	29
Deferred tax liabilities	*12.51*	5,157	4,177
Total non-current liabilities		**49,099**	**29,372**
Current tax liabilities	*12.52*	138	63
Loans and borrowings	*12.48*	5,544	16,702
Trade and other payables	*12.49*	1,699	1,115
Deferred income and tenants deposits	*12.50*	327	248
Total current liabilities		**7,708**	**18,128**
Total liabilities		**56,807**	**47,500**
Total shareholders' equity and liabilities		**98,843**	**83,952**

[1] Group equity

8 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 In € 1,000	2016 In € 1,000
Gross rental income	*12.57*	8,426	5,841
Service charge income		2,103	784
Service charge expenses	*12.58*	-/- 2,939	-/- 1,951
Property operating expenses	*12.58*	-/- 2,794	-/- 1,653
Net rental and related income		**4,796**	**3,021**
Valuation results of properties	*12.59*	3,250	-/- 208
Results on disposals of properties	*12.60*	1,877	-
Net results on properties	*12.61*	**5,127**	**-/- 208**
Financial income	*12.63*	292	285
Other operating income	*12.64*	166	14
Other income		458	299
Total income		**10,381**	**3,112**
Administrative expenses	*12.65*	1,021	439
Other operating expenses	*12.66*	1,226	1,840
		2,247	**2,279**
Net operating result before financial expenses		**8,134**	**833**
Financial expenses	*12.68*	1,723	1,366
Profit before income tax		**6,411**	**-/- 533**
Income tax expense	*12.70*	842	-/- 241
Profit for the period		**5,569**	**-/- 292**
Attributable to:			
Parent company shareholders		5,569	-/- 292
Profit for the period		**5,569**	**-/- 292**
Basic earnings per (ordinary and registered) share (€)	*12.71.1*	1.76	-/- 0.14
Diluted earnings per (ordinary and registered) share (€)	*12.71.4*	1.55	-/- 0.14

9 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 In € 1,000	2016 In € 1,000
Items never reclassified subsequently to profit or loss:			
Equity component convertible bonds		-	144
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences on net investment in group companies		394	-/- 272
Income tax on foreign currency translation differences on net investments in group companies		-/- 63	-
Income tax on equity component convertible bonds		-	31
		331	-/- 241
Net gain / loss (-/-) recognised directly in shareholders' equity		**331**	**-/- 97**
Profit for the period	*8*	5,569	-/- 292
Total comprehensive income for the period		**5,900**	**-/- 389**
Attributable to:			
Parent company shareholders		5,900	-/- 389
Total comprehensive income for the period		**5,900**	**-/- 389**

10 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued capital	Share premium	Revaluation reserve	Reserve for currency translation differences	Equity component convertible bonds	Retained earnings	Total share-holders' equity
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January 2017	15,826	16,426	4,524	1,973	266	-/- 2,563	36,452
Total comprehensive income	-	-	2,672	331	-	2,897	5,900
Distributions to shareholders	-	-/- 316	-	-	-	-	-/- 316
Balance as at 31 December 2017	**15,826**	**16,110**	**7,196**	**2,304**	**266**	**334**	**42,036**
Balance as at 1 January 2016	7,194	16,786	4,157	2,245	91	-/- 1,904	28,569
Total comprehensive income	-	-	367	-/- 272	175	-/- 659	-/- 389
Own shares issued	8,632	-	-	-	-	-	8,632
Distributions to shareholders	-	-/- 360	-	-	-	-	-/- 360
Balance as at 31 December 2016	**15,826**	**16,426**	**4,524**	**1,973**	**266**	**-/- 2,563**	**36,452**

11 CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 In € 1,000	2016 In € 1,000
Cash flow from operating activities			
Profit for the period	*8*	5,569	-/- 292
Adjustments for:			
Net valuation gains / losses on properties[2]	*12.61*	-/- 5,397	208
Net valuation gains / losses on derivatives	*12.63*	79	-/- 132
Financial income	*12.63*	-/- 292	-/- 285
Financial expenses	*12.68*	1,723	1,366
Income tax expense	*12.70*	842	-/- 241
Changes in:			
Change in current tax assets		5,135	-/- 4,934
Change in trade and other receivables		198	-/- 213
Change in prepayments and lease incentives		-/- 441	83
Change in current tax liabilities		43	29
Change in trade and other payables		281	130
Change in deferred income and tenants deposits		372	101
Cash generated from operating activities		**8,113**	**-/- 4,180**
Interest received		3	-
Interest paid		-/- 1,599	-/- 1,298
Income tax paid		-/- 122	-/- 11
Net cash from / used in (-/-) operating activities		**6,395**	**-/- 5,489**
Cash flow from investing activities			
Proceeds from the sale of properties		1,565	-
Proceeds from the sale of other investments		83	35
Dividend received from other investments		5	10
Acquisition of subsidiaries, net of tax		-/- 1,498	-
Acquisition of / additions to properties		-/- 587	-/- 21,944
Acquisitions of other investments		-	-/- 70
Net cash from / used in (-/-) investing activities		**-/- 432**	**-/- 21,969**
Cash flow from financing activities			
Proceeds from the issue of share capital		-	8,632
Proceeds from the issue of convertible bonds		-	3,500
Proceeds from loans and borrowings		2,000	17,557
Repayments of loans and borrowings		-/- 7,212	-/- 1,129
Distributions to shareholders		-/- 316	-/- 360
Net cash from / used in (-/-) financing activities		**-/- 5,528**	**28,200**
Net increase / decrease (-/-) in cash and cash equivalents		435	742
Cash and cash equivalents as at 1 January	*12.37*	2,403	1,660
Effect of exchange and currency translation result on cash held		81	1
Cash and cash equivalents as at 31 December	*12.37*	**2,919**	**2,403**

[2] Transaction costs and transfer tax excluded.

12 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.1 GENERAL

The company Arcona Property Fund N.V., hereinafter referred to as the Fund, was incorporated on 27 November 2002 in accordance with Dutch law and is established in Amsterdam (the Netherlands). The Fund obtained a listing on the Euronext Fund Services (EFS) in Amsterdam on 13 November 2003.

The Fund is registered in Amsterdam (the Netherlands), Kollenbergweg 56 and is entered in the Trade Register of the Chamber of Commerce under number 08110094.

The Fund is managed by Arcona Capital Fund Management B.V, which is responsible for the Management of the Fund.

The consolidated financial statements have been approved by the Supervisory Board.

The consolidated financial statements of the Fund for the financial period comprise the Fund and its subsidiaries.

12.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the interpretations thereof adopted by the International Accounting Standards Board ("IASB") as adopted by the European Union (hereinafter referred to as "EU-IFRS") and in accordance with Part 9 of Book 2 of the Dutch Civil Code (Titel 9, Boek 2 van het Burgerlijk Wetboek) and the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the "Wft").

12.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS

The Fund has applied the significant accounting principles as set out in section 12.2 to 12.28. The Managing Board authorised the consolidated financial statements for issue on 6 April 2018.

As at 31 December 2017, shareholders' equity of the Fund is positive. As stated in the liquidity forecast up to end-2018, the current cash position is sufficient to cover budgeted costs. Based on these assumptions, the Managing Board is of the opinion that the Fund is able to continue as a going concern. Therefore these consolidated financial statements are based on assumptions of going concern.

12.4 CHANGE OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

For reasons of increasing the insight in the financial position of the Fund, some items in the consolidated statement of financial position as at 31 December 2017 are presented in a different way as done in the annual report 2016. Therefore the following presentations as at 31 December 2016 are changed:

- "Prepayments and lease incentives" as at 31 December 2017 are presented on a separate line in the consolidated statement of financial position. As at 31 December 2016, these receivables were presented as a part of "Trade and other receivables" (€ 155,000);
- "Current tax assets" as at 31 December 2017 are presented on a separate line in the consolidated statement of financial position. As at 31 December 2016, these receivables were presented as a part of "Trade and other receivables" (€ 4,934,000) and as "Income tax receivable" (€ 2,000);
- "Deferred income and tenants deposits" as at 31 December 2017 are presented on a separate line in the consolidated statement of financial position. As at 31 December 2016, these payables were presented as a part of "Trade and other payables" (€ 277,000);

- “Current tax liabilities” as at 31 December 2017 are presented on a separate line in the consolidated statement of financial position. As at 31 December 2016, these payables were presented as a part of “Trade and other payables” (€59,000) and as “Income tax payable” (€4,000).

The above-mentioned changes of presentation in the consolidated statement of financial position also impact on the presentation of the consolidated statement of cash flow (especially to Current assets and Current liabilities.

12.5 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

12.5.1 General

The consolidated financial statements have been prepared on the basis of historical cost, except for investment property, assets held for sale, financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, which are recognised at fair value.

The accounting policies explained below have been consistently applied to the results, other gains and losses, assets, liabilities and cash flows of entities included in the consolidated financial statements and are consistent with those used in the prior period.

12.5.2 Judgements, estimates and assumptions

Preparation of the consolidated financial statements in accordance with EU-IFRS requires the Managing Board to make judgements, estimates and assumptions that affect the application of policies and the reported value of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these estimates and assumptions form the basis of the judgements made about carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by Managing Board in the application of the EU-IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are described in section 12.65 of the Notes.

12.5.3 Measurement of fair value

A number of the Fund’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Fund uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset of liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is include in the following notes:

- 12.9.3: “Financial instruments”;
- 12.10.2: “Investment property”;
- 12.17.2: “Assets held for sale”.

12.5.4 New standards and interpretations not yet applied

A number of new standards, changes to standards and interpretations have only taken effect after 1st of January 2018 and therefore have not been applied to these consolidated financial statements. New standards that might be relevant for the Fund are described below. The Fund does not plan to apply early adoption of these standards. The Fund expects that the changes listed below will have no material effect on its results and financial position, without the application of IFRS 16 Leases. As a result of this new standard, the annual payable amounts of land lease for the amount of about € 187,000 (see also section 12.56) will be capitalized. This capitalization will have material impact on the amount of total assets, as well as total liabilities. The expected impact on the annual results will be not material.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, is intended to replace the existing directive as set out in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised provisions on the classification and measurement of financial instruments, a new model for expected credit losses for the purpose of calculating the depreciation of financial assets and the new general requirements for hedge accounting. IFRS 9 adopts the implementation guidance from IAS 39 in respect of the recognition and derecognition of financial instruments. IFRS 9 must be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS.

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17 with recognition exemptions for leases of 'low-value' assets and short-term leases. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

12.6 BASIS OF CONSOLIDATION

12.6.1 Subsidiaries

Subsidiaries are those entities controlled by the Fund. Control exists when the Fund, directly or indirectly, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated with effect from the date on which control commences until the date that control ceases.

The Fund recognises acquisitions if IFRS 3 (revised) "Business Combinations" or IAS 40 "Investment property" applies. Acquisitions are considered a business combination if there is an acquisition of assets, rental activities and such a Management organisation, that the acquired entity can operate as an independent company, with the aim of generating economic results. The Fund does not necessarily consider acquisitions of properties within a legal company as a business combination, but evaluates these acquisitions individually for the above operational characteristics.

The Fund applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Fund. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Fund recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. "Goodwill" is the amount by which the cost of an acquired entity at first recognition exceeds the net fair value of the identifiable assets and liabilities and contingent liabilities assumed. Changes in the purchase price after the acquisition date do not result in recalculation or adjustment of the "Goodwill". After first recognition, the "Goodwill" is valued at costs less any cumulative impairment losses. "Goodwill" is attributed to cash-generating entities and is not amortised. "Goodwill" is assessed for impairment annually, or earlier if circumstances give cause. "Negative goodwill" resulting from an acquisition is recognised directly into income statement.

For acquisitions of subsidiaries not meeting the definition of a business, the Fund allocates the cost between the individual identifiable assets and liabilities assumed in the Fund based on their relative fair values at the date of acquisition. Acquisition-related costs are capitalised. Such transactions or events do not give rise to "Goodwill" and deferred taxes as at date of acquisition are not stated.

Consolidated financial statements are prepared using uniform accounting policies for similar transactions. Accounting principles of subsidiaries are consistent with the policies adopted by the Fund.

12.6.2 Consolidated subsidiaries

All subsidiaries of the Fund have been included in the consolidation. These are as follows:

Name of company	**Registered office**	**Country of incorporation**	**Proportion of shares Held by the parent 31-12-2017**	**Proportion of shares Held by the group 31-12-2017**
			In %	In %
Arcona Capital RE Bohemia s.r.o.	Prague	Czech Republic	100.0	n.a.
Arcona Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100.0	n.a.
Arcona Capital Real Estate Poland Sp. z.o.o.	Warsaw	Poland	100.0	n.a.
Arcona Capital Real Estate Trio Sp. z.o.o.	Warsaw	Poland	100.0	n.a.
Arcona Real Estate B.V.	Amsterdam	The Netherlands	100.0	n.a.
Arcona Poland B.V.	Amsterdam	The Netherlands	n.a.	100.0
Arcona Poland B.V. Project 5 Sp.k.	Warsaw	Poland	n.a.	100.0

Name of company	**Registered office**	**Country of incorporation**	**Proportion of shares Held by the parent 31-12-2016**	**Proportion of shares Held by the group 31-12-2016**
			In %	In %
Arcona Capital RE Bohemia s.r.o.	Prague	Czech Republic	100.0	n.a.
Arcona Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100.0	n.a.
Arcona Capital Real Estate Poland Sp. z.o.o.	Warsaw	Poland	100.0	n.a.

12.6.3 Subsidiaries acquired and incorporated during the period

On 2 March 2017 the Fund acquired 100% of the shares and voting interest in RECE Progress Sp. z.o.o. (subsequently renamed as: Arcona Capital Real Estate Trio Sp. z.o.o.).

On 29 June 2017 the Fund incorporated two Special Purpose Vehicles (SPV's): Arcona Real Estate B.V. and Arcona Poland B.V. These SPV's were incorporated for the acquisition of Bywater Sp. z.o.o. Project 5 Sp.k.

On 6 July 2017 the Fund acquired 100% of the shares and voting interest in Bywater Sp. z.o.o. Project 5 Sp.k. (subsequently renamed as: Arcona Poland B.V. Project 5 Sp.k.).

12.6.4 Elimination of transactions on consolidation

All intercompany receivables, payables, significant transactions and any unrealised profits and losses on transactions within the Fund, or income or expenses from such transactions within the Fund have been eliminated in the consolidated financial statements to the extent that no impairment loss is applicable.

12.7 BASIS OF PREPARATION OF CONSOLIDATED STATEMENT OF CASH FLOW

The Fund has used the indirect method for the consolidated statement of cash flow. Given the nature of the Fund (investment company) financial income is not netted against financial expenses but presented separately under the total income (see also section 12.25.6), so financial income is presented in the consolidated statement of cash flow under "Cash flow from operating activities".

Cash and cash equivalents as mentioned in the consolidated statement of cash flow include the statement of financial position's item "Cash and cash equivalents" and, if applicable "Bank overdrafts". Transactions without settlement in cash are not recognised in the consolidated statement of cash flow.

12.8 CURRENCY

12.8.1 Functional and presentation currency

The functional currency of the Fund is the Euro (EUR or €), reflecting the fact the majority of the Fund's transactions are settled in Euro. The Fund has adopted the Euro as its presentation currency as the ordinary shares of the Fund are denominated in Euro.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

12.8.2 Foreign currency transactions

Foreign currency transactions are translated into Euros at the exchange rate applicable on the transaction date. Assets and liabilities denominated in foreign currencies are translated into Euros at the exchange rate applicable on the statement of financial position's date. Exchange rate differences arising from translation are recognised in the income statement. Cash flows in foreign currencies are converted at the exchange rate applicable on settlements date.

12.8.3 Financial statements of foreign activities

The assets and liabilities of foreign operations and fair-value adjustments arising on consolidation are translated into Euros at the exchange rate applicable on the statement of financial position's date. The income and expenses of foreign operations are translated into Euros at the average monthly exchange rate for the period.

12.8.4 Net investment in foreign activities

Foreign currency translation differences arising on translation of the net investment in foreign activities, and the associated hedging transactions, are taken through the other comprehensive income and are recognised in the "Reserve for currency translation differences". In case of a (partly) reduction of the net investments in foreign activities, the deferred cumulative amount recognised in the other comprehensive income relating to that particular foreign operation will be recognised in the income statement.

12.8.5 Exchange rates used for the consolidated statement of financial position

	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013
Czech Koruna (EUR / CZK)	25.53500	27.02100	27.02300	27.73500	27.42700
% change	*5.5%*	*0.0%*	*2.6%*	*-/- 1.1%*	*-/- 9.0%*
Polish Zloty (EUR / PLN)	4.17700	4.41030	4.26390	4.27320	4.15430
% change	*5.3%*	*-/- 3.4%*	*0.2%*	*-/- 2.9%*	*-/- 2.0%*
Pound Sterling (EUR / GBP)	0.88723	0.85618	0.73395	0.77890	0.83370
% change	*-/- 3.6%*	*-/- 16.7%*	*5.8%*	*6.6%*	*-/- 2.2%*

Source: European Central Bank (ECB)

12.8.6 Average exchange rates used for the consolidated income statement

	2017	2016	2015	2014	2013
Czech Koruna (EUR / CZK)	26.2891	27.0423	27.2695	27.5505	26.0125
Polish Zloty (EUR / PLN)	4.2427	4.3744	4.2613	n.a.	n.a.

12.9 FINANCIAL INSTRUMENTS

12.9.1 General

In accordance with IAS 39 financial assets have been classified into one of four categories:

1. Financial assets at fair value through profit or loss;
2. Held-to-maturity investments;
3. Loans and receivables;
4. Available-for-sale financial assets.

All the Fund's financial assets are classified as "Loans and receivables", with the exception of:

- The 5%-investment in Yellow Properties, s.r.o. This investment is classified as "Financial assets at fair value through profit or loss";
- Derivatives. These financial instruments are classified as "Financial assets at fair value through profit or loss".

Loans and receivables are measured at amortised cost.

In accordance with IAS 39 financial liabilities have been classified into one of two categories:

1. Financial liabilities at fair value through profit or loss;
2. Financial liabilities measured at amortised cost.

All the Fund's financial liabilities are classified as "Financial liabilities measured at amortised cost", with the exception of:

- Derivatives. These financial instruments are classified as "Financial liabilities at fair value through profit or loss".

12.9.2 Recognition and measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities not at fair value through the profit or loss are recognised on the date on which they are originated.

Financial assets and financial liabilities at fair value through profit or loss are initially and subsequently recognised at fair value, with transaction costs recognised in the income statement.

Financial assets or financial liabilities not at fair value through the profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue. Subsequently financial assets not at fair value through profit or loss are subject to an impairment test.

12.9.3 Measurement of fair value

The book value of the Fund's financial assets and financial liabilities, not measured at fair value, is a reasonable approach for its fair value, as all financial assets (classified as "loans and receivables"), and all financial liabilities (classified as "financial liabilities measured at amortised cost") are priced at market rates at statement of financial position's date or will be reprised within 3 months after statement of financial position's date (see also section 12.72.4 "Interest rate risk").

Yellow Properties, s.r.o.

The fair value of Yellow Properties, s.r.o. is based on the Fund's interest in the equity of Yellow Properties, s.r.o., as presented in its annual account 2017. The equity of Yellow Properties, s.r.o. consists for about 98% of "Cash and cash equivalents", since the development property of Yellow Properties is sold in previous years.

Considering the type of investment, Level 3 fair value hierarchy is applied for Yellow Properties, s.r.o.

Derivatives

The fair value of derivatives, such as interest rate swaps and interest caps, are calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing derivatives. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Fund and of the counterparty; this is calculated based on credit spreads derived from current default swap or bond prices.

Considering the type of derivatives, Level 2 fair value hierarchy is applied for all derivatives.
There are no significant unobservable inputs for the calculation of the fair value of derivatives.

12.9.4 Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition. A transfer will qualify for derecognition when the Fund transfers substantially all the risks and rewards of ownership. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

12.9.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

12.9.6 Compound financial instruments

Compound financial instruments issued by the Fund comprise convertible bonds denominated in Euro that can be converted to ordinary shares at the option of the holder, when the number of ordinary shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

The equity component is recognised directly in the shareholders' equity under "Equity component convertible bonds". The deferred tax liabilities are deducted taking into account the principles of valuation for deferred taxes (see section 12.28 "Income tax expense").

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in the income statement. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

12.10 INVESTMENT PROPERTY

12.10.1 General

An investment property is a property that is held to realise rental income or an increase in value, or both. The initial recognition of the investment properties is at cost including related transaction costs. After initial recognition, investment properties are carried at fair value.

12.10.2 Measurement of fair value

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow or capitalisation projections. Valuations are performed as per reporting date 31 December. External valuations are performed by an external, independent appraiser with relevant recognised qualifications and recent experience with the location and the type of property. The valuations have been made in accordance with the appropriate sections of the current Valuation Standards contained within the RICS Valuation standards. The fair values are based on market values, being the estimated amount for which a property could be exchanged 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. Considering the type of investment property Level 3 fair value hierarchy is applied for all real estate assets in the portfolio.

The valuations are made on the basis of the total of the net annual rents generated by the properties and, where relevant, the associated costs. The major sources of uncertainty in estimates are as follows:

A. Development of rents;
B. Capitalisation factor for transactions;
C. Fair rents per type of property;
D. Property prices.

Three standard methods of valuation computation are considered, namely "Term and reversion", "Hard core and top-slice" and "Initial Yield":

- The term and reversion method involves the following: net income up to the end of the contract term and the market-based net income over the following at least ten years are discounted back to the valuation date ("term"). For the time after this period, the stabilised net rental income is capitalised at the market interest rate and also discounted back to the valuation date to determine the perpetual yield ("reversion"). Depending on the estimates of risk – which are based on the type of property, location and region as well as current market circumstances – different discount rates are applied to the current rental income and the capitalisation of the perpetual yield. The assumptions underlying the valuation, e.g. for risk, void periods, vacancies or maintenance costs, capex are based on estimates by relevant market players, on derived data or the appraisers' experience. The capital expenses (CAPEX) are expenditure in the foreseeable future which fall outside the scope of the normal annual maintenance programme.

- The hard core and top-slice method is similar to the logic behind the term and reversion model. Net income generated by the property – up to the market rent (hard core component) – is capitalised at a normal market interest rate as a perpetual yield over the entire term (term of the rental contract plus subsequent rental). The top-slice component (the net income for this same term that exceeds the market rent) is then discounted at a risk-adjusted market interest rate. The amount of the risk premium is dependent on the probability of vacancy.
- The initial yield method applies a single all risks yield at the date of valuation, i.e. net income / gross purchase price.

For all investment properties that are measured at fair value, the current use of the properties is their highest and best use. In this reporting period all properties were externally valued using the Hard core and top-slice method. The application of one of these methods depends on the level of vacancy. In order to arrive at the valuation of the property, the annual net rents are capitalized using a Yield factor that includes the specific risks inherent to the net cash flows. The following is a statement of the range of Yields factors used for each type of property.

12.10.3 Analysis of Yield factor per property category

No.	**Property category**	**Yield factor 2017[3]**	**Yield factor 2016**
		in %	in %
A	Office B^+-class	6.50 - 8.50	7.50 - 8.50
B	Office B^--class	8.50 - 10.10	9.25 - 11.50
C	Office / business B / C-class	11.75 - 14.00	12.75 - 14.50
D	Retail B-class	8.15 - 13.75	8.51 - 10.00

Where necessary the following aspects are reflected in the valuation:

- The type of tenant that uses the property or that is responsible for fulfilling the rental obligations, or the type of tenant that is likely to use the property after vacancy, and the general expectation with regard to their creditworthiness;
- Void periods, vacancies and maintenance costs, which are based on estimates by relevant market players, on derived data or the appraisers' experience;
- The residual economic life of the property. Standard and infinite economic life is assumed;
- Whereby it is assumed that in the case of rent adjustment or extension of the lease, in the case of which a rent increase is expected, all notifications, and where necessary notices to the contrary, meet the requirements to be set and have been sent in good time.

Profits or losses arising from changes in the fair value are recognised in the income statement. In determining the property at fair value capitalized lease incentives are adjusted for the valuation results, to avoid double counting.

[3] The yield factors 2016 and 2017 correspond with the specifications of the external independent appraiser.

12.11 OTHER INVESTMENTS

All other investments are financial instruments. The accounting principles for financial instruments are described in section 12.9 “Financial instruments”.

12.12 DEFERRED TAX ASSETS

The accounting principles with regard to the deferred tax assets are described in section 12.28 “Income tax expense”.

12.13 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

12.14 PREPAYMENTS AND LEASE INCENTIVES

Prepayments and lease incentives are allocated proportionally to subsequent periods.

12.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances. Time deposits are only included in cash and cash equivalents if the expectation is that they will be used to fund working capital within a period of three months or less from the date of acquisition. In the consolidated statement of cash flows bank overdrafts at call, which constitute an integral part of the Fund’s Asset Management, form part of cash and cash equivalents.

12.16 CURRENT TAX ASSETS

Current tax assets compromise the expected current tax receivable on the taxable income statement for the financial period and any adjustments to the current tax receivable in respect of previous years. The amount of the current tax receivable is the best estimate of the tax amount expected to be received that reflects uncertainty related to taxes.

12.17 ASSETS HELD FOR SALE

12.17.1 General

Non-current assets (or a disposal group) are held for sale in case the carrying amount will be recovered principally by means of a sale rather than by continuing use. This only applies if the asset (or disposal group) is available for immediate sale in its present condition. Furthermore, the sale must be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer and the complete plan must have been initiated. The sale should be completed within one year from the date of classification.

12.17.2 Measurement of fair value

Assets (or a disposal group) held for sale, are generally measured at the lower of their carrying amount and fair value less cost of disposal, except for investment property. Investment property held for sale is measured in accordance with section 12.10 “Investment property”. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Fund's regular accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on re-measurement are recognised in the income statement.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

12.18 IMPAIRMENT

Other investments, trade and other receivables and cash and cash equivalents are classified as "Loans and receivables" and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Unlike this, the 5%-investment in Yellow Properties, s.r.o. is classified as "Financial assets at fair value through profit or loss" (see also section 12.9 "Financial instruments").

A provision for impairment is taken into account when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that a receivable must be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

12.19 SHAREHOLDERS' EQUITY

The Fund operates as a closed-end investment fund. The issued capital of the Fund is considered as shareholders' equity.

12.20 LOANS AND BORROWINGS

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost, with any difference between cost and the redemption amount being stated in the income statement over the term of the loans using the effective interest method. The cost in foreign currency is translated at the exchange rate applicable on the transaction date.

12.21 TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

12.22 DEFERRED INCOME AND TENANTS DEPOSITS

Deferred income is allocated proportionally to subsequent periods. Tenants deposits are recognised at their received amounts and are allocated proportionally to subsequent periods.

12.23 DEFERRED TAX LIABILITIES

The accounting principles with regard to the deferred tax liabilities are described in section 12.28 “Income tax expense”.

12.24 CURRENT TAX LIABILITIES

Current tax liabilities compromises the expected current tax payable on the taxable income statement for the financial period and any adjustments to the current tax payable in respect of previous years. The amount of the current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to taxes.

12.25 INCOME

12.25.1 Gross rental income

Gross rental income from investment properties is stated in the income statement excluding Value Added Tax, on the basis of the period of the lease. If the investment property has been acquired in the course of the financial period, the rental income is accounted as of the date of acquisition by the Fund. If office or other equipment is leased together with the premises, this is included in the rental income.

Rent adjustment due to indexation are recognized as they arise.

Rent-free periods and investments made or allowances granted to tenants by the Fund (“lease incentives”) are allocated on a linear basis over the lease term. The lease term consists of the period until the first break option for the tenants, which period can be extended by management with the expected prolongation of the leases.

Revenues received from tenants for early termination of leases is directly recognised in the income statement as they arise.

12.25.2 Service charge income and service charge expenses

Amounts separately charged to lessees, which are regarded as service charges, are not included in the gross rental income but stated in the income statement as service charge income. The service charges invoiced to tenants and the corresponding expenses are shown separately on an accrual basis. In addition, service charge expenses also include charges related to vacant units and / or other irrecoverable service charges due to contractual limits or insolvent tenants.

12.25.3 Property operating expenses

Property operating expenses consist mainly of maintenance costs, property taxes, insurance premiums, and management and collection costs. Service charges are stated separately in the income statement. If the investment property has been acquired in the course of the financial period, the direct operating expenses are accounted for from the date of acquisition by the Fund.

12.25.4 Valuation results of properties

The valuation results of properties relate to unrealised changes in the fair value of the investment properties in relation to the fair value as at 31 December of the preceding financial period.

12.25.5 Results on disposals of properties

The results on disposals of properties relate to realised results on disposals of properties. This result is calculated by the difference between the selling price (in €) less the original purchase price (in €). Therefore the results on disposals of properties compromise the valuation result of properties in the current year, as well as the unrealised valuation results of properties booked in prior years.

12.25.6 Financial income

Interest income on funds invested is recognised in the income statement as it accrues.

Given the nature of the Fund (investment company) financial income is not netted against finance charges, but presented separately under the total income. Financial income arises principally from the investments held in order to be used for investment in property. Financial income also includes the exchange and currency translation profits that arise principally from the settlement of monetary items or from the translation of monetary items in foreign currency.

Financial income also includes the release of early termination of leases.

12.25.7 Other operating income

Other operating income is recognised in the income statement when it is probable that economic benefits will flow into the Fund and the (net) revenues can be measured reliably.

12.26 EXPENSES

Administrative expenses and other operating expenses are recognised in the income statement. Expenses may only be deferred if they meet the definition of an asset.

12.27 FINANCIAL EXPENSES

Financial charges comprise the interest expense on funds taken up, calculated using the effective interest method, exchange and currency translation losses, which arise principally from the settlement of monetary items, or in the translation of monetary items in foreign currency.

Interest expense is recognised in the income statement as it accrues, by means of the effective interest rate method.

12.28 INCOME TAX EXPENSE

12.28.1 Income tax expense

The income tax expense for the financial period comprises current and deferred tax. It is recognised in income statement except to the extent that it relates to a business combination, or items recognised in equity or other comprehensive income.

12.28.2 Current tax

The current tax compromises the expected tax payable or receivable on the taxable statement of income for the financial period and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at statement of financial position’s date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

12.28.3 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss ("Initial Recognition Exception");
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Fund is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Fund. Deferred tax assets are reviewed at each statement of financial position's date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each statement of financial position's date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the statement of financial position's date.
The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Fund expects, at statement of financial position's date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of properties measured at fair value is presumed to be recovered through sale, and the Fund has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

12.29 SEGMENT REPORTING

12.29.1 General

Segment information is given for each operating segment. An operating segment is a component of the Fund:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Fund);
- Whose operating results are used by the fund manager to make decisions about resources to be allocated to the segment and to regularly review and assess its performance; and for which discrete financial information is available.

Given the Fund's management decision-making structure and internal reporting structure each property is indicated as an operating segment. The properties held during the financial period (current period and / or previous period), as mentioned in section 12.31.1 "Analysis of investment properties", as well as section 12.39.1 "Analysis of assets held for sale" are taken into account in the segment reporting overviews.
The following segment reporting overviews are given for each property:

A. Overview of segment result (net operating income), apportioned to the Fund's geographic categories;
B. Overview of assets and liabilities apportioned to the Fund's geographic categories.

Since each separate property is indicated as an operating segment, most of the Fund's assets and liabilities cannot be allocated to the operating segments. Therefore only the carrying amount of each property is reported as a segment asset (see section 12.31.1 "Analysis of investment properties", as well as section 12.39.1 "Analysis of assets held for sale").

12.29.2 The Fund's geographic categories

The Fund distinguishes the following geographic categories:

A. Czech Republic;
B. Slovakia;
C. Poland;
D. The Netherlands;
E. Other countries.

The following segmentation criteria are used:

- If the separate assets and / or liabilities in an individual foreign country represents more than 1% of the total assets as at statement of financial position's date, these assets and / or liabilities shall be disclosed separately. If those assets and / or liabilities represents less than 1% of the total assets and / or liabilities as at statement of financial position's date, these items will be allocated as "Other countries";
- The allocation of the property is based on the geographic location of the premises;
- The allocation of deferred tax assets is based on the geographic location of the company which generated the deferred tax assets;
- The allocation of investments in associates is based on the business location of the company the Fund invests in;
- The allocation of other assets (bank accounts, cash, receivables, etc.) is based on the geographic location of the debtor;
- The allocation of deferred tax liabilities is based on the geographic location of the company which generated the deferred tax liabilities;
- The allocation of the other liabilities is based on the geographic location of the creditor.

The allocation of segment results (net operating income) to the several geographic categories is based on the geographic location of the premises.

The geographic category "The Netherlands" relates primarily to other investments held by the Fund in anticipation of their investment in property.

12.29.3 Overview of segment result (overview A)

Property (in € 1,000)	Gross rental Income 2017	Gross rental Income 2016	Service charge income 2017	Service charge income 2016	Service charge expenses 2017	Service charge expenses 2016	Property operating expenses 2017	Property operating expenses 2016	Net rental & related income 2017	Net rental & related income 2016	Results on disposals of properties 2017	Results on disposals of properties 2016	Valuation results of properties 2017	Valuation results of properties 2016	Total segment result 2017	Total segment result 2016
Czech Republic:																
Drahobejlova	132	151	104	86	-/- 98	-/- 95	-/- 49	-/- 53	89	89	2,196	-	-/- 633	61	1,652	150
Palmovka	235	261	94	100	-/- 76	-/- 77	-/- 65	-/- 63	188	221	-	-	-/- 760	131	-/- 572	352
Karlin	354	345	146	131	-/- 128	-/- 112	-/- 108	-/- 100	264	264	-	-	995	209	1,259	473
VUP	217	203	169	168	-/- 154	-/- 145	-/- 86	-/- 81	146	145	-/- 129	-	472	12	489	157
PV 10	268	257	123	114	-/- 108	-/- 98	-/- 86	-/- 79	197	194	-	-	308	155	505	349
Total CZECH REPUBLIC	**1,206**	**1,217**	**636**	**599**	**-/- 564**	**-/- 527**	**-/- 394**	**-/- 376**	**884**	**913**	**2,067**	**-**	**382**	**568**	**3,333**	**1,481**
Slovakia:																
Záhradnicka	339	322	8	7	-/- 80	-/- 75	-/- 117	-/- 89	150	165	-	-	198	67	348	232
Pražská 2	405	388	8	9	-/- 163	-/- 158	-/- 118	-/- 101	132	138	-	-	220	14	352	152
Pražská 4	337	326	5	5	-/- 109	-/- 110	-/- 86	-/- 88	147	133	-	-	-/- 89	61	58	194
Krivá 18	390	362	6	5	-/- 104	-/- 112	-/- 129	-/- 91	163	164	-	-	468	-/- 573	631	-/- 409
Krivá 23	427	396	6	7	-/- 114	-/- 121	-/- 103	-/- 113	216	169	-	-	-/- 278	227	-/- 62	396
Gemerská	183	198	7	8	-/- 88	-/- 107	-/- 77	-/- 64	25	35	-/- 190	-	177	-/- 27	12	8
Letná	1,161	1,195	21	20	-/- 158	-/- 155	-/- 231	-/- 289	793	771	-	-	42	144	835	915
Vural	484	466	109	95	-/- 228	-/- 227	-/- 130	-/- 153	235	181	-	-	250	-/- 243	485	-/- 62
Kosmalt	772	878	11	11	-/- 333	-/- 350	-/- 247	-/- 280	203	259	-	-	-/- 161	-/- 250	42	9
Total SLOVAKIA	**4,498**	**4,531**	**181**	**167**	**-/- 1,377**	**-/- 1,415**	**-/- 1,238**	**-/- 1,268**	**2,064**	**2,015**	**-/- 190**	**-**	**827**	**-/- 580**	**2,701**	**1,435**
SUB TOTAL (transfer)	**5,704**	**5,748**	**817**	**766**	**-/- 1,941**	**-/- 1,942**	**-/- 1,632**	**-/- 1,644**	**2,948**	**2,928**	**1,877**	**-**	**1,209**	**-/- 12**	**6,034**	**2,916**

Property (in € 1,000)	Gross rental Income 2017	Gross rental Income 2016	Service charge income 2017	Service charge income 2016	Service charge expenses 2017	Service charge expenses 2016	Property operating expenses 2017	Property operating expenses 2016	Net rental & related income 2017	Net rental & related income 2016	Results on disposals of properties 2017	Results on disposals of properties 2016	Valuation results of properties 2017	Valuation results of properties 2016	Total segment result 2017	Total segment result 2016
SUB TOTAL (transfer)	**5,704**	**5,748**	**817**	**766**	**-/- 1,941**	**-/- 1,942**	**-/- 1,632**	**-/- 1,644**	**2,948**	**2,928**	**1,877**	**-**	**1,209**	**-/- 12**	**6,034**	**2,916**
Poland:																
Laubitza 8	191	9	74	2	-/- 43	-/- 1	-/- 94	-/- 1	128	9	-	-	108	-/- 130	236	-/- 121
800-lecia Inowroclawia 27	298	22	142	4	-/- 99	-/- 1	-/- 128	-/- 2	213	23	-	-	-/- 472	-/- 377	-/- 259	-/- 354
Krzemowa 1	248	13	137	3	-/- 79	-	-/- 104	-/- 1	202	15	-	-	205	548	407	563
Plutona 1	195	10	81	-	-/- 86	-/- 2	-/- 53	-/- 1	137	7	-	-	265	95	402	102
Kalinkowa 82	300	12	146	3	-/- 98	-	-/- 114	-/- 1	234	14	-	-	-/- 39	-/- 164	195	-/- 150
Wojska Polskiego 137	354	19	170	4	-/- 128	-/- 3	-/- 125	-/- 1	271	19	-	-	-/- 132	-/- 35	139	-/- 16
Wolnosci 6	152	8	65	2	-/- 51	-/- 2	-/- 74	-/- 1	92	7	-	-	148	80	240	87
Graniczna 80-82	-	-	-	-	-/- 52	-	-/- 60	-/- 1	-/- 112	-/- 1	-	-	-/- 296	-/- 213	-/- 408	-/- 214
Grzymaly Siedleckiego 20[4]	178	n.a.	65	n.a.	-/- 64	n.a.	-/- 95	n.a.	84	n.a.	-	n.a.	105	n.a.	189	n.a.
Kard. Wyszynskiego 107[5]	214	n.a.	134	n.a.	-/- 80	n.a.	-/- 117	n.a.	151	n.a.	-	n.a.	491	n.a.	642	n.a.
Legionow 216[6]	276	n.a.	142	n.a.	-/- 100	n.a.	-/- 121	n.a.	197	n.a.	-	n.a.	1,021	n.a.	1,218	n.a.
Maris[7]	316	n.a.	130	n.a.	-/- 118	n.a.	-/- 77	n.a.	251	n.a.	-	n.a.	637	n.a.	888	n.a.
Total POLAND	**2,722**	**93**	**1,286**	**18**	**-/- 998**	**-/- 9**	**-/- 1,162**	**-/- 9**	**1,848**	**93**	**-**	**-**	**2,041**	**-/- 196**	**3,889**	**-/- 103**
GRAND TOTAL	**8,426**	**5,841**	**2,103**	**784**	**-/- 2,939**	**-/- 1,951**	**-/- 2,794**	**-/- 1,653**	**4,796**	**3,021**	**1,877**	**-**	**3,250**	**-/- 208**	**9,923**	**2,813**

[4] Concerns segment result as of date of acquisition investment property (2 March 2017).
[5] Concerns segment result as of date of acquisition investment property (2 March 2017).
[6] Concerns segment result as of date of acquisition investment property (2 March 2017).
[7] Concerns segment result as of date of acquisition investment property (6 July 2017).

12.29.4 Reconciliation segment result with profit for the period

The reconciliation between the total segment results as calculated in section 12.29.3 with the profit for the period, mentioned in the consolidated income statement, is made below.

	2017 in € 1,000	2016 in € 1,000
Total segment result (overview A)	9,923	2,813
Unallocated income	458	299
Unallocated expenses	3,970	3,645
Profit before income tax	6,411	-/- 533
Income tax expense	842	-/- 241
Profit for the period	**5,569**	**-/- 292**

12.29.5 Major tenants

The Fund has one tenant (2016: one) with a gross rental income more than 10% (i.e. € 1,201,000 (2016: € 757,000)) of the Fund's total gross rental income. This tenant is a tenant in several buildings, located in Poland (i.e. 800-lecia Inowroclawia 27, Plutona 1, Kalinkowa 82, Wojska Polskiego 137, Grzymaly Siedleckiego 20 and Legionow 216) (2016: Letná).

12.29.6 Overview of geographic assets and liabilities (overview B)

Assets	Czech Republic		Slovakia		Poland		The Netherlands		Other countries		Total assets	
In € 1,000	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Investment property	16,243	16,113	37,280	37,708	36,275	20,985	-	-	-	-	89,798	74,806
Other investments	6	20	-	-	-	-	-	-	-	70	6	90
Deferred tax assets	223	387	129	276	648	228	-	-	-	-	1,000	891
Current tax assets	-	-	-	2	76	4,934	-	-	-	-	76	4,936
Trade and other receivables	3,837	50	263	263	337	154	-	1	5	-	4,442	468
Prepayments and lease incentives	81	49	88	97	381	5	4	4	48	-	602	155
Cash and cash equivalents	569	818	638	641	827	191	885	753	-	-	2,919	2,403
Assets held for sale	-	203	-	-	-	-	-	-	-	-	-	203
Total geographic assets	**20,959**	**17,640**	**38,398**	**38,987**	**38,544**	**26,497**	**889**	**758**	**53**	**70**	**98,843**	**83,952**
Liabilities												
Loans and borrowings	8,257	8,165	11,500	12,469	16,794	15,403	7,844	5,786	4,710	-	49,105	41,823
Deferred tax liabilities	486	578	3,661	3,442	922	132	88	25	-	-	5,157	4,177
Trade and other payables	387	158	303	283	377	204	691	515	12	-	1,770	1,160
Deferred income and tenants deposits	170	119	109	47	358	111	-	-	-	-	637	277
Current tax liabilities	13	15	65	48	39	-	21	-	-	-	138	63
Total geographic liabilities	**9,313**	**9,035**	**15,638**	**16,289**	**18,490**	**15,850**	**8,644**	**6,326**	**4,722**	**-**	**56,807**	**47,500**
Geographic assets less geographic liabilities	**11,646**	**8,605**	**22,760**	**22,698**	**20,054**	**10,647**	**-/- 7,755**	**-/- 5,568**	**-/- 4,669**	**70**	**42,036**	**36,452**

12.30 ACQUISITION OF SUBSIDIARIES

During the financial period the Fund acquired the following subsidiaries.

Subsidiary	Interest In %	Date of acquisition
RECE Progess Sp. z.o.o.[8]	100.0	2 March 2017
Bywater Sp. z.o.o. Project 5 Sp.k.[9]	100.0	6 July 2017

The acquisitions during the financial period are not determined as a business combination. Therefore the acquisitions during the financial period are not classified as a IFRS-3 transaction, but as an asset acquisition. Therefore the result on acquisition of the identifiable assets acquired and liabilities assumed are attributed to the acquired investment properties.

12.30.1 Acquisition of RECE Progress Sp. z.o.o.

The following table summarises the recognised amounts at fair value of assets acquired and liabilities assumed at the date of acquisition, as well as the “Surplus on acquisition”. The “Surplus on acquisition” relates to the amount by which the balance of the identifiable net assets acquired exceeds the consideration paid, including acquisition-related costs. This surplus is attributed to the acquired “Investment properties”.

Identifiable assets acquired and liabilities assumed	**Recognised values** In € 1,000	**Fair value adjustments** In € 1,000	**Acquisition carrying amount** In € 1,000
Investment property	6,218	1,491	4,727
Deferred tax assets	7	-	7
Trade and other receivables	96	-	96
Cash and cash equivalents	13	-	13
Current tax liabilities	-/- 21	-	-/- 21
Deferred tax liabilities	-/- 286	-/- 283	-/- 3
Trade and other payables	-/- 40	-	-/- 40
Net identifiable assets acquired and liabilities assumed	**5,987**	**1,208**	**4,779**

Surplus on acquisition	**02-03-2017** In € 1,000
Balance of identifiable net assets and liabilities acquired	5,987
Consideration paid	-/- 4,710
Acquisition-related costs	-/- 69
Surplus on acquisition	**1,208**

[8] Currently named: Arcona Capital Real Estate Trio Sp. z.o.o.
[9] Currently named: Arcona Poland B.V. Project 5 Sp.k.

12.30.2 Acquisition of Bywater Sp. z.o.o. Project 5 Sp.k.

The following table summarises the recognised amounts at fair value of assets acquired and liabilities assumed at the date of acquisition, as well as the “Surplus on acquisition”. The “Surplus on acquisition” relates to the amount by which the balance of the identifiable net assets acquired exceeds the consideration paid, including acquisition-related costs. This surplus is attributed to the acquired “Investment properties”.

Identifiable assets acquired and liabilities assumed	**Recognised values** In € 1,000	**Fair value adjustments** In € 1,000	**Acquisition carrying amount** In € 1,000
Investment property	9,129	609	8,520
Trade and other receivables	262	-	262
Cash and cash equivalents	368	-	368
Secured bank loans	-/- 7,046	-	-/- 7,046
Deferred tax liabilities	-/- 115	-/- 115	-
Trade and other payables	-/- 294	-	-/- 294
Net identifiable assets acquired and liabilities assumed	**2,304**	**494**	**1,810**

Surplus on acquisition	**06-07-2017** In € 1,000
Balance of identifiable net assets and liabilities acquired	2,304
Consideration paid	-/- 1,810
Acquisition-related costs	-
Surplus on acquisition	**494**

12.31 INVESTMENT PROPERTY

12.31.1 Analysis of investment properties

No.	Name of properties	Address	Fair value 31-12-2017	Fair value 31-12-2016
			In € 1,000	In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o. (Czech Republic)				
1	Drahobejlova	Drahobejlova 27, Prague	sold	1,854
2	Palmovka	Na Žertvách 34, Prague	2,788	3,354
3	Karlin	Prvního Pluku 621/8a, Prague	5,407	4,010
4	VUP	Šujanovo náměsti 3, Brno	2,524	2,021
5	PV 10	Politických Vězňu 10, Prague	5,524	4,874
In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)				
6	Záhradnicka	Záhradnícka 46, Bratislava	4,500	4,302
7	Pražská 2	Pražská 2, Košice	2,870	2,650
8	Pražská 4	Pražská 4, Košice	2,530	2,619
9	Krivá 18	Krivá 18, Košice	3,280	2,812
10	Krivá 23	Krivá 23, Košice	3,260	3,263
11	Gemerská	Gemerská 3, Košice	sold	1,433
12	Letná	Letná 45, Košice	10,200	10,110
13	Vural	Alexandra Rudnaya 21, Žilina	4,630	4,348
14	Kosmalt	Kysucká 16, Košice	6,010	6,171
In ownership of Arcona Capital Real Estate Poland Sp. z.o.o. (Poland)				
15	Laubitza	Laubitza 8, Inowroclaw	2,489	2,381
16	Lecia Inowroclawia	800-lecia Inowroclawia 27, Inowroclaw	3,097	3,569
17	Krzemowa	Krzemowa 1, Gdansk	3,135	2,930
18	Plutona	Plutona 1, Glogow	2,064	1,799
19	Kalinkowa	Kalinkowa 82, Grudziadz	2,976	3,015
20	Wojska Polsiekgo	Wojska Polskiego 137, Piotrkow Trybunalski	3,800	3,932
21	Wolnosci	Wolnosci 6, Slupsk	1,501	1,353
22	Graniczna	Graniczna 80-82, Kalisz	1,710	2,006
In ownership of Arcona Capital Real Estate Trio Sp. z.o.o. (Poland)				
23	Grzymaly Siedleckiego	Grzymaly Siedleckiego 20, Bydgoszcz	1,559	n.a.
24	Kardynala Wyszynskiego	Kardynala Wyszynskiego 107, Lodz	2,000	n.a.
25	Legionow	Legionow 216, Torun	2,785	n.a.
In ownership of Arcona Capital Poland B.V. Project 5 Sp.k. (Poland)				
26	Maris	Holdu Pruskiego 9 & 12 Malopolska 12, Szcecin	9,159	n.a.
	Total fair value		**89,798**	**74,806**

12.31.2 Statement of changes in investment properties

	2017	2016
	In € 1,000	In € 1,000
Balance as at 1 January	74,806	53,272
Acquisition of investment properties	13,247	21,182
Additions to investment properties	567	762
Fair value adjustments	3,602	-/- 208
Exchange rate differences	970	1
Reclassification (to “Assets held for sale”)	-/- 3,394	-/- 203
Balance as at 31 December	**89,798**	**74,806**

The “Reclassification” for the amount of € 3,394,000 negative relates to the investment properties Gemerská and Drahobejlova, which have been reclassified during the financial period to “Assets held for sale”(see also section 12.39).

12.31.3 Valuation of investment properties

The investment properties, stated under section 12.31.1 “Analysis of investment properties”, were valued by an external, independent appraiser as at 31 December of the reporting year. The valuations are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The fair values of the investment properties are primarily derived using the hard-core and top-slice method. All investment properties are valued at fair value.

12.31.4 Transactions (investment property) with related parties

The transactions executed during the financial period in respect to purchase and sale of investments were not executed with parties affiliated with the Managing Board or the Fund.

12.31.5 Sensitivity analysis

The appraisal of the portfolio implies an average weighted Reversion Yield of 11.7% (31 December 2016: 11.3%).

In case the yields used for the appraisals of investment properties on statement of financial position’s date had been 50 basis points higher, the value of the investment properties would have decreased by 0.6% (31 December 2016: 0.6%). In this situation, the shareholders’ equity would have been € 404,000 lower (31 December 2016: € 332,000 lower).

In case the yields used for the appraisals of investment properties statement of financial position’s date had been 50 basis points lower, the value of the investment properties would have increased by 0.6% (31 December 2016: 0.6%). In this situation, the shareholders’ equity would have been € 408,000 higher (31 December 2016: € 336,000 higher).

A sensitivity analysis with possible changes in Yield and Estimated Rental Value[10] (ERV) result in the following changes in portfolio value:

[10] Estimated Rental Value (ERV) is the external appraisers’ opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Change in ERV 2017	Change in yield -/- 0.50%	-/- 0.25%	0.00%	0.25%	0.50%
-/- 5.0%	-/- 4.2%	-/- 4.5%	-/- 4.7%	-/- 5.0%	-/- 5.3%
-/- 2.5%	-/- 1.8%	-/- 2.1%	-/- 2.4%	-/- 2.6%	-/- 2.9%
0.0%	0.6%	0.3%	0.0%	-/- 0.3%	-/- 0.6%
2.5%	3.0%	2.7%	2.4%	2.1%	1.8%
5.0%	5.3%	5.0%	4.7%	4.4%	4.1%

Change in ERV 2016	Change in yield -/- 0.50%	-/- 0.25%	0.00%	0.25%	0.50%
-/- 5.0%	-/- 3.8%	-/- 4.1%	-/- 4.4%	-/- 4.6%	-/- 4.9%
-/- 2.5%	-/- 1.6%	-/- 1.9%	-/- 2.2%	-/- 2.5%	-/- 2.7%
0.0%	0.6%	0.3%	0.0%	-/- 0.3%	-/- 0.6%
2.5%	2.8%	2.5%	2.2%	1.9%	1.6%
5.0%	5.0%	4.7%	4.4%	4.1%	3.8%

12.32 OTHER INVESTMENTS

12.32.1 Specification of other investments

	Principal of investment		Interest (in equity)	Interest rate (loan)
	In 1,000	In € 1,000	In %	In %
Yellow Properties, s.r.o.	CZK 279	36	5.0	n.a.
Eastern European Property Fund Limited	GBP -	-	< 0.1	n.a.
Loan Real Estate Central Europe Holding ApS	n.a.	n.a.	n.a.	1.0

12.32.2 Analysis of other investments

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Non-current part of other investments	6	20
Current part of other investments	-	70
	6	**90**

12.32.3 Statement of changes in other investments

	Yellow Properties	EEPFL[11]	RECE Holding[12]	Total 2017	Total 2016
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January	20	-	70	90	76
Purchases / Loans advanced	-	-	-	-	70
Exchange rate differences	1	-	-	1	-
Fair value adjustments	-/- 2	-	-	-/- 2	-/- 21
Sales / redemptions	-/- 13	-	-/- 70	-/- 83	-/- 35
Balance as at 31 December	**6**	**-**	**-**	**6**	**90**

[11] EEPFL: Eastern European Property Fund Limited.
[12] RECE Holding ApS: Real Estate Central Europe Holding ApS (registered office in Denmark).

12.32.4 Sales / redemptions of other investments

During the financial period the share capital of Yellow Properties, s.r.o. was reduced with about 60%. During the financial period the reduction of the share capital of Yellow Properties, s.r.o. for the amount of CZK 337,000 (€ 13,000) was fully received by the Fund.

During the financial period the redemption of the loan Real Estate Central Europe Holding ApS for the amount of € 70,000 was fully received by the Fund.

12.33 ANALYSIS RECOGNISED DEFERRED TAXES

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2017 In € 1,000
Investment property (concerning fair value adjustments)	373	932	-/- 559
Investment property (concerning other tax differences)	235	3,797	-/- 3,562
Accruals	123	68	55
Interest rate swaps used for hedging	11	-	11
Trade receivables (impairments)	13	-	13
Interest shareholders' loans (unpaid)	68	-	68
Tax losses (carried forward)	177	-	177
Secured bank loans	-	142	-/- 142
Intercompany loans	-	218	-/- 218
	1,000	**5,157**	**-/- 4,157**

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2016 In € 1,000
Investment property (concerning fair value adjustments)	170	1,289	-/- 1,119
Investment property (concerning other tax differences)	19	2,842	-/- 2,823
Accruals	44	-	44
Interest rate swaps used for hedging	25	-	25
Trade receivables (impairments)	11	-	11
Interest shareholders' loans (unpaid)	7	-	7
Tax losses (carried forward)	615	-	615
Secured bank loans	-	19	-/- 19
Intercompany loans	-	25	-/- 25
Other investments	-	2	-/- 2
	891	**4,177**	**-/- 3,286**

12.34 DEFERRED TAX ASSETS

12.34.1 Analysis of recognised deferred tax assets

	Will expire 31-12-2017 In € 1,000	Will never expire 31-12-2017 In € 1,000	Total 31-12-2017 In € 1,000
Investment property	-	608	608
Accruals	-	123	123
Interest rate swaps used for hedging	-	11	11
Trade receivables (impairments)	-	13	13
Interest intercompany loans (unpaid)	-	68	68
Tax losses (carried forward)	177	-	177
	177	**823**	**1,000**

	Will expire 31-12-2016 In € 1,000	Will never expire 31-12-2016 In € 1,000	Total 31-12-2016 In € 1,000
Investment property	-	189	189
Accruals	-	44	44
Interest rate swaps used for hedging	-	25	25
Trade receivables (impairments)	-	11	11
Interest intercompany loans (unpaid)	-	7	7
Tax losses (carried forward)	615	-	615
	615	**276**	**891**

An allocation of the recognised deferred tax assets to the various geographic segments is presented in section 12.29.6 “Overview of geographic assets and liabilities (overview B)”.

12.34.2 Analysis of recognised tax losses

	2017 In € 1,000	2016 In € 1,000
Expires in 2017	-	140
Expires in 2018	88	88
Expires in 2019	2	
Expires in 2020	60	387
Expires in 2021	14	-
Expires in 2022	13	-
Balance as at 31 December	**177**	**615**

Based on the forecast tax results the Managing Board expects (taking into account local tax law and regulations) that in the future there will be sufficient taxable profit to set-off these tax losses.

12.34.3 Statement of changes in recognised deferred tax assets

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	891	710
Adjustments related to prior years	38	-/- 24
Additions	816	419
Withdrawals	-/- 774	-/- 200
Change in tax rate	1	-/- 13
Exchange rate differences	28	-/- 1
Balance as at 31 December	**1,000**	**891**

Based on the forecast tax results the Managing Board expects (taking into account local tax law and regulations) that there will be sufficient taxable profit in the future to set-off these tax losses.

12.34.4 Analysis of unrecognised deferred tax assets

	Will expire 31-12-2017 In € 1,000	Will never expire 31-12-2017 In € 1,000	Total 31-12-2017 In € 1,000
Investment property	-	57	57
Secured bank loans	-	138	138
Interest intercompany loans (unpaid)	-	119	119
Trade receivables (impairments)	-	44	44
Accruals	-	6	6
Tax losses (carried forward)	863	-	863
	863	**364**	**1,227**

	Will expire 31-12-2016 In € 1,000	Will never expire 31-12-2016 In € 1,000	Total 31-12-2016 In € 1,000
Investment property	-	276	276
Assets held for sale	-	12	12
Tax losses (carried forward)	798	-	798
	798	**288**	**1,086**

12.34.5 Analysis of unrecognised tax losses

	2017 In € 1,000	2016 In € 1,000
Expires in 2020	75	245
Expires in 2022	129	94
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	354	363
Expires in 2026	209	-
Balance as at 31 December	**863**	**798**

The Managing Board expects (taking into account local tax law and regulations) that in the future there will be insufficient taxable profit to set-off these tax losses.

12.34.6 Statement of changes in unrecognised deferred tax assets

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	1,086	986
Adjustments related to prior years	-/- 10	25
Additions as a result of acquisitions	410	-
Additions	254	363
Withdrawals	-/- 532	-/- 288
Exchange rate differences	19	-
Balance as at 31 December	**1,227**	**1,086**

12.35 TRADE AND OTHER RECEIVABLES

12.35.1 Analysis of trade and other receivables

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Non-current part of trade and other receivables	10	-
Current part of trade and other receivables	4,432	468
	4,442	**468**

12.35.2 Specification of trade and other receivables

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Sold properties	3,797	-
Trade receivables	580	380
Invoiceable amounts	2	17
Interest	-	2
Other receivables	63	69
	4,442	**468**

The receivable from “Sold properties” for the amount of € 3,797,000 relates to the investment property Drahobejlova, which has been sold at the end of November 2017. The amount has been received in full during February 2018.

12.35.3 Analysis of trade receivables

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Trade receivables (gross)	1,133	634
Provision for doubtful receivables	-/- 553	-/- 254
	580	**380**

12.36 PREPAYMENTS / LEASE INCENTIVES

12.36.1 Analysis of prepayments / lease incentives

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Non-current part of trade and other receivables	69	-
Current part of trade and other receivables	533	155
	602	**155**

12.36.2 Specification of prepayments / lease incentives

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Deferred expenses	326	40
Prepayments	256	115
Lease incentives	20	-
	602	**155**

12.37 CASH AND CASH EQUIVALENTS

12.37.1 Analysis of cash and cash equivalents

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Non-current part of cash and cash equivalents	300	637
Current part of cash and cash equivalents	2,619	1,766
	2,919	**2,403**

The cash and cash equivalents are entirely at the free disposal of the Fund, with the exception of an amount of € 300,000 at Slovenská Sporiteľňa (31 December 2016: CZK 9.1 million (€ 337,000) at Sberbank and € 300,000 at Slovenská Sporiteľňa). These amounts are retained as security for the secured bank loans.

12.37.2 Specifications of current part of cash and cash equivalents

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Bank balances	2,746	1,763
Deposits	168	-
Cash	5	3
	2,919	**1,766**

12.38 CURRENT TAX ASSETS

12.38.1 Specification of current tax assets

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Value Added Tax (VAT)	-	4,934
Corporate Income Tax (CIT)	76	2
	76	**4,936**

The “Value Added Tax (VAT)” in the comparative figures for the amount of € 4,934,000 concerns mainly the VAT receivable with regard to the acquisition of the Polish retail investment portfolio during December 2016.

12.39 ASSETS HELD FOR SALE

12.39.1 Analysis of assets held for sale

No.	Name of properties	Address	Fair value 31-12-2017 In € 1,000	Fair value 31-12-2016 In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o.				
1	VUP	Šujanovo náměsti 3, Brno	Sold	203
2	Gemerská	Gemerská 3, Košice	Sold	n.a.
3	Drahobejlova	Drahobejlova 27, Prague	Sold	n.a.

12.39.2 Statement of changes in assets held for sale

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	203	-
Reclassification (from “Investment property”)	3,394	203
Additions	20	-
Sales	-/- 5,362	-
Fair value adjustments	1,795	-
Exchange rate differences	-/- 50	-
Balance as at 31 December	**-**	**203**

The “Reclassification” for the amount of € 3,394,000 relates to the investment properties Gemerská and Drahobejlova, which has been reclassified during the financial period from “Investment property” (see also section 12.31).

12.39.3 Valuation of assets held for sale

The assets held for sale, stated under section 12.39.1 “Analysis of assets held for sale”, were valued by an external, independent appraiser as at 31 December of the current year. The valuations are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The market value of the investment properties (held for sale) are primarily derived using the hard-core and top-slice method. All assets held for sale are valued at fair value, without deduction of costs of sale.

12.40 SHAREHOLDERS' EQUITY

12.40.1 Comparative statement

	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013
Shareholders' equity (in € 1,000)	**42,036**	**36,452**	**28,569**	**28,554**	**26,814**
Number of ordinary shares in issue	3,138,158	3,138,158	1,411,713	1,411,713	1,296,819
Number of registered shares in issue	26,991	26,991	26,991	26,991	42,888
Total number of shares in issue entitled to profit	**3,165,149**	**3,165,149**	**1,438,704**	**1,438,704**	**1,339,707**
Net Asset Value per ordinary and registered share (in €)	**13.28**	**11.52**	**19.86**	**19.85**	**20.01**

12.40.2 (Interim) distribution to shareholders

Based on the interim company financial statements dated 30 June 2017 the Managing Board provided on interim distribution to the shareholders in the amount of € 0.10 per ordinary and registered share. The ex-dividend date was 7 August 2017. Payment date was 9 August 2017.

12.40.3 "Closed-end" structure

The Fund operates as a closed-end company. Ordinary shares can be traded continuously through Euronext Fund Services (EFS) in Amsterdam. The registered shares are currently restricted from trading on Euronext Fund Services (EFS) in Amsterdam.

12.40.4 Capital Management

All issued ordinary and registered shares are part of the Fund's capital management responsibilities. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Fund reserves the right to declare dividends or make distributions if the Managing Board so decides.

12.41 ISSUED CAPITAL

12.41.1 Analysis of issued capital

	31-12-2017	31-12-2017	31-12-2016	31-12-2016
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	3,138,158	15,691	3,138,158	15,691
Registered shares (at € 5.00 each)	26,991	135	26,991	135
Priority shares (at € 5.00 each)	1	-	1	-
Issued capital	**3,165,150**	**15,826**	**3,165,150**	**15,826**

12.41.2 Ordinary shares

The holders of ordinary shares are entitled to dividends, the distribution of which has been resolved by the General Meeting of Shareholders. The holders of ordinary shares are entitled to exercise one vote per ordinary share at the General Meeting of Shareholders.

	2017	2017	2016	2016
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	3,138,158	15,691	1,411,713	7,059
Issued for payment in cash	-	-	1,726,445	8,632
Balance in issue as at 31 December fully paid	**3,138,158**	**15,691**	**3,138,158**	**15,691**

12.41.3 Registered shares

The registered shares are held by Arcona Capital GmbH and are currently restricted from trading on Euronext Fund Services (EFS) in Amsterdam.

	2017	2017	2016	2016
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	26,991	135	26,991	135
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**26,991**	**135**	**26,991**	**135**

12.41.4 Priority shares

From the profit earned in a financial period, primarily and as far as possible a dividend is distributed on the priority shares amounting to seven per cent (7%) on an annual basis, calculated over the nominal value of the priority shares. No further distributions are made on the priority shares.

	2017	2017	2016	2016
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1	-	1	-
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**1**	**-**	**1**	**-**

12.41.5 Analysis of authorised share capital

	31-12-2017 In pieces	31-12-2017 In € 1,000	31-12-2016 In pieces	31-12-2016 In € 1,000
Ordinary shares (at € 5.00 each)	4,999,999	25,000	4,999,999	25,000
Priority shares (at € 5.00 each)	1	-	1	-
Authorised share capital	**5,000,000**	**25,000**	**5,000,000**	**25,000**

12.42 SHARE PREMIUM

The “Share premium” comprises the amount paid in by the shareholders on ordinary and registered shares of the Fund over and above the nominal value. The uplift received on issuance of own ordinary and preferred shares or the reduction applied on redemption of own ordinary and registered shares is recognised directly in the share premium reserve.

The paid-up share premium for tax purposes as at 31 December 2017 was € 16,110,000 (31 December 2016: € 16,426,000).

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	16,426	16,786
Distributions to shareholders	-/- 316	-/- 360
Balance as at 31 December	**16,110**	**16,426**

12.43 REVALUATION RESERVE

The “Revaluation reserve” comprises the cumulative unrealised positive net change in the fair value of the properties (“Investment property” as well as investment properties classified as “Assets held for sale”), less the related deferred tax liabilities. The deferred tax liabilities are deducted with due regard for the principles of valuation for deferred taxes (see section 12.28 “Income tax expense”). In case of sale of property the cumulative unrealised positive net change in the fair value of the property sold, as well as the related deferred tax liabilities, are no longer stated in the “Revaluation reserve” but recognised under “Retained earnings”.

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	4,524	4,157
Addition to / reduction on (-) change in fair value during the financial period	2,672	367
Balance as at 31 December	**7,196**	**4,524**

12.44 RESERVE FOR CURRENCY TRANSLATION DIFFERENCES

The “Reserve for currency translation differences” comprises the exchange rate differences that arise from the foreign currency translation of net investments in group companies outside the euro-zone into the Fund’s reporting currency.

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	1,973	2,245
Realised currency results on net investments	-/- 172	1
Unrealised currency results on net investments	503	-/- 273
Balance as at 31 December	**2,304**	**1,973**

12.45 EQUITY COMPONENT CONVERTIBLE BONDS

This reserve comprises the amount allocated to the equity component for the convertible bonds as issued by the Fund (see section 12.48.4 “Analysis of convertible bonds”).

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	266	91
Additions in connection with issued convertible bonds	-	144
Income tax on equity component convertible bonds	-	31
Balance as at 31 December	**266**	**266**

12.46 RETAINED EARNINGS

The Managing Board will propose to the General Meeting of Shareholders to add the whole of the remaining profit for the 2017 financial period to the “Retained earnings”.

This proposal has already been recognised in the consolidated statement of financial position.

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	-/- 2,563	-/- 1,904
Profit for the period	5,569	-/- 292
	3,006	-/- 2,196
Change in revaluation reserve	-/- 2,672	-/- 367
Balance as at 31 December	**334**	**-/- 2,563**

12.47 CALCULATION OF NET ASSET VALUE

For the calculation of the Net Asset Value (NAV), used as basis for the listing price during the financial period, the deferred tax concerning fair value adjustments of investment property and development property held for investment are eliminated for 50% (the amounts of these deferred taxes are mentioned in section 12.26 “Analysis recognised deferred taxes”). The percentage of 50% is an estimation of the present value of the tax applicable in the (near) future. In this annual report the deferred tax liabilities are taken into account without applying any discount, which is in accordance with IFRS and not required by EPRA.

	31-12-2017	31-12-2016
Shareholders’ equity in accordance with IFRS (in € 1,000)	42,036	36,452
Deferred tax liabilities concerning fair value adjustments of investment property and development property held for investment (in € 1,000)	279	560
Shareholders’ equity in accordance with NAV (in € 1,000)	**42,315**	**37,012**
Number of shares in issue entitled to profit	**3,165,149**	**3,165,149**
Net Asset Value[13] per share (in €)	**13.37**	**11.69**

12.48 LOANS AND BORROWINGS

12.48.1 Analysis of loans and borrowings

	Non-current liabilities 31-12-2017 In € 1,000	Current liabilities 31-12-2017 In € 1,000	Total 31-12-2017 In € 1,000
Secured bank loans	34,424	2,127	36,551
Convertible bonds	4,427	1,417	5,844
Other long-term liabilities	4,710	2,000	6,710
	43,561	**5,544**	**49,105**

	Non-current liabilities 31-12-2016 In € 1,000	Current liabilities 31-12-2016 In € 1,000	Total 31-12-2016 In € 1,000
Secured bank loans	19,268	16,702	35,970
Convertible bonds	5,786	-	5,786
Other long-term liabilities	67	-	67
	25,121	**16,702**	**41,823**

The current liabilities in the comparative figures as at 31 December 2016 for the amount of € 16,702,000 relate in particular to the short-term VAT loan Raiffeisen Polbank (for the amount of € 4,873,000) and the tranche A and B of the secured bank loan for the acquisition of the 8 assets in Poland (for the amount of € 10,530,000).

The VAT loan was fully redeemed during February 2017, since the VAT-receivable towards the Polish Tax Authority was received.

[13] EPRA

In the comparative figures as at 31 December 2016 the secured bank loan Raiffeisen Polbank was classified as a short-term liability, considering the shareholders' equity of Arcona Capital Real Estate Poland Sp. z.o.o. was slightly negative. The Fund immediately submitted to the Bank a remedy plan. The plan envisages a conversion of a part of shareholders' loan into equity. This plan however requires Bank's consent and was processed during 3rd quarter of 2017. Therefore the secured bank loan Raiffeisen Polbank is classified as a long-term liability, with the exception of the short-term repayment obligations.

12.48.2 Statement of changes in secured bank loans

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	35,970	19,710
Additions as a result of acquisition	7,046	-
Loans advanced	-	17,493
Redemptions	-/- 7,212	-/- 1,072
(Amortisation) flat fee	90	-/- 201
Exchange rate differences	657	40
Balance as at 31 December	**36,551**	**35,970**

12.48.3 Pledges to banks and bank covenants

As at statement of financial position's date the following securities were provided to and bank covenants agreed with the several banks to secure their bank loans.

	Sberbank	Slovenská Sporiteľňa	Raiffeisen Polbank	DNB Nordbank
Carrying amount secured bank loans (in € 1,000)	8,257	11,500	10,001	6,793
Weighted average interest rate	3.01	2.45	3.54	2.67
Debt Service Coverage Ratio (DSCR)	1.32	1.51	1.32	0.90
Loan to value (LTV)	50.9%	31.0%	48.3%	74.2%
Withdrawable credit facilities	8,257	14,000	10,001	6,793
Securities:				
• Carrying amount "Investment property" (in € 1,000)	16,243	37,280	20,772	9,159
• Carrying amount "Assets held for sale" (in € 1,000)	-	-	-	-
• Carrying amount "Trade and other receivables" (in € 1,000)	3,833	201	223	n.a.
• Carrying amount "Cash and cash equivalents" (in € 1,000)	569	633	216	n.a.
Bank covenants:				
• Debt Service Coverage Ratio (DSCR) (minimum)	1.10	1.25	1.20	n.a.
• EBITDA / annual installments of bank or other loans	110%	n.a.	n.a.	n.a.
• Debt Service Reserve Account (DSRA) (in € 1,000)	n.a.	300	n.a.	n.a.
• Capital expenditure (CAPEX) (in € 1,000)	n.a.	300	n.a.	n.a.
• EBITDA (in € 1,000)	n.a.	1,600	n.a.	n.a.
• Loan to value	n.a.	45.0%	65.0%	80.0%
• Negative shareholders' equity			None	
• Issued shares pledged?	Yes	No	Yes	No

For more information with regard to pledged issued capital see section 15.5.3.

As at statement of financial position's date, the Fund's financing covenants remain in line with the commitments in its financing agreements.

The secured bank loan Raiffeisen Polbank is split into Tranche A (for the nominal amount of € 9,450,000) and Tranche B (for the nominal amount of € 1,050,000). Tranche B of the secured bank loan Raiffeisen Polbank relates to the investment property "Kalisz", which is not currently leased to tenants. Tranche B has to be repaid together with Tranche A (based on 20-year amortisation of the loan) after their consolidation on the 2nd anniversary of disbursement (December 2018):

- when the investment property should be commercialized and new valuation of the investment property (min. LTV 65%) based on concluded lease agreements;
- DSCR for the tranche B min. 1.20 x calculated on headline rents;
- All other covenants for the loan are met (verification forward-looking).

If above conditions are not met till the 2nd anniversary of disbursement (December 2018), tranche B is to be repaid during December 2018 until 30 November 2019.

12.48.4 Analysis of convertible bonds

No	Date of issue	Convertible as of	Date of maturity	Nominal interest rate	Conversion price	Face value	Carrying amount 31-12-2017	Carrying amount 31-12-2016
				In %	In €	In € 1,000	In € 1,000	In € 1,000
1	01-12-2014	01-12-2015	01-12-2019	6.00	8.24	1,070	1,042	1,029
2	20-02-2015	20-02-2016	20-02-2018	6.00	8.48	1,420	1,417	1,397
3	17-10-2016	01-11-2016	31-10-2021	6.50	8.76	3,500	3,385	3,360
						5,990	**5,844**	**5,786**

12.48.5 Statement of changes in convertible bonds

	2017	2016
	In € 1,000	In € 1,000
Balance as at 1 January	5,786	2,395
Proceeds from issue	-	3,500
Amount classified as equity	-	-/- 144
Accreted interest	58	35
Balance as at 31 December	**5,844**	**5,786**

12.48.6 Valuation of convertible bonds

The valuation of convertible bonds, stated under section 12.48.4 "Analysis of convertible bonds", is recognised at amortised cost, using the effective interest method (see section 12.9.6 "Compound financial instruments"). The average weighted interest rate used is 7.5%, based on the estimated average interest rate to be paid on comparable non-convertible bonds.

12.48.7 Analysis of other long-term liabilities

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Secured vendor loan Real Estate Central Europe AS	4,710	-
Unsecured loan H.M. van Heijst	2,000	-
Advance payments from tenants	-	67
	6,710	**67**

12.48.8 Statement of changes of other long-term liabilities

	Secured vendor loan RECE[14] In € 1,000	Unsecured loan H.M. van Heijst In € 1,000	Advance payments from tenants In € 1,000	Total 2017 In € 1,000	Total 2016 In € 1,000
Balance as at 1 January	-	-	67	67	59
Reclassification (to "Trade and other payables")	-	-	-/- 67	-/- 67	-
Loans / payments advanced	4,710	2,000	-	6,710	64
Redemptions	-	-	-	-	-/- 57
Exchange rate differences	-	-	-	-	1
Balance as at 31 December	**4,710**	**2,000**	**-**	**6,710**	**67**

12.48.9 Conditions of other long-term liabilities

As at statement of financial position's date the following conditions are applicable with regard to the other long-term liabilities:

- Secured vendor loan RECE: a weighted average interest rate of 1% is applicable. The issued capital of Arcona Real Estate Trio Sp. z.o.o. is pledged;
- Unsecured loan H.M. van Heijst: a weighted average interest rate of 6% is applicable. There are no securities given.

12.49 TRADE AND OTHER PAYABLES

12.49.1 Analysis of trade and other payables

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Non-current part of trade and other payables	71	45
Current part of trade and other payables	1,699	1,115
	1,770	**1,160**

12.49.2 Specification of trade and other payables

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Trade payables	352	415
Accruals	850	431
Interest rate swaps used for hedging	59	132
Interest payables	90	116
Administrative expenses	419	65
Other liabilities	-	1
	1,770	**1,160**

The increase of the "Accruals" compared to the comparative figures is mainly caused by the transaction costs on sale of the investment property Drahobejlova, which has been sold during November 2017.

The increase of the "Administrative expenses" compared to the comparative figures is caused by the "Performance-related remuneration (see also section 12.49.3).

[14] RECE: Real Estate Central Europe AS (registered office in Norway).

12.49.3 Specification of administrative expenses

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Management fee	73	65
Performance-related remuneration	346	-
	419	**65**

12.50 DEFERRED INCOME AND TENANTS DEPOSITS

12.50.1 Analysis of deferred income and tenants deposits

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Non-current part of deferred income and tenants deposits	310	29
Current part of deferred income and tenants deposits	327	248
	637	**277**

12.50.2 Specification of deferred income and tenants deposits

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Deposits received from tenants	525	277
Advance payments received from tenants	86	-
Lease incentives	26	-
	637	**277**

12.51 DEFERRED TAX LIABILITIES

12.51.1 General

The deferred tax liabilities relate to the differences between the carrying amount of the assets and liabilities and the book value of the assets and liabilities for tax purposes.

12.51.2 Analysis of recognised deferred tax liabilities

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Investment property	4,729	4,131
Intercompany loans	218	25
Secured bank loans	142	19
Accruals	68	-
Other investments	-	2
	5,157	**4,177**

12.51.3 Statement of changes in recognised deferred tax liabilities

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	4,177	4,271
Adjustments related to prior years	-	-/- 22
Additions	1,490	365
Withdrawal	-/- 628	-/- 273
Change in tax rate	62	-/- 164
Exchange rate differences	56	-
Balance as at 31 December	**5,157**	**4,177**

12.52 CURRENT TAX LIABILITIES

12.52.1 Analysis of current tax liabilities

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Value Added Tax (VAT)	109	63
Corporate Income Tax (CIT)	22	-
Withholding Tax (WHT)	7	-
	138	**63**

12.53 LEASE AGREEMENTS

12.53.1 Lease agreements in which the Fund is lessee

The Fund has not entered as lessee into operating or finance lease agreements other than the operating leases indicated in section 12.58.4 “Non-cancellable operating leases”.

12.53.2 Lease agreements in which the Fund is lessor

The Fund has not entered as lessor into operating or finance lease agreements other than the leases indicated in section 12.57.2 “Non-cancellable leases”.

12.54 CONTINGENT ASSETS

As at statement of financial position’s date the Fund has the following contingent assets:

A. The Fund has a contingent asset towards the sellers of RECE Progress Sp. z.o.o. (currently named: Arcona Capital Real Estate Trio Sp. z.o.o.) for the amount of € 500,000 (the “shares’ purchase price reduction”). The shares’ purchase price reduction applies if Arcona Capital Real Estate Poland Sp. z.o.o. is obliged to repay Tranche B of the secured bank loan (received from Raiffeisen Polbank for the amount of € 1,050,000) on or before the 3rd anniversary of the disbursement of Tranche B. For the obligations of Arcona Capital Real Estate Poland Sp. z.o.o. to repay Tranche B is referred to section 8.26. The shares’ purchase price reduction shall take effect automatically on the date of full or partial repayment of Tranche B of the secured bank loan. In case of partial repayment of Tranche B, the share purchase price reduction will be adjusted in proportion to the Tranche B repayment. Simultaneously with the shares’ purchase price reduction indicated above, the vendor loan amount towards “RECE” (see section 12.48.7) shall be reduced with the same amount.

12.55 NON-CONTINGENT LIABILITIES

As at statement of financial position’s date the Fund has the following non-contingent liabilities:

A. Arcona Capital Real Estate Trio Sp. z.o.o. has a non-contingent liability towards the lessor with regard to the land lease of 3 investment properties (Bydgoszcz, Lodz and Torun). The main conditions are as follows:
   - Bydgoszcz: land lease agreement for a plot of 4,862 m^2 till 16 January 2025 with a land lease fee of PLN 249,000 (€ 60,000) per annum;
   - Lodz: land lease agreement for a plot of 4,998 m^2 till 1 November 2029 with a land lease fee of PLN 254,000 (€ 61,000) per annum;
   - Torun: land lease agreement for a plot of 7,262 m^2 till 30 June 2030 with a land lease fee of PLN 276,000 (€ 66,000) per annum.

As at statement of financial position’s date the Fund was not subject to contractual obligations concerning investments, repairs, maintenance or other non-contingent liabilities that will be settled in the following financial period.

12.56 CONTINGENT LIABILITIES

As at statement of financial position’s date the Fund has the following contingent liabilities:

A. Arcona Capital RE Bohemia s.r.o. has a contingent liability for the amount of CZK 6,133,000 (€ 240,000) towards the buyer of the investment property Štefánikova with regard to rent received in advance by Arcona Capital RE Bohemia s.r.o. for usage of the parking places (free of payment) by the lessee of Štefánikova. Based on the agreement (2012) the buyer of Štefánikova will pay the taxes with regard to this rent;

B. Arcona Capital Real Estate Poland Sp. z.o.o. has a contingent liability towards Raiffeisen Polbank with regard to Tranche B of the secured bank loan for the amount of € 1,050,000 relating to the investment property "Kalisz", which is not currently leased to tenants. Tranche B has to be repaid together with Tranche A (based on 20-year amortisation of the loan) after their consolidation on the 2nd anniversary of disbursement (December 2018):

- when the investment property should be commercialized and new valuation of the investment property (min. LTV 65%) based on concluded lease agreements;
- DSCR for the tranche B min. 1,20 x calculated on headline rents;
- all other covenants for the loan are met (verification forward-looking).

If the above conditions have not been met by the 2nd anniversary of disbursement (December 2018), tranche B is to be repaid in instalments from December 2018 to 30 November 2019;

C. The Fund has a contingent liability towards the sellers of RECE Progress Sp. z.o.o. (currently named: Arcona Capital Real Estate Trio Sp. z.o.o.) for the maximum amount of € 1,500,000 (the "shares' purchase price increase").

The shares' purchase price increase applies if:

- Arcona Capital Real Estate Poland Sp. z.o.o. refinances the secured bank loan of Raiffeisen Polbank by 12 December 2022;
- or the Fund sells any of the 11 owned properties obtained through Arcona Capital Real Estate Poland Sp. z.o.o. and Arcona Capital Real Estate Trio Sp. z.o.o.: the acquisition of the 11 properties hereinafter mentioned as: ("RECE");
- or the Fund sells any part of the shares of Arcona Real Estate Trio Sp. z.o.o. by 12 December 2022.

The shares' purchase price will be increased by the amount equal to 50% of the positive difference between (I) the net proceeds gained from the loan amount utilized to the Fund under the refinancing documents (net of any fees paid to the refinancing bank, legal costs, valuation costs, breakage costs to existing bank etc.), and (II) the outstanding amount of the secured bank loan;

or on the event of the sale of the owned properties obtained through "RECE" or shares of Arcona Capital Real Estate Trio Sp. z.o.o. the difference between (I) the net proceeds gained from the sale of any of the owned properties obtained through "RECE" or shares of Arcona Capital Real Estate Trio Sp. z.o.o., and (II) the relevant part of the net consideration.

In the event of refinancing referred to above, the "shares' price increase" shall take effect automatically on the date the refinanced amount is utilized to the Fund ("refinancing date").

In the event of the sale referred to above, the "shares' price increase" will take place on the earlier of:

- on the day of the sale of the last of the owned properties obtained through "RECE" or the last of the shares of Arcona Capital Real Estate Trio Sp. z.o.o.;
- or by 12 December 2022 ("sale settlement date").

The payment of the relevant "shares' purchase price increase" shall be made within 14 business days from the "refinancing date" or the "sale settlement date".

As at statement of financial position's date the Fund was not subject to any further contingent liabilities, including any obligations that result from security transactions related to (exchange) rate risk in connection with investments.

12.57 GROSS RENTAL INCOME

12.57.1 General

During the financial period, as well as during the previous financial period no contingent rental income was accounted for as income in the income statement. Leases for a determined time are normally indexed yearly with annual inflation stated by respectively the Czech, Slovak and Polish central banks. New leases for a determined time are normally signed for a term of five years. All these lease contracts normally include at least a three-month deposit.

Weighted to the fair value, the weighted average percentage of the vacant space of the investment properties in the portfolio at the end of 2017 was 20.1% (2016: 20.9%).

12.57.2 Non-cancellable leases

The gross rental income receivable on account of non-cancellable leases related to the investment properties as at 31 December of the relevant financial period is as follows (the future minimum gross rental income receivable in foreign currency has been translated at the applicable exchange rate as at 31 December of the relevant financial period):

	31-12-2017	**31-12-2016**
	In € 1,000	In € 1,000
< 1 year	6,311	5,206
1 - 5 years	10,892	8,182
> 5 years	5,121	2,398
	22,324	**15,786**

12.58 REBILLED AND NON-REBILLED SERVICE CHARGES AND PROPERTY OPERATING EXPENSES

12.58.1 General

In connection with the fact that the Fund invoices the service charges independently (or as principal) to the lessees on the basis of the leases entered into, such reimbursed service charges are shown separately in the income statement. The work associated with the service charges is carried out either by the Fund, or by third parties on a contract basis. Contracts for the performance of service work are normally entered into for a maximum period of six months.

12.58.2 Analysis of property operating expenses

	2017	**2016**
	In € 1,000	In € 1,000
Property management	633	468
Asset management	601	469
Maintenance expenses in respect of investment properties	945	432
Taxes on investment properties	339	185
Land lease	160	-
Commission fees	68	64
Insurance premiums	39	23
Other property operating expenses	9	12
	2,794	**1,653**

12.58.3 Allocation of service charges and property operating expenses

The determination of costs connecting with not rented investment properties is based on investment properties that had an average vacancy of more than 10% during the financial period. The analysis of the service charges and direct operating expenses to the investment properties, whether or not rent-generating, is as follows:

	2017	**2016**
	In € 1,000	In € 1,000
For investment properties let	4,984	3,056
For investment properties not let	749	548
	5,733	**3,604**

12.58.4 Non-cancellable operating leases

The non-cancellable operating leases related to the investment properties as at 31 December of the relevant financial period is as follows (the future non-cancellable operating leases in foreign currency have been translated at the applicable exchange rate as at 31 December of the relevant financial period):

	31-12-2017	**31-12-2016**
	In € 1,000	In € 1,000
< 1 year	180	-
1 - 5 years	720	-
> 5 years	986	-
	1,886	**-**

12.59 VALUATION RESULTS OF PROPERTIES

12.59.1 Analysis of valuation results of properties

	2017	**2016**
	In € 1,000	In € 1,000
Investment properties	3,744	-/- 208
Properties held for sale	-/- 351	-
	3,393	**-/- 208**

12.59.2 Specification of valuation results of properties

	2017	**2016**
	In € 1,000	In € 1,000
Unrealised value adjustments booked in current year	3,602	-/- 208
Unrealised value adjustments booked in prior years	-/- 352	-
	3,250	**-/- 208**

12.60 RESULTS ON DISPOSALS OF PROPERTIES

12.60.1 Analysis of results on disposals of properties

	2017 In € 1,000	2016 In € 1,000
Drahobejlova, located in Prague (Czech Republic)	2,171	-
Gemerská, located in Košice (Slovakia)	-/- 190	-
Part of VUP, located in Brno (Czech Republic)	-/- 104	-
	1,877	**-**

12.60.2 Specification of results on disposals of properties

	2017 In € 1,000	2016 In € 1,000
Realised value adjustments booked in current year	1,795	-
Realised value adjustments booked in prior years	352	-
	2,147	-
Consultancy fees and legal fees	-/- 270	-
	1,877	**-**

12.61 NET RESULTS ON PROPERTIES

	2017 In € 1,000	2016 In € 1,000
Valuation gains	7,624	1,804
Valuation losses	-/- 2,227	-/- 2,012
	5,397	**-/- 208**
Costs on sale of properties	-/- 270	-
	5,127	**-/- 208**

12.62 PROFIT ON DISPOSAL OF INVESTMENTS IN GROUP COMPANIES

Profit on disposal of investments in group companies comprises gains or losses resulting from the sale of investments in group companies sold during the financial period, i.e. the amount received above the book value of the group company at the selling date. The group companies are valued at selling date in accordance with the Fund’s own accounting policies.

During the financial period the Fund sold no investments in group companies.

12.63 FINANCIAL INCOME

	2017 In € 1,000	2016 In € 1,000
Released from “Reserve for currency translation differences”	172	273
Change in fair value of derivatives	79	-
Net dividend from “Other investments”	5[15]	10
Interest income	1	2
Other exchange and currency translation results	35	-
	292	**285**

12.64 OTHER OPERATING INCOME

	2017 In € 1,000	2016 In € 1,000
Penalty interest and fees	14	3
Early termination of rent contracts	72	-
Other operating income	37	11
	123	14
Transfer tax on acquisition of immovable property previous years	43	-
	166	**14**

12.65 ADMINISTRATIVE EXPENSES

12.65.1 Specification administrative expenses

	2017 In € 1,000	2016 In € 1,000
Management fee	675	439
Performance-related remuneration	346	-
	1,021	**439**

12.65.2 Management fee

This is the total fee received by the Managing Board (Arcona Capital Fund Management B.V.) for the Management it performs. The total Management fee consists of the Fund Management fee as well as the Asset Management fee. The Management fee is calculated by percentages on the value of the Fund’s total assets at month-end. In accordance with the Fund’s prospectus, the Registration Document dated 19 October 2016 in conjunction with the Security Note dated 28 October 2016 these percentages are:

- For the assets below € 75 million: 1.50% per annum (0.125% per month);
- For the assets from € 75 million and above: 1.00% per annum (0.083% per month).

[15] Concerns return of Withholding Tax Yellow Properties ,s.r.o. with regard to previous years.

12.65.3 Specification Management fee

	2017 In € 1,000	2016 In € 1,000
Management fee	1,276	908
Asset Management fee Arcona Capital Czech Republic s.r.o.	-/- 474	-/- 469
Asset Management fee Arcona Capital Poland Sp. z.o.o.	-/- 127	-
	-/- 601[16]	-/- 469
Fund Management fee (Arcona Capital Fund Management B.V.)	**675**	**439**

12.65.4 Performance-related remuneration

The Managing Board is entitled to performance-related remuneration dependent on the Fund's total annual return. The total return is defined as the increase in Net Asset Value per ordinary and registered share over the relevant financial period increased by dividends distributed during that financial period. The sum of these components is expressed as a percentage of the Net Asset Value per ordinary and registered share at the start of the financial period. The total performance-related remuneration is calculated on the total average number of outstanding ordinary and registered shares in the relevant financial period multiplied by the Net Asset Value per ordinary share at the start of the relevant financial period.

The performance-related remuneration consists of three tiers:

1. In the case of a total return of up to 12% the performance-related remuneration is 0%;
2. In the case of a total return of 12% to 15% the performance-related remuneration is 20% of the total return less 12%;
3. In the case of a total return of more than 15% the performance-related remuneration is 30% of the total return less 15%. In addition, the remuneration indicated set forth under 2 will be awarded.

The performance-related remuneration is charged annually in arrears and is budgeted and put aside on a three-monthly basis. This performance-related remuneration will not be due if the change in share price (which must be read as the Net Asset Value per ordinary and registered share since the conversion into a closed-end fund as of 5th of January 2012) plus the dividends distributed in the relevant financial period is lower than that of a preceding period for which the remuneration was deducted.

[16] See also section 12.58.2 "Analysis of property operating expenses".

12.66 OTHER OPERATING EXPENSES

12.66.1 Specification of other operating expenses

	2017 In € 1,000	2016 In € 1,000
Costs of service providers	835	584
Other operating expenses	232	183
	1,067	767
Costs of funding and acquisition	159	1,073
	1,226	**1,840**

12.66.2 Analysis of costs of service providers

	2017 In € 1,000	2016 In € 1,000
Consultancy fees	197	131
Accounting expenses	262	165
Audit fees	142	87
Supervisory Board fees	28	28
Marketing expenses	28	20
Custody fees	53	39
Listing, Paying and Fund Agent fees	23	23
Appraisal expenses	30	18
Supervisors' expenses	18	24
Insurance AIFMD	25	24
Other costs of service providers	29	25
	835	**584**

With regard to the items mentioned above the following explanation can be given:

- The "Consultancy fees", including legal fees, relates mainly to consultancy fees with regard to the tax structuring of the acquisition of the Polish investment portfolio;
- The "Accounting expenses" include the expenses related to bookkeeping, determination of monthly Net Asset Value (NAV), preparation of (semi)-annual report and other activities on account of administrative requirements for the Fund and its subsidiaries;
- The "Audit fees" for the annual report 2017 of the Fund are estimated at € 50,000 (2016: € 55,000). In 2017 audit fees related to prior years are booked to an amount of € 15,000 (2016: € nil). Except auditing of the annual report 2017, no services of Deloitte have been used;
- The "Custody fees" relates to the operational activities with regard to AIFMD Depositary;
- The "Supervisors' expenses" include costs related to the supervision of the Dutch Authority for the Financial Markets, (Autoriteit Financiële Markten, the "AFM") and "De Nederlandsche Bank" ("DNB");
- The "Other costs of service providers" include, among others, costs of press releases, Euronext Fund Services ("EFS") and bank costs.

12.66.3 Analysis of Supervisory Board fees

	2017 In € 1,000	2016 In € 1,000
H.H. Kloos RBA	14	14
B. Vos M.Sc.	14	14
	28	**28**

The Fund has provided no loans, advances or guarantees for the members of the Supervisory Board. The members of the Supervisory Board receive no options or remuneration in the form of the Fund's shares.

12.66.4 Analysis of other operating expenses

	2017 In € 1,000	2016 In € 1,000
Non-refundable Value Added Tax	84	84
Change in provision for doubtful receivables	115	25
Irrecoverable trade receivables	23	68
Wages and salaries statutory Directors	8	6
(Transfer) tax on Civil Law Activities (PCC)	2	-
	232	**183**

12.66.5 Analysis of costs of funding and acquisition

	2017 In € 1,000	2016 In € 1,000
Capital raise	-	1,033
Consultancy fees / legal fees	102	-
Due Diligence	57	40
	159	**1,073**

With regard to the items mentioned above the following explanation can be given:

- The costs of "Capital raise" in the comparative figures concern consultancy fees and audit fees with regard to the "Registration Document" and "Securities Note", as well a success fee for the Listing and Paying Agent with regard to the "capital raise" and acquisition of the Polish investment portfolio;
- The "Consultancy fees / Legal fees" relate to the acquisition of RECE Progress Sp. z.o.o. (currently named to: Arcona Poland Real Estate Trio Sp. z.o.o.) and Bywater Sp. z.o.o. Project 5 Sp.k. (currently named to: Arcona Poland B.V. Project 5 Sp.k.);
- The "Due diligence" relates to technical and legal Due Diligence with regard to the acquisition of RECE Progress Sp. z.o.o. and Bywater Sp. z.o.o. Project 5 Sp.k.

12.66.6 Transaction costs

In accordance with the EU-IFRS accounting principles the Fund includes the transaction costs incurred on purchase of properties and other investments in the purchase price of investments, and recognises the transaction costs incurred on sale of properties and other investments under realised value adjustments of investments.

The analysis of identifiable and quantifiable transaction costs on purchase and sale of investments during the financial period is as follows:

	2017	**2016**
	In € 1,000	In € 1,000
Transaction costs on purchase of investments	69	-
Transaction costs on sale of investments	270	-
	339	**-**

12.66.7 Costs of lending financial instruments

During the financial period no financial instruments were borrowed or lent by either the Fund or her associated parties (so-called securities lending). In this connection no expenses were therefore incurred or fees requested.

12.66.8 Remuneration for orders on behalf of the Fund

The Managing Board, the Directors of the Managing Board, the Fund or the depositary of the Fund, parties affiliated with these parties, or third parties did not receive any remuneration, in any way, received nor promised for performing assignments for the Fund, except Management fee and performance-related remuneration as described in section 12.65.

12.66.9 Outsourcing expenses

The Fund has in the ordinary course of business outsourced the following activities to third parties:

- The management of investment properties, the (performing of) maintenance of the investment properties, tenant management, servicing the administration of subsidiaries, as well as work from other (administrative) obligations of subsidiaries to:
  - KNIGHT FRANK, spol. s.r.o., residing in Prague (Czech Republic);
  - Zbereko Spol, s.r.o., residing in Košice (Slovakia);
  - Arcona Capital Czech Republic, s.r.o., residing in Prague (Czech Republic);
  - Arcona Capital Poland Sp. z.o.o., residing in Warsaw (Poland).

  The related expenses are included in the section “Property management”, as indicated in section 12.49.2 “Analysis of property operating expenses”.
- The accounting of:
  - Arcona Capital RE Slovakia s.r.o. to Agentúra LUCAS s.r.o.;
  - Arcona Capital RE Bohemia s.r.o. to FSG Svoboda Šteinfeld, s. r. o.;
  - Arcona Capital Real Estate Poland Sp. z.o.o. and Arcona Capital Real Estate Trio Sp. z.o.o. to Green Real Accounting Sp. z.o.o.;
  - Arcona Poland B.V. Project 5 Sp.k. to Vistra Corporate Services Sp. z.o.o.
  - Arcona Property Fund N.V., Arcona Real Estate B.V. and Arcona Poland B.V. to KroeseWevers Accountants B.V.

  The related expenses are included in the section “Accounting expenses”, as indicated in section 12.66.2 “Analysis of costs of service providers”.

12.66.10 Comparison of actual costs with prospectus

	2017 Actual In € 1,000	2017 Prospectus In € 1,000	2016 Actual In € 1,000	2016 Prospectus In € 1,000
Costs of service providers	835,000	900,000	584,000	900,000

For comparison of actual costs of service providers with budgeted costs of service providers as per the Fund's prospectus, the Registration Document dated 19 October 2016 in conjunction with the Security Note dated 28 October 2016 has been used.

For the analysis of costs of service providers see section 12.66.2 "Analysis of costs of service providers".

12.67 PERSONNEL COSTS

The Fund does not employ any personnel, with the exception of statutory Directors of the Fund's subsidiaries. The statutory Directors receive a wage, which specified in the "Other operating expenses" (see section 12.66.4 "Analysis of other operating expenses").

12.68 FINANCIAL EXPENSES

	2017 In € 1,000	2016 In € 1,000
Interest expense on loans taken up	1,222	749
Interest expense on convertible bonds	432	232
Interest expense on financial instruments	38	-
Underwriting fee / commitment fee	-	152
Change in fair value of derivatives	-	132
Fine interest / liquidity costs on loans taken up	-	45
Other exchange and currency translation results	-	35
Bank Fund Guarantee charges	16	-
Withholding Tax on shareholder' loans	8	-
Valuation losses on "Other investments"	2	21
Other financial expenses	5	-
	1,723	**1,366**

12.69 ONGOING CHARGES FIGURE

The Ongoing Charges Figure is calculated by dividing the total expenses (including "Operating expenses") during the financial year by the average shareholders' equity of the Fund during the financial year. The total expenses include the expenses charged to the profit for the period as well as to shareholders' equity. They also include the "Operating expenses" of the investment properties. No net service charges are included in the total expenses, since these are fully covered by the service income from service fees and the fees part of the gross rental income. The expenses which are related to the issuance and the redemption of own ordinary shares, as far as these are covered by the received surcharges and reductions, are not taken into consideration. Regular interest charges for loans contracted, as well as costs of investment transactions, are also not included in the calculation of the Ongoing Charges Figure (OCF).

The average shareholders' equity is determined by the average of all calculated and published Net Asset Values (NAV's).

	2017	2016	2015	2014	2013
	In %	In %	In %	In %	In %
Ongoing Charges Figure	13.02	12.82	9.91	10.65	10.24

In 2017 the Ongoing Charges Figure increased as a result of an increase of the total expenses (including “Other operating expenses”) by about 28%, in conjunction with the increase of the average shareholders’ equity by about 26%.

The total expenses also include non-regular costs, such as “Costs of funding and acquisition” (see section 12.66.5) and “Performance-related remuneration” (see section 12.65.4). Without these non-regular costs the OCF would be 11.71% (2016: 9.32%).

12.70 INCOME TAX EXPENSE

12.70.1 Tax position

The taxable profits of the Fund are subject to corporate income tax.

12.70.2 Income tax expense recognised in the income statement

	2017	2016
Current tax expense	In € 1,000	In € 1,000
Current year	65	6
Adjustments related to prior years	-/- 3	-/- 1
	62	5
Deferred tax expense		
Origination and reversal of temporary differences	1,289	161
Recognition of previously unrecognised tax losses	-/- 469	-/- 288
Recognition of previously unrecognised other temporary differences	-/- 63	-
Change in tax rate	61	-/- 151
Adjustments related to prior years	-/- 38	32
	780	-/- 246
	842	**-/- 241**

12.70.3 Reconciliation of effective tax rate

	2017	2017	2016	2016
	In %	In € 1,000	In %	In € 1,000
Profit before income tax		**6,411**		**-/- 533**
Tax using the company's domestic tax rate	25.0	1,603	-/- 25.0	-/- 133
Effect of tax rates in foreign jurisdictions	-/- 7.4	-/- 470	-/- 5.8	-/- 31
Change in tax rate	1.0	61	-/- 28.3	-/- 151
Tax effect of:				
Non-deductible expenses	1.7	111	8.8	47
Tax exempt revenues	-/- 2.1	-/- 136	-/- 14.8	-/- 79
Current year losses for which no deferred tax asset is recognised	3.8	246	68.1	363
Recognition of previously unrecognised deferred tax losses	-/- 7.3	-/- 469	-/- 54.0	-/- 288
Recognition of previously unrecognised other temporary differences	-/- 1.0	-/- 63	0.0	-
Adjustments related to prior years	-/- 0.6	-/- 41	5.8	31
	13.1	**842**	**-/- 45.2**	**-/- 241**

12.70.4 Deferred tax recognised directly in shareholders' equity

	2017	2016
	In € 1,000	In € 1,000
Related to foreign currency translation differences	-/- 63	-
Related to equity component convertible bonds	-	31
	-/- 63	**31**

12.70.5 Applicable local corporate income tax rates

	2018 In %	2017 In %	2016 In %	2015 In %	2014 In %
The Netherlands:					
Up to € 200,000	20.0	20.0	20.0	20.0	20.0
As of € 200,000	25.0	25.0	25.0	25.0	25.0
Czech Republic	19.0	19.0	19.0	19.0	19.0
Slovakia	21.0	21.0	22.0	22.0	22.0
Poland					
- Regular	19.0	19.0	19.0	19.0	19.0
- Small taxpayers[17]	15.0	15.0	n.a.	n.a.	n.a.

12.71 EARNINGS PER (ORDINARY AND REGISTERED) SHARE

12.71.1 Calculation of basic earnings per (ordinary and registered) share

The basic earnings per (ordinary and registered) share are calculated by dividing the profit for the period attributable to shareholders of (ordinary and registered) shares by the weighted average number of (ordinary and registered) shares outstanding during the financial period.

The weighted average number of (ordinary and registered) shares are adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

If the number of (ordinary and registered) shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share, also the comparative figures have been adjusted retrospectively.

12.71.2 Profit for the period attributable to shareholders of (ordinary and registered) shares (basic)

	2017 In € 1,000	2016 In € 1,000
Profit for the financial period	5,569	-/- 292

12.71.3 Weighted average number of (ordinary and registered) outstanding shares (basic)

	2017 In pieces	2016 In pieces
Issued shares as at 1 January	3,165,149	1,438,704
Bonus element rights issue	-	308,156
Effect on issued shares during the financial period	-	287,740
	3,165,149	**2,034,600**

[17] As of 1st of January 2017 a lowered corporate income tax was introduced for so-called “small taxpayers. Small taxpayers are, for example, entities whose sales revenue, including Value Added Tax, for the previous year did not exceed the equivalent in PLN of € 1,200,000 and for taxpayers starting business activity, in their first tax year.

12.71.4 Calculation of diluted earnings per (ordinary and registered) share

The diluted earnings per (ordinary and registered) share are calculated by dividing the profit for the period attributable to shareholders of (ordinary and registered) shares, adjusted for costs relating to the convertible securities included in the profit for the period, by the weighted average number of (ordinary and registered) shares during the financial period, adjusted for the maximum number of (ordinary and registered) shares that could be converted during the financial period.

The adjustments as described are only made in case conversion will cause dilution of earnings. In case conversion will have a positive effect on the earnings per (ordinary and registered) share, these adjustments are not made.

12.71.5 Profit for the period attributable to shareholders of (ordinary and registered) shares (diluted)

	2017	**2016**
	In € 1,000	In € 1,000
Profit for the financial period	5,569	-/- 292
Interest expense on convertible bonds (net of tax)	432	232
Deferred taxes convertible bonds	-	6
	6,001	**-/- 54**

12.71.6 Weighted average number of (ordinary and registered) shares outstanding (diluted)

	2017	**2016**
	In pieces	In pieces
Weighted average number of (ordinary and registered) shares outstanding during the period (basic)	3,165,149	2,034,600
Effect on conversion of convertible bonds	696,849	379,180
	3,861,998	**2,413,780**

12.72 RISK MANAGEMENT

12.72.1 General

According to its investment policy set out in the prospectus, the Registration Document dated 19th of October 2016 in conjunction with the Security Note dated 28 October 2016, the Fund may hold investments in direct property in Central Europe. The Fund's investment portfolio currently consists primarily of property in the Czech Republic, Slovakia and Poland. These properties in principle are held for an indefinite period.

The Fund's investment activities result in exposure to various risks, as also defined in the prospectus, the Registration Document dated 19 October 2016 in conjunction with the Security Note dated 28 October 2016.

The Managing Board of the Fund determines the tactical investment mix. The Managing Board monitors the deviation between the previously determined tactical investment mix and the actual investment mix regularly.

The nature and scope of properties at the statement of financial position's date and the risk policy with regard to the above-mentioned risks and other risks are discussed below.

12.72.2 Market risk

Market risk is the risk of losses in positions arising from movements in market prices. Property values are affected by many factors, including the outlook for economic growth, inflation rate, and developments on the capital markets and the rental income at the time of sale of the property.

The greater the fluctuation in the development of these factors, the greater the risk. The Fund cannot influence macro-economic factors that determine property value. However, through good investment property management the Fund will seek to maximise the attraction of the properties in its portfolio to prospective purchasers. The Fund invests in countries, which have different legal systems to Western Europe. In some areas there is much less public information available than would be the case in Western Europe.

Control of the market risk is determined largely by the Management's investment policy, which is aimed at achieving investment results by purchasing investments that are assumed to have been undervalued and are expected to benefit from the further development of the Czech, Slovak and Polish economy. The market risk is managed on a day-to-day basis. See also the "Sensitivity analysis" of the investment properties (section 12.31.5).

12.72.3 Currency risk

The currency risk can be defined as the risk that the fair value of investments, the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund may invest in properties in countries where the Euro has (not yet) been implemented. There is a currency risk that the exchange rate fluctuates. The Fund has the option to use financial instruments to hedge the currency risk.

The Fund invests in some property in currencies other than the functional currency (the Euro) used in these financial statements. At present, the currencies involved are the Czech Koruna (CZK) and the Polish Zloty (PLN). Consequently the Fund is exposed to the risk that the exchange rate of the functional currency in relation to the foreign currency may develop in such a way that this has a negative impact on the value of the investment portfolio in Czech Koruna and Polish Zloty.

Taking into account the high costs involved and Management's expectation that the EUR / CZK exchange rate and EUR / PLN exchange rate will continue to show relative stability over the long term, Management has opted not to hedge the currency risk by means of financial derivatives, such as forward contracts.

At the reporting date the Fund had the following exposure with regard to financial assets. The percentages are based on the carrying amount of financial assets.

	31-12-2017	31-12-2016
	In %	In %
Czech Koruna (CZK)	55.8	11.9
Euro (EUR)	24.2	23.1
Polish Zloty (PLN)	20.0	65.0
	100.0	**100.0**

The increase of the relative part of CZK in the total financial assets is mainly caused by the receivable selling price of the investment property Drahobejlova (see also section 12.35.2).

The decrease of the relative part of PLN in the total financial assets is mainly caused by the receipt of the receivable VAT amounting to € 4,934,000 (see also section 12.38.1).

The following table sets out the Fund’s total exposure to currency risk and the net exposure to currencies of the monetary assets and liabilities. The amounts are based on the carrying amount of monetary assets and liabilities.

	Monetary assets	Monetary liabilities	Net exposure
	31-12-2017	31-12-2017	31-12-2017
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	4,405	8,673	-/- 4,268
Euro (EUR)	1,806	42,115	-/- 40,309
Polish Zloty (PLN)	1,150	413	737
	7,361	**51,201**	**-/- 43,840**

	Monetary assets	Monetary liabilities	Net exposure
	31-12-2016	31-12-2016	31-12-2016
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	888	8,339	-/- 7,451
Euro (EUR)	1,760	29,665	-/- 27,905
Polish Zloty (PLN)	5,227	4,975	252
	7,875	**42,979**	**-/- 35,104**

In case the Euro had weakened by 5% in relation to one of the other currencies, with all variables held constant, net assets attributable to holders of redeemable shares and the change in the net assets attributable to holders of redeemable shares per the income statement would have decreased by the amounts shown below:

	31-12-2017	31-12-2016
	In € 1,000	In € 1,000
Czech Koruna (CZK)	213	373
Polish Zloty (PLN)	-/- 37	-/- 12

A 5% strengthening of the Euro against the above currencies would have resulted in an equal but opposite effect on the above financial statement amounts to the amounts shown above, on the basis that all other variables remain constant.

12.72.4 Interest rate risk

General
The interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's investment policy allows loans to be taken up. For reasons of control of liquidity, the Fund holds limited cash and cash equivalents. The Fund has the possibility of investing these funds in short-term deposits.

The Fund manages its interest rate risk with the objective of reducing the cash flow interest rate risk by the use of derivatives. As at statement of financial position's date the Fund has contracted into the following derivatives:

	Per 31-12-2017				
	Nominal amount	**Average fixed interest rate**	**Assets**	**Liabilities**	**Line item in the SFP where the hedging instrument is included**
	In € 1,000	In %	In € 1,000	In € 1,000	
Interest rate swaps	7,013	0.22	-	59	Trade and other payables
Interest rate caps	3,045	4.50	-	-	n.a.

	Per 31-12-2016				
	Nominal amount	**Average fixed interest rate**	**Assets**	**Liabilities**	**Line item in the SFP where the hedging instrument is included**
	In € 1,000	In %	In € 1,000	In € 1,000	
Interest rate swaps	7,350	0.22	-	132	Trade and other payables
Interest rate caps	3,150	4.50	-	-	n.a.

Exposure to interest rate risk

The following table details the Fund's exposure to interest rate risks. It includes the Fund's financial assets and liabilities, categorised by the earlier of contractual re-pricing or maturity date measured by the carrying amount of the assets and liabilities.

	Per 31-12-2017						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	-	-	-	-	-	6	6
Current tax assets	-	-	-	-	-	76	76
Trade and other receivables	-	-	-	-	-	4,442	4,442
Prepayments and lease incentives	-	-	-	-	-	602	602
Cash and cash equivalents	2,914	-	-	-	-	5	2,919
Financial assets	**2,914**	**-**	**-**	**-**	**-**	**5,131**	**8,045**
Loans and borrowings	10,137	19,869	10,173	9,137	-	-	49,316
Effect of interest rate swaps	-/- 7,013	-	-	-	-	-	-/- 7,013
Current tax liabilities	-	-	-	-	-	138	138
Trade and other payables						1,770	1,770
Deferred income and tenants deposits	-	-	-	-	-	637	637
Financial liabilities	**3,124**	**19,869**	**10,173**	**9,137**	**-**	**2,545**	**44,848**
Total interest sensitivity gap	**-/- 210**	**-/- 19,869**	**-/- 10,173**	**-/- 9,137**	**-**		**39,389**

	Per 31-12-2016						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	-	-	70	-	-	20	90
Current tax assets	-	-	-	-	-	4,936	4,936
Trade and other receivables	-	-	-	-	-	466	466
Prepayments and lease incentives	-	-	-	-	-	155	155
Cash and cash equivalents	2,400	-	-	-	-	3	2,403
Financial assets	**2,400**	**-**	**70**	**-**	**-**	**5,580**	**8,050**
Loans and borrowings	15,403	12,497	8,070	5,786	-	67	41,823
Effect of interest rate swaps	-/- 7,350	-	-	-	-	-	-/- 7,350
Current tax liabilities	-	-	-	-	-	63	63
Trade and other payables	-	-	-	-	-	1,160	1,160
Deferred income and tenants deposits	-	-	-	-	-	277	277
Financial liabilities	**8,053**	**12,497**	**8,070**	**5,786**	**-**	**1,567**	**35,973**
Total interest sensitivity gap	**-/- 5,653**	**-/- 12,497**	**-/- 8,000**	**-/- 5,786**	**-**		**-/- 31,936**

Fair value sensitivity analysis for fixed-rate instruments

An increase of 100 basis points in interest rates as at the reporting date would have decreased shareholders' equity and profit for the period by € 394,000 (2016: € 317,000). A decrease of 100 basis points in interest rates as at the reporting date would have increased shareholders' equity and profit for the period by € 394,000 (2016: € 317,000).

This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Cash flow value sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points (bp) in interest rates as at the reporting date would have increased and / or decreased "Profit for the period" by the amounts shown below.

This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	31-12-2017	31-12-2017	31-12-2016	31-12-2016
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Variable rate instruments	-/- 202	21	-/- 209	85
Interest rate swaps	57	-/- 57	59	-/- 59
Cash flow sensitivity (net)	**-/- 145**	**-/- 36**	**-/- 150**	**26**

Weighted average interest rate of interest-bearing loans and borrowings

The main part of the financial liabilities is the "Interest-bearing loans and borrowings". At the end of the reporting period the Fund paid the following weighted average interest:

	31-12-2017	31-12-2016
	In %	In %
Weighted average interest rate of interest-bearing loans and borrowings	3.26	3.58

12.72.5 Price risk

The price risk can be defined as the risk that the value of the investments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), caused by factors specific to the individual investment or the issuing institution or factors applicable to the market as a whole.

Rental risk includes the risk of loss of rental income due to vacancies, the let ability of space and movements in market rents.

Property value risk includes the risk of loss of property value due to changing economic circumstances, economic decline and / or oversupply of comparable real estate.

Since the Fund's properties are stated at fair value, with both realised and unrealised value adjustments being recognised directly in the income statement, a change in market conditions impacts directly on the Fund's investment result. The price risk is managed by the Fund by constructing a portfolio such that optimum diversification across sectors and markets is achieved.

For the sensitivity analysis of the investment property, see section 12.31.5 "Sensitivity analysis".

12.72.6 Concentration risk

The concentration risk is the risk that can occur if the Fund has a large concentration of investments in certain regions or types of properties or if the Fund depends on a limited number of large tenants. To reduce this risk, investments are spread across different types of properties in several regions in Central Europe and the portfolio has a large number of small and medium-sized tenants.

12.72.7 Risk associated with investing with borrowed money

The risk associated with investing with borrowed money lies in the fact that shareholders might lose their investment because the lender has a priority call on the proceeds of realisation. The investments are indeed used as a security for the bank loans. However, this risk is limited to the equity within the borrower subsidiary as there is no cross collateralisation and no parent entity guarantee. If the “Loan to Value” (LTV) ratio is too high according to the bank covenants it is possible that the Fund needs to sell property to improve LTV.

12.72.8 Economic risk

Economic risk is derived from direct financial factors (developments in interest rates and inflation) and market developments (changes in GDP growth and employment). The former tend to affect capital values, the latter occupancy rates and rental levels. Economic risk is managed by the Fund through focussing the Fund’s investments on flexible assets in economically stable regional centres, and managing these assets through local professional teams closely attuned to developments in local market conditions.

12.72.9 Counterpart risk (credit risk)

The credit risk can be defined as the risk of a counterparty being unable to fulfil its obligation to the Fund associated with monetary assets. The Fund has a credit policy and the counterpart risk is monitored and controlled on a continuous basis. The risk is presumed to be low, given the short settlement period of most of such monetary assets.

The Fund does business with various parties; the most important are banks, tenants and the local administrators of the properties. The Fund will seek to reduce credit risk through regular contact with counterparties and continuous risk assessment of these parties.

The carrying amount of monetary assets best represents the maximum credit risk exposure at the statement of financial position's date. At the reporting date, the Fund's monetary assets exposed to credit risk amounted to the following, related to the Fund's net assets attributable to the holders of redeemable ordinary shares:

	31-12-2017	**31-12-2017**	**31-12-2016**	**31-12-2016**
	In € 1,000	In %	In € 1,000	In %
Other investments	-	0.0	70	0.2
Trade and other receivables	4,441	10.7	5,402	14.8
Cash and cash equivalents	2,919	7.0	2,403	6.6
	7,360	**17.7**	**7,875**	**21.6**

Beside the above mentioned items, there were no significant concentrations of credit risk to counterparties as at statement of financial position's date or comparative figures. No individual financial investment exceeded 10% of the net assets attributable to the holders of redeemable ordinary shares either as at statement of financial position's date or comparative figures.

The following table sets out the ageing analysis of the Fund's monetary assets. The amounts are based on the carrying amount of monetary assets.

	Per 31-12-2017					
	Not due	**Less than 1 month**	**1 until 3 months**	**3 months until 1 year**	**More than 1 year**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Gross monetary assets						
Trade and other receivables	-	4,253	142	72	527	4,994
Cash and cash equivalents	2,919	-	-	-	-	2,919
	2,919	**4,253**	**142**	**72**	**527**	**7,913**
Impairment of monetary assets						
Trade and other receivables	-	-	-	26	527	553
Cash and cash equivalents	-	-	-	-	-	-
	-	**-**	**9**	**136**	**408**	**553**
Net monetary assets						
Trade and other receivables	-	4,253	142	46	-	4,441
Cash and cash equivalents	2,919	-	-	-	-	2,919
	2,919	**4,253**	**142**	**46**	**-**	**7,360**

	Per 31-12-2016					
	Not due	Less than 1 month	1 until 3 months	3 months until 1 year	More than 1 year	Total
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Gross monetary assets						
Other investments	-	70	-	-	-	70
Trade and other receivables	155	5,165	50	68	218	5,656
Cash and cash equivalents	2,403	-	-	-	-	2,403
	2,558	**5,235**	**50**	**68**	**218**	**8,129**
Impairment of monetary assets						
Other investments	-	-	-	-	-	-
Trade and other receivables	-	-	9	27	218	254
Cash and cash equivalents	-	-	-	-	-	-
	-	**-**	**9**	**27**	**218**	**254**
Net monetary assets						
Other investments	-	70	-	-	-	70
Trade and other receivables	155	5,165	41	41	-	5,402
Cash and cash equivalents	2,403	-	-	-	-	2,403
	2,558	**5,235**	**41**	**41**	**-**	**7,875**

The following table sets out the pledges of the Fund's financial assets.

	Per 31-12-2017		
	Guarantee deposits from tenants	Other pledge	Total
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	266	-	266
Cash and cash equivalents	-	-	-
Financial assets	**266**	**-**	**266**

	Per 31-12-2016		
	Guarantee deposits from tenants	Other pledge	Total
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	215	-	215
Cash and cash equivalents	-	-	-
Financial assets	**215**	**-**	**215**

12.72.10 Rent risk

Rent levels may be subject to downward pressure in periods of economic weakness. In the market, vacancy rates can increase and rents will drop. This can also occur at other points of the economic cycle when new development creates supply that temporarily exceeds demand. Rental risk can be best mitigated by professional, active local asset management with the ability to deploy cash resources to modernise assets and fund tenant incentives. It is also mitigated by ensuring diversification in lease contract expiry dates, to avoid a number of contracts expiring contemporaneously into a weak market.

12.72.11 Debtor risk

Debtor risk is the risk that arises from the possibility that a specific counterparty is unable to meet its obligations to the company. The policy aims to reduce the default risk by applying a capital adequacy ratio to (potential) tenants and by diversifying tenants across industries (e.g. Financial Services, Communications, Healthcare, Technology, Government, Transportation & Logistics) so that a dependency on certain sectors is limited.

12.72.12 Vacancy risk

The occupancy of properties may decrease by lease termination or bankruptcy of tenants. This risk is most effectively managed by active local asset management and by a regular programme of capital investment at asset level. See section 12.57.2 for information about non-cancellable leases.

12.72.13 Risks with regard to regulations

Political decisions to change the law on, for example, soil pollution, zoning, rent control and taxation can affect the yield of the Fund. This risk is mitigated by the undertaking of detailed analysis of potentially relevant risks (Due Diligence) before an acquisition. The Fund also follows new developments and adjusts its policy if necessary based on changes in laws and regulations.

12.72.14 Liquidity risk

The liquidity risk can be defined as the risk of the Fund being unable to fulfil its obligation to counterparties associated with monetary liabilities.

The Fund invests in real estate, a characteristic of which is its relative illiquidity; typically the sale of real estate takes time and this could potentially affect the liquidity position of the Fund. The Fund will continuously monitor and manage liquidity to meet its obligations.

The following table shows the contractual, undiscounted cash flows of the Fund's monetary liabilities. The interest-bearing loans and borrowings include the payable interest. The payable interest is calculated by using the weighted average interest rate of interest-bearing loans and borrowings at statement of financial position's date.

	Per 31-12-2017						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Non-derivative liabilities							
Current tax liabilities[18]	95	21	-	-	-	-	116
Loans & borrowings	203	1,914	4,977	46,449	-	-	53,543
Trade and other payables	1,264	317	114	74	-	-	1,769
	1,562	2,252	5,091	46,523	-	-	55,428
Derivative liabilities							
Interest rate swaps	-	11	36	12	-	-	59
Monetary liabilities	**1,562**	**2,263**	**5,127**	**46,535**	**-**	**-**	**55,487**

	Per 31-12-2016						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Non-derivative liabilities							
Current tax liabilities[19]	63	-	-	-	-	-	63
Loans & borrowings	10,610	506	6,636	27,414	-	-	45,166
Trade and other payables	1,007	31	53	-	-	-	1,028
	11,617	537	6,689	27,414	-	-	46,257
Derivative liabilities							
Interest rate swaps	-	3	42	87	-	-	132
Monetary liabilities	**11,617**	**540**	**6,731**	**27,501**	**-**	**-**	**46,389**

The main components of the financial liabilities are the interest-bearing loans and borrowings. As at statement of financial position's date the weighted remaining maturity of the interest-bearing loans and borrowings was 2.42 years (31 December 2016: 3.51 years).

As at statement of financial position's date the Fund has additional credit facilities amounting to € 2,500,000 (31 December 2016: € 900,000).

[18] Exclusive of Corporate Income Tax.
[19] Idem.

12.72.15 Operational risk

Operational risk is the risk of losses coming from failed internal processes, people or systems or from external operational events. Examples of operational risk incidents are: fraud, claims, losses, errors, violation of laws and system failure. During the financial period no material operational risks materialised.

12.72.16 Tax risk

Tax risk is the risk associated with possible changes in tax laws or changing interpretations and effects of government policy and regulation.

12.72.17 Outsourcing risk

Risk of outsourcing activities brings with it the risk that the counterparty does not fulfil its obligations, despite agreements. The Fund periodically assesses the compliance of the agreements and takes action as it deems necessary.

12.72.18 Legal risk

Legal risk is the risk associated with possible changes in legislation or changing interpretations.

12.72.19 Integrity risk

Within organizations there is a risk that people harm organizations by committing fraud or theft. Arcona Capital Fund Management B.V. therefore evaluates the reliability and integrity of its staff. All staff in key positions employed by Arcona Capital Fund Management B.V. will be screened by "Pre-Employment Screening of Dutch Securities Institute" (DSI).

12.72.20 Offsetting financial assets and financial liabilities

The Fund does not intend to set-off its financial assets and liabilities and / or does not have the legally enforceable right to do so in the normal course of business.

12.73 DISCLOSURES CASH FLOW STATEMENT

12.73.1 Changes in liabilities arising from financing activities

The following table shows the changes in liabilities arising from financing activities, including:

- Changes arising from cash flows;
- Non-cash changes.

	Share premium In € 1,000	Loans and borrowings In € 1,000	Total 2017 In € 1,000
Balance as at 1 January	16,426	41,823	
Financing cash flows:			
Proceeds from loans and borrowings	-	2,000	2,000
Repayments of loans and borrowings	-	-/- 7,212	-/- 7,212
Distribution to shareholders	-/- 316	-	-/- 316
	-/- 316	-/- 5,212	-/- 5,528
Non-cash changes:			
Effect of changes in exchange rates	-	657	657
Acquisition of subsidiaries	-	11,756	11,756
(Amortisation) flat fee	-	90	90
Accreted interest	-	58	58
Reclassification (to “Trade and other payables”)[20]	-	-/- 67	-/- 67
	-	12,494	12,494
Balance as at 31 December	**16,110**	**49,105**	

12.74 RELATED PARTIES

12.74.1 Identity of related parties

With regard to the Fund the following categories of related parties were identified during the financial period:

I. Managers in key positions;
II. Major investors (more than 20% voting rights);
III. All organisational entities within the group designated as Arcona Capital;
IV. Investment trusts, investment funds and other investment companies which are managed by an entity belonging to Arcona Capital;
V. Investments undertaken by Arcona Capital, in which Arcona Capital has significant influence (more than 20% of voting rights).

12.74.2 Transactions with and / or interests of managers in key positions (I)

During the financial period the Fund entered into the following transactions with the managers in key positions:

A. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Czech Republic, s.r.o. for the amount of € 474,000;
B. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Poland Sp. z.o.o. for the amount of € 127,000;

During the financial period no other transactions occurred with members of the Management Board and / or members of the Supervisory Board.

[20] See section 12.48.8.

Personal interests of members of the Managing and Supervisory Board are defined in section 16.3 "Personal interests".

The remuneration for the Managing Board is described in section 12.65 "Administrative expenses".

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 12.66.3 "Analysis of Supervisory Board fees" and 12.66.4 "Analysis of other operating expenses".

12.74.3 Specification major investors[21]

	Type of share	Directly real voting rights In %	Indirectly real voting rights In %	Directly potential voting rights In %	Total In %
H.M. van Heijst	Ordinary shares	4.70	17.24[22]	n.a.	21.94
	Convertible bond	n.a.	n.a.	16.34	16.34[23]
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

The voting rights are based on information in the Register substantial holdings and gross short positions of the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the "AFM").

12.74.4 Transactions with and /or interests of major investors (II)

During the financial period the Fund entered into or maintained the following transactions with the major investors:

A. H.M. van Heijst has provided a private unsecured loan for the principal amount of € 2,000,000. The outstanding amount as at statement of financial position's date amounts to € 2,000,000 (31 December 2016: € nil);

B. H.M. van Heijst was entitled to interest with regard to the provided private unsecured loan for an amount of € 62,000. The total outstanding amount of the payable interest with regard to provided private unsecured loans towards H.M. van Heijst as at statement of financial position's date amounts to € 2,000 (31 December 2016: € nil);

C. H.M. van Heijst was entitled to interest with regard to the issued convertible bonds for an amount of € 273,000. The total outstanding amount of the payable interest with regard to the issued convertible bonds towards H.M. van Heijst as at statement of financial position's date amounts to € 57,000 (31 December 2016: € 63,000). The total outstanding amount of the convertible bonds issued to H.M. van Heijst (face value) as at statement of financial position's date amounts to €4,420,000 (31 December 2016: € 4,420,000).

[21] Major investors: more than 20% voting rights.
[22] Through "Stichting Value Partners".
[23] 11.05% after balance sheet date due to € 1.42 million instalment

12.74.5 Transactions with other related parties III-IV-V)

During the financial period the Fund entered into or maintained the following transactions with the other related parties:

A. Arcona Capital RE Bohemia s.r.o. paid Asset Management fees to Arcona Capital Czech Republic s.r.o. in the amount of € 101,000 (2016: € 99,000). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own Management fee by the same amount;

B. Arcona Capital RE Slovakia s.r.o. paid Asset Management fees to Arcona Capital Czech Republic s.r.o. in the amount of € 373,000 (2016: € 370,000). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own Management fee by the same amount;

C. Arcona Capital Real Estate Poland Sp. z.o.o. paid Asset Management fees to Arcona Capital Poland Sp. z.o.o. in the amount of € 96,000 (2016: € nil). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own Management fee by the same amount;

D. Arcona Capital Real Estate Trio Sp. z.o.o. paid Asset Management fees to Arcona Capital Poland Sp. z.o.o. in the amount of € 31,000 (2016: n.a.). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own Management fee by the same amount;

E. Arcona Capital RE Bohemia s.r.o. paid fees for advisory services to Arcona Capital Czech Republic s.r.o. for the amount of € 1,000 (2016: € 2,000);

F. Arcona Capital RE Slovakia s.r.o. paid fees for advisory services to Arcona Capital Czech Republic s.r.o. for the amount of € 26,000 (2016: € 3,000);

G. Arcona Poland B.V. Project 5 Sp.k. paid Property Management fee to Arcona Capital Poland Sp. z.o.o. for the amount of € 15,000 (2016: n.a.);

H. Arcona Capital related parties rented office in the properties of the subsidiaries of the Fund for the amount of € 46,000 268 m^2 (2016: € 43,000 (268 m^2));

I. Arcona Capital RE Bohemia s.r.o. and Arcona Capital RE Slovakia s.r.o. paid short term wages and salaries for its statutory Directors in the amount of € 8,000 (2016: € 6,000);

12.74.6 Investments in other related parties (III-IV-V)

Investment trusts, investment funds and other investment companies, which are managed by an entity belonging to Arcona Capital, do hold investments in companies in which the Fund also holds investments.

- Middle Europe Opportunity Fund II N.V. (MEOF II) directly holds investments in companies in which the Fund also holds investments. The following table shows the percentages the Arcona Capital managed companies hold of the outstanding shares in the companies as at statement of financial position's date:

Company	MEOF II	The Fund	Total
	In %	In %	In %
Yellow Properties, s.r.o.	95.0	5.0	100.0

Yellow Properties, s.r.o. is a Czech limited company which undertook a property development. As at statement of financial position's date all properties are sold (31 December 2016: all properties are sold).

12.74.7 Agreements with related parties

The Fund has not entered into any agreements with parties affiliated with the Managing Board of the Fund.

12.75 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE

The following material events after statement of financial position's date have occurred:

A. As at 19th of February 2018 the Fund has redeemed its Tranche II 2015 convertible bond, due for repayment as at 20th of February 2018, in full. The convertible bond was originally issued for an amount of € 1,420,000 with a conversion share price of € 8,48, which was not reached during the term.

B. On 7 March 2018 ownership of 100% of the shares of the Polish retailer Piotr i Paweł (the largest tenant in the Fund´s portfolio) was acquired by TFI Capital Partners, a financial investor.

No further material events have occurred after the date of the financial position.

12.76 ESTIMATES AND FORMATION OF AN OPINION BY THE MANAGEMENT

The Managing Board has discussed with the Supervisory Board the development and choice of, and the provision of information on, the critical principles of financial reporting and estimates, as well as the application of those principles and estimates.

The major sources of uncertainty in estimates are as follows:

A. Development of rents;
B. Capitalisation factor for transactions;
C. Market rents per type of property;
D. Property prices.

In section 12.31.3 "Valuation of investment properties" the critical assessments by the Managing Board in applying the Fund's principles of the valuation of the investment properties are stated.

COMPANY FINANCIAL STATEMENTS 2017

13 COMPANY BALANCE SHEET

After proposal result appropriation	*Notes*	**31-12-2017** In € 1,000	**31-12-2016** In € 1,000
Investments			
Investments in group companies	*15.5*	33,674	16,940
Receivables from group companies	*15.6*	20,219	24,355
Other financial investments	*15.7*	-	70
Total investments		**53,893**	**41,365**
Receivables			
Other receivables	*15.8*	584	656
Deferred expenses	*15.9*	53	4
Total receivables		**637**	**660**
Other assets			
Cash and cash equivalents	*15.11*	861	753
Total assets		**55,391**	**42,778**
Shareholders' equity	*15.12*		
Issued capital	*12.41*	15,826	15,826
Share premium	*12.42*	16,110	16,426
Revaluation reserve		7,196	4,524
Reserve for currency translation differences	*12.44*	2,304	1,973
Equity component convertible bonds	*12.45*	266	266
Retained earnings		334	-/- 2,563
Total shareholders' equity		**42,036**	**36,452**
Provisions			
Deferred tax liabilities	*15.13*	88	25
Long-term liabilities			
Convertible bonds	*15.14*	4,427	5,786
Private loans	*15.15*	4,710	-
		9,137	**5,786**
Current liabilities			
Convertible bonds	*15.14*	1,417	-
Private loans	*15.15*	2,000	-
Tax liabilities	*15.16*	21	-
Other liabilities	*15.17*	27	241
Accruals	*15.18*	665	274
Total current liabilities		**4,130**	**515**
Total shareholders' equity and liabilities		**55,391**	**42,778**

14 COMPANY PROFIT AND LOSS ACCOUNT

	Notes	2017 In € 1,000	2016 In € 1,000
Income from investments			
Interest	*15.21*	1,191	705
Realised valuation results of investments			
Receivables from group companies	*15.22*	172	273
Unrealised valuation results of investments			
Investments in group companies	*15.23*	5,887	1,357
Receivables from group companies	*15.24*	443	-/- 407
		6,330	950
Other operating income	*15.25*	9	2
Total operating income		**7,702**	**1,930**
Administrative expenses	*15.26*	1,021	439
Other operating expenses	*15.27*	574	1,367
Interest expenses	*15.29*	538	385
Total expenses		**2,133**	**2,191**
Result before income tax		**5,569**	**-/- 261**
Income tax expense	*15.30*	-	-/- 31
Result after income tax		**5,569**	**-/- 292**

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS

15.1 COMPANY FINANCIAL STATEMENTS

The company financial statements for the financial period are part of the Fund's financial statements for the financial period.

15.2 PRINCIPLES OF VALUATION OF ASSETS AND LIABILITIES AND DETERMINATION OF RESULTS

15.2.1 General

For the purpose of determining the principles of valuation of assets and liabilities and the determination of results for its company financial statements, the Fund makes use of the option offered in Book 2, article 2:362 (8) of the Dutch Civil Code. This means that the principles of valuation of assets and liabilities and determination of results (hereinafter referred to as the "principles of valuation") of the Fund's company financial statements are identical to those that have been applied for the consolidated EU-IFRS financial statements. In this context equity participations, on which significant influence is exercised, are valued on the basis of the equity method. These consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board ("IASB") and accepted by the European Union (hereinafter referred to as "EU-IFRS"). Reference is made to sections 12.5 to 12.28 inclusive for a description of these principles.

15.2.2 Investments in group companies

Investments in group companies are valued on the basis of the equity method. The Fund determines the equity method as well as the cost of acquisition of the equity participation by valuing the assets, provisions and liabilities of the company in which it is participating and calculating its result on the basis of the same principles as its own assets, provisions, liabilities and result.

Investments in group companies with a negative equity are valued at nil. If the Fund fully or partly guarantees the liabilities of the investments in group companies concerned a provision is formed, primarily comprising the receivables from group companies. The remainder is recognised under provisions, in the amount of the remaining share in the losses incurred by the investments in group companies, or for the amount of payments the Fund is expected to make on behalf of these investments in group companies.

The Net Asset Value of the foreign group companies is translated into Euros at the exchange rate as at the balance sheet date. The results of the foreign group companies are translated at the average exchange rates during the financial period. Results arising from this translation are recognised directly in shareholders' equity in the "Reserve for currency translation differences" related to the equity participations. In the event of sale of equity participation the cumulative exchange differences related to that equity participation are transferred to the "Other reserves".

15.2.3 Receivables from group companies

Receivables from group companies are stated at amortised cost. In the case of the Fund this is identical to the acquisition price. The acquisition price in foreign currency is determined on the basis of the exchange rate at the transaction date. As at balance sheet date the receivables from group companies are translated into Euros at the exchange rate as at the balance sheet date. Where losses are to be expected on the receivables, a reduction in value is applied in this respect.

15.2.4 Result from investments in group companies

The share of the result of companies in which equity participations are held comprises the Fund's share in the results of such equity participations. The results of the equity participations have been determined on the basis of the principles of valuation adopted by the Fund. The revaluations of the equity participations are therefore included in this item. Results of transactions, in the case of which transfer of assets and liabilities has occurred between the Fund and its affiliates and between the affiliates themselves, has not been recognised in so far as they can be regarded as unrealised. If the equity participation has been acquired in the course of the financial period, the Fund accounts for the results of the equity participations with effect from the date of acquisition.

15.3 SIZE AND COMPOSITION OF THE CONSOLIDATED AND COMPANY EQUITY

In connection with the fact that the Fund makes use of the option provided in Book 2, article 2:362 (8) of the Dutch Civil Code, the size and composition of the consolidated and company capital are identical.

15.4 RECONCILIATION CONSOLIDATED AND COMPANY RESULT

In connection with the fact that the Fund makes use of the option provided in Book 2, article 2:362 (8) of the Dutch Civil Code, the consolidated and company results are identical.

15.5 INVESTMENTS IN GROUP COMPANIES

15.5.1 Analysis of investments in group companies

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Arcona Capital RE Bohemia s.r.o.	4,473	1,584
Arcona Capital RE Slovakia s.r.o.	16,926	15,356
Arcona Capital Real Estate Poland Sp. z.o.o.	5,346	-
Arcona Capital Real Estate Trio Sp. z.o.o.	6,436	-
Arcona Real Estate B.V.	493	-
Total	**33,674**	**16,940**

The companies indicated above are included in the consolidated financial statements. For further analysis of the investments in group companies see section 12.6.2 "Consolidated subsidiaries".

15.5.2 Statement of changes in investments in group companies

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	16,940	13,043
Acquisitions	10,675	2,600
Share in result of group companies	5,887	1,296
Exchange rate differences	172	1
Balance as at 31 December	**33,674**	**16,940**

The "Acquisitions" for the amount of € 10,675,000 relate to:

- the increase of the "Issued capital" and "Spare capital" of Arcona Capital Real Estate Poland Sp. z.o.o. for an amount of € 5,796,000. The payment of the "Issued capital" and "Spare capital" has been set-off against the receivable "Loan to Arcona Capital Real Estate Poland Sp. z.o.o." (see also section 15.6.2);
- the acquisition of Arcona Capital Real Estate Trio Sp. z.o.o. for an amount of € 4,779,000 (including € 69,000 acquisition-related costs");
- the increase of the "Capital contribution" Arcona Capital RE Slovakia s.r.o. for an amount of € 100,000. The payment of the "Capital contribution" has been set-off against the receivable "Loan to Arcona Capital RE Slovakia s.r.o." (see also section 15.6.2).

15.5.3 Security

As at balance sheet date the following securities were provided:

- the issued shares of Arcona Capital RE Bohemia s.r.o. are pledged to Sberbank;
- the issued shares of Arcona Capital Real Estate Poland Sp. z.o.o. are pledged to Raiffeisen Polbank;
- the issued shares of Arcona Capital Real Estate Trio Sp. z.o.o. are pledged to Real Estate Central Europe AS.

For more information with regard to the pledges to banks and bank covenants see section 12.48.3.

15.6 RECEIVABLES FROM GROUP COMPANIES

15.6.1 Analysis of receivables from group companies

	Before Provision 31-12-2017 In € 1,000	Provision 31-12-2017 In € 1,000	After provision 31-12-2017 In € 1,000	After provision 31-12-2016 In € 1,000
Loan to Arcona Capital RE Bohemia s.r.o.	6,862	-	6,862	6,768
Loan to Arcona Capital RE Slovakia s.r.o.	5,560	-	5,560	6,997
Loan to Arcona Capital Real Estate Poland Sp. z.o.o.	5,840	-	5,840	10,590
Loan to Arcona Real Estate B.V.	1,957	-	1,957	-
Total	20,219	-	**20,219**	**24,355**

As at balance sheet date the weighted average interest rate on all receivables from group companies is 5.0% per annum (31 December 2016: 5.0% per annum).

15.6.2 Statement of changes in receivables from group companies

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	24,355	17,436
Loans advanced	3,159	11,763
Redemption on loans advanced	-/- 8,132	-/- 4,437
Fair value adjustments (provision)	443	-/- 407
Exchange rate differences	394	-
Balance as at 31 December	**20,219**	**24,355**

The “Redemptions on loans advanced” relates to:

- the increase of the “Issued capital” and “Spare capital” of Arcona Capital Real Estate Poland Sp. z.o.o. for an amount of € 5,796,000. The payment of the “Issued capital” and “Spare capital” has been set-off against the receivable “Loan to Arcona Capital Real Estate Poland Sp. .zo.o.” (see also section 15.5.2);
- the increase of the “Capital contribution” Arcona Capital RE Slovakia s.r.o. for an amount of € 100,000. The payment of the “Capital contribution” has been set-off against the receivable “Loan to Arcona Capital RE Slovakia s.r.o.” (see also section 15.5.2);
- regular instalments on the receivables from Arcona Capital RE Bohemia s.r.o. and Arcona Capital RE Slovakia s.r.o. for an amount of € 2,236,000.

15.7 OTHER FINANCIAL INVESTMENTS

15.7.1 Analysis of other financial investments

	Principal of investment		Interest	Interest rate
	In 1,000	In € 1,000	In %	In %
Eastern European Property Fund Limited	GBP -	-	< 0.1	n.a.
Loan Real Estate Central Europe Holding ApS	n.a.	n.a.	n.a.	1.0

15.7.2 Statement of changes in other financial investments

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	70	-
Purchases / Loans advanced	-	70
Redemption on loans advanced	-/- 70	-
Balance as at 31 December	**-**	**70**

15.8 OTHER RECEIVABLES

This relates to other receivables with a payment term within one year. The specification is as follows:

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Interest on receivables from group companies	584	654
Interest on bank accounts	-	2
	584	**656**

15.9 DEFERRED EXPENSES

This relates to deferred expenses with a payment term within one year. The specification is as follows:

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Short-term advance payments	53	4

15.10 DEFERRED TAX ASSETS

15.10.1 Analysis of recognised deferred tax assets

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Tax losses carried forward (will expire)	-	-

15.10.2 Statement of changes in recognised deferred tax assets

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	-	24
Adjustments related to prior years	-	-/- 24
Additions	-	-
Balance as at 31 December	**-**	**-**

15.10.3 Analysis of unrecognised deferred tax assets

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Tax losses carried forward (will expire)	805	630

15.10.4 Analysis of unrecognised tax losses carried forward

	2017 In € 1,000	2016 In € 1,000
Expires in 2020	75	77
Expires in 2022	95	94
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	354	363
Expires in 2026	185	-
Balance as at 31 December	**805**	**630**

15.10.5 Statement of changes in unrecognised deferred tax assets

	2017 In € 1,000	2016 In € 1,000
Balance as at 1 January	630	243
Adjustments related to prior years	-/- 10	24
Additions	185	363
Balance as at 31 December	**805**	**630**

The Managing Board expects that with regard to these tax losses there will be insufficient taxable profit in the future for the Fund to set-off these tax losses.

15.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are entirely at the free disposal of the Fund.

15.12 SHAREHOLDERS' EQUITY

15.12.1 Statement of changes in shareholders' equity

	Issued capital	Share premium	Revaluation reserve	Reserve for currency translation differences	Equity component convertible bonds	Retained earnings	Total Share-holders' equity
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January 2017	15,826	16,426	4,524	1,973	266	-/- 2,563	36,452
Result for the financial period	-	-	-	-	-	5,569	5,569
Change in revaluation reserve	-	-	2,672	-	-	-/- 2,672	-
Change in reserve for currency translation differences	-	-	-	331	-	-	331
Distributions to shareholders	-	-/- 316	-	-	-	-	-/- 316
Balance as at 31 December 2017	**15,826**	**16,110**	**7,196**	**2,304**	**266**	**334**	**42,036**
Balance as at 1 January 2016	7,194	16,786	4,157	2,245	91	-/- 1,904	28,569
Result for the financial period	-	-	-	-	-	-/- 292	-/- 292
Change in revaluation reserve	-	-	367	-	-	-/- 367	-
Change in reserve for currency translation differences	-	-	-	-/- 272	-	-	-/- 272
Change in equity component convertible bonds	-	-	-	-	175	-	175
Own shares issued	8,632	-	-	-	-	-	8,632
Distributions to shareholders	-	-/- 360	-	-	-	-	-/- 360
Balance as at 31 December 2016	**15,826**	**16,426**	**4,524**	**1,973**	**266**	**-/- 2,563**	**36,452**

15.12.2 Equity components

For further analysis and statements of changes in the several equity components see the sections 12.41 to 12.46.

15.13 DEFERRED TAX LIABILITIES

15.13.1 Analysis of recognised deferred tax liabilities

	31-12-2017	**31-12-2016**
	In € 1,000	In € 1,000
Receivables from group companies	88	25

15.13.2 Statement of changes in deferred tax liabilities

	2017	**2016**
	In € 1,000	In € 1,000
Balance as at 1 January	25	49
Adjustments related to prior years	-	-/- 24
Additions	63	-
Balance as at 31 December	**88**	**25**

15.14 CONVERTIBLE BONDS

For the analysis, statement of changes and valuation of the convertible bonds see section 12.48.4 to 12.48.6.

15.15 PRIVATE LOANS

For the analysis, statement of changes, valuation and conditions of the private loans see section 12.48.7 to 12.48.9.

15.16 TAX LIABILITIES

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Value Added Tax (VAT)	21	-

15.17 OTHER LIABILITIES

This relates to other liabilities with a payment term within one year. The specification is as follows:

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Trade payables	27	241

15.18 ACCRUALS

This relates to accruals with a payment term within one year. The specification is as follows:

	31-12-2017 In € 1,000	31-12-2016 In € 1,000
Performance-related remuneration	346	-
Administrative expenses	157	125
Interest payables	89	84
Management fees	73	65
	665	**274**

15.19 NON-CONTINGENT LIABILITIES

As at balance sheet date the Fund was not subject to any contractual obligation concerning investments, repairs, maintenance or other non-contingent liabilities that needed to be settled in the following financial period.

15.20 CONTINGENT LIABILITIES

As at balance sheet date the Fund has the following contingent liabilities:

A. The Fund has a contingent liability towards the sellers of RECE Progress Sp. z.o.o. (currently named: Arcona Capital Real Estate Trio Sp. z.o.o.) for the maximum amount of € 1,500,000 (the "shares' purchase price increase"). For more information see section 12.56.

As at balance sheet date the Fund was not subject to any other contingent liabilities, including any obligations that result from security transactions related to (exchange) rate risk in connection with investments.

15.21 INTEREST INCOME FROM INVESTMENTS

	2017 In € 1,000	2016 In € 1,000
Receivable from Arcona Capital RE Bohemia s.r.o.	309	301
Receivable from Arcona Capital RE Slovakia s.r.o.	277	346
Receivable from Arcona Capital Real Estate Poland Sp. z.o.o.	547	58
Receivable from Arcona Real Estate B.V.	58	-
	1,191	**705**

15.22 REALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2017 In € 1,000	2016 In € 1,000
Realised currency results Arcona Capital RE Bohemia s.r.o.	34	-
Realised currency results Arcona Capital RE Slovakia s.r.o.	138	273
	172	**273**

15.23 UNREALISED VALUATION RESULTS INVESTMENTS IN GROUP COMPANIES

	2017 In € 1,000	2016 In € 1,000
Arcona Capital RE Bohemia s.r.o.	2,717	889
Arcona Capital RE Slovakia s.r.o.	1,469	407
Arcona Capital Real Estate Poland Sp. z.o.o.	-/- 449[24]	61
Arcona Capital Real Estate Trio Sp. z.o.o.	1,657	-
Arcona Real Estate B.V.	493	-
	5,887	**1,357**

15.24 UNREALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2017 In € 1,000	2016 In € 1,000
Arcona Capital Real Estate Poland Sp. z.o.o.	443	-/- 407

[24] Including change in provision group companies.

15.25 OTHER OPERATING INCOME

	2017 In € 1,000	2016 In € 1,000
Other exchange and currency translation results	9	-
Interest income current account banks	-	2
	9	**2**

15.26 ADMINISTRATIVE EXPENSES

For the remuneration of the Managing Board see section 12.65 “Administrative expenses”.

15.27 OTHER OPERATING EXPENSES

15.27.1 Specification of other operating expenses

	2017 In € 1,000	2016 In € 1,000
Costs of service providers	441	344
Costs of funding and acquisition	133	1,023
	574	**1,367**

15.27.2 Analysis of costs of service providers

	2017 In € 1,000	2016 In € 1,000
Consultancy fees	77	42
Accounting expenses	116	79
Audit fees	67	55
Supervisory Board fees	28	28
Marketing expenses	28	20
Custody fees	53	39
Listing, Paying and Fund Agent fees	23	23
Supervisors’ expenses	18	24
Insurance AIFMD	25	24
Other costs of service providers	6	10
	441	**344**

15.27.3 Analysis of Supervisory Board fees

For the analysis of the Supervisory Board fees see section 12.66.3 “Analysis of Supervisory Board fees”.

15.27.4 Analysis of costs of funding and acquisition

	2017 In € 1,000	2015 In € 1,000
Capital raise	-	1,023
Consultancy fees / legal fees	102	-
Due diligence	31	-
	133	**1,023**

15.28 PERSONNEL COSTS

The Fund does not employ any personnel (2016: nil).

15.29 INTEREST EXPENSES

	2017 In € 1,000	2016 In € 1,000
Interest expenses on convertible bonds	432	232
Interest expenses on private loans	102	-
Underwriting fee / commitment fee	-	152
Other exchange and currency translation results	-	1
Other interest expenses	4	-
	538	**385**

15.30 INCOME TAX EXPENSE

	2017 In € 1,000	2016 In € 1,000
Deferred tax on profits		
Adjustment in respect of previous years	-	-/- 31

15.31 RELATED PARTIES

15.31.1 Identity of related parties

With regard to the Fund the following categories of related party were distinguished during the financial period:

I. Managers in key positions;
II. Major investors (more than 20% of voting rights);
III. All organisational entities within the group designated as Arcona Capital (AC);
IV. Investment trusts, investment funds and other investment companies, which are managed by an entity belonging to Arcona Capital;
V. Investments undertaken by Arcona Capital, in which Arcona Capital has significant influence (more than 20% of voting rights).

15.31.2 Transactions with and / or interests of managers in key positions (I)

During the financial period the Fund entered into the following transactions with the managers in key positions:

A. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Czech Republic, s.r.o. for the amount of € 474,000;
B. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Poland Sp. z.o.o. for the amount of € 127,000.

During the financial period no other transactions occurred with members of the Management Board and / or members of the Supervisory Board.

The remuneration for the Managing Board is described in section 12.65 “Administrative expenses”.

The remuneration for the Supervisory Board is described in section 12.66.3 “Analysis of Supervisory Board fees”.

15.31.3 Specification major investors

	Type of share	**Directly real voting rights** In %	**Indirectly real voting rights** In %	**Directly potential voting rights** In %	**Total** In %
H.M. van Heijst	Ordinary shares	4.70	17.24[25]	n.a.	21.94
	Convertible bond	n.a.	n.a.	16.34	16.34[26]
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

The voting rights are based on information in the Register substantial holdings and gross short positions of the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the “AFM”).

[25] Through “Stichting Value Partners”.
[26] 11.05% after balance sheet date due to € 1.42 million instalment

15.31.4 Transactions with and /or interests of major investors (II)

During the financial period the Fund entered into or maintained the following transactions with the major investors:

A. H.M. van Heijst has provided a private unsecured loan for the principal amount of € 2,000,000. The outstanding amount as at statement of financial position's date amounts to € 2,000,000 (31 December 2016: € nil);

B. H.M. van Heijst was entitled to interest with regard to the provided private unsecured loan for an amount of € 62,000. The total outstanding amount of the payable interest with regard to provided private unsecured loans towards H.M. van Heijst as at statement of financial position's date amounts to € 2,000 (31 December 2016: € nil);

C. H.M. van Heijst was entitled to interest with regard to the issued convertible bonds for an amount of € 273,000. The total outstanding amount of the payable interest with regard to the issued convertible bonds towards H.M. van Heijst as at statement of financial position's date amounts to € 57,000 (31 December 2016: € 63,000). The total outstanding amount of the convertible bonds issued to H.M. van Heijst (face value) as at statement of financial position's date amounts to € 4,420,000 (31 December 2016: € 4,420,000).

15.31.5 Transactions with other related parties (III-IV-V)

During the financial period the Fund entered into the following transactions with the other related parties:

A. Providing loans to group companies, as described in section 15.6 "Receivables from group companies".

15.31.6 Investments in other related parties (III-IV-V)

During the financial period the Fund has not entered into investments in other related parties.

15.32 TAXES

The results of the Fund are subject to Corporate Income Tax (CIT).

15.33 PROPOSAL FOR THE COMPANY RESULT APPROPRIATION

The company´s profit for the financial period amounts to € 5,569,000. Recognising the mandatory net addition of € 2,672,000 to the "Revaluation reserve" the remaining profit for the financial period was € 2,897,000. It is proposed to the General Meeting of Shareholders to add the whole of the remaining profit for the financial period to the "Retained earnings".

This proposal has already been recognised in the company balance sheet.

15.34 EVENTS AFTER BALANCE SHEET DATE

The following material events after balance sheet date have occurred:

A. On 19 February 2018 the Fund redeemed its Tranche II 2015 convertible bond, due for repayment as at 20th of February 2018, in full. The convertible bond was originally issued for an amount of € 1,420,000 with a conversion share price of € 8.48, which was not reached during the term.

B. On 7 March 2018 ownership of 100% of the shares of the Polish retailer Piotr i Paweł (the largest tenant in the Fund´s portfolio) was acquired by TFI Capital Partners, a financial investor.

No further material events have occurred after balance sheet date.

Amsterdam, 6 April 2018

The Managing Board:

Arcona Capital Fund Management B.V.
On behalf of,

G.St.J. Barker LLB FRICS	*P.H.J. Mars M.Sc.*	*H.H. Visscher*
Managing Director	*Managing Director*	*Managing Director*

The Supervisory Board:

H.H. Kloos RBA	*B. Vos M.Sc.*
Chairman	

16 OTHER INFORMATION

16.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION

In accordance with Article 28 of the Articles of Association dated 21st of September 2016, profits are determined and distributed as follows:

28.1 From the profit earned in a financial period in so far as possible a dividend is first distributed on the priority share, the amount of which dividend is equal to seven per cent (7%) on an annual basis, calculated on the nominal value of the priority share. No further distributions are made on the priority share.

28.2 The priority shareholder determines annually what part of the profit remaining after application of article 28.1 above is added to the reserves.

28.3 It is the prerogative of the general meeting of shareholders to appropriate the profit remaining after application of articles 28.1 and 28.2 above.

28.4 Distribution of profit occurs after adoption of the financial statements evidencing that this is permitted.

28.5 The priority shareholder may resolve to make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a company reserve.

28.6 Distributions on shares may only take place up to a maximum of the amount of the distributable shareholders' equity.

28.7 Unless the body that decides on distribution determines another time, distributions on shares are payable immediately after declaration.

28.8 In calculating the amount of any distribution on shares the shares held by the company in its own capital are not included.

16.2 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION

On 24 January 2006 Arcona Capital Fund Management B.V. obtained a permit from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the “AFM”) under the Dutch Act on the Supervision of Investment Institutions (Wet toezicht Beleggingsinstellingen, the “Wtb”), which was superseded by the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) as per 1 January 2007 to act as a Management company of the Fund.

On 22 July 2013, the Alternative Investment Fund Managers Directive (AIFMD) came into force. Since Arcona Capital Fund Management B.V. already held a Wft-permit on 21 July 2013, by law this permit became an AIFMD-permit automatically after the transition period of one year on 22 July 2014.

16.3 PERSONAL INTERESTS

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Fund, except for B. Vos M.Sc. who had 4,400 ordinary shares (31 December 2016: 4,400) in private possession and 4,562 ordinary shares (31 December 2016: 4,562) in possession through Bas Vos B.V.

As at balance sheet date Arcona Capital GmbH held 26,991 registered shares (31 December 2016: 26,991) in the Fund. G.St.J. Barker LLB FRICS and T.K. Rauh are the ultimate beneficial owners (UBOs) of Arcona Capital GmbH.

16.4 SPECIAL CONTROLLING RIGHTS

Special rights in respect of control of the company have been granted to the holders of priority shares. The priority shares are bearer shares. As provided by the Articles of Association the priority shares entitle the Foundation:

- To determine the number of members of the Managing Board and Supervisory Board;
- To make binding nominations for appointment of the members of the Managing Board and the members of the Supervisory Board;
- To make the proposal to the General Meeting of Shareholders to suspense or dismiss a Managing Board member and / or a Supervisory Board member;
- To make the proposal to the Supervisory Board for the remuneration of the members of the Supervisory Board;
- To determine which part of the profits remaining after priority dividend (see also section 16.1) shall be reserved;
- To make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a company reserve;
- To make the proposal to the General Meeting of Shareholders to amend the Articles of Association of the Fund;
- To make the proposal to the General Meeting of Shareholders for statutory merger or statutory demerger of the Fund;
- To make the proposal to the General Meeting of Shareholders for dissolution of the Fund.

The General Meeting of Shareholders needs the approval of the Foundation for decisions of the Managing Board concerning:

- Reduction of the issued share capital.

16.5 INDEPENDENT AUDITOR'S REPORT

To the shareholders and the supervisory board of Arcona Property N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements for the year ended 31 December 2017 of Arcona Property N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Arcona Property N.V. as at 31 December 2017, and of its result and its cash flows for for the year ended 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Arcona Property N.V. as at 31 December 2017, and of its result for for the year ended 31 December 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2017.
2. The following statements for 2017: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2017.
2. The company profit and loss account for for the year ended 31 December 2017.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Arcona Property N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 890.000. The materiality is based on 1% of Investment Property. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 44.500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Arcona Property N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Arcona Property N.V..

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by component auditors from other Deloitte network firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. For each component we determined whether we required an audit of their complete financial information or whether other procedures would be sufficient.

Our group audit mainly focused on significant group entities in Czech Republic, Slovakia and Poland, making up 100% of total revenues and 100% of total investment properties. For all these group entities we determined that a full audit was required.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

Key audit matter:

The valuation of the investment property contains an inherent estimation uncertainty. Due to the significance of this account balance and the estimation uncertainty we consider this as a key audit matter.

How our audit addressed the matter:

Based on the underlying external appraisal reports we have verified the value of the investment property.

We have critically reviewed relevant assumptions and recent retail sector developments influencing the fair value and involved our internal valuation experts in challenging valuations of the external appraisers. We have additionally engaged internal property experts to review a selection of the investment property.

We have likewise reconciled the rental data applied with the financial accounting records. On the basis of IAS 40, we have reviewed the Fair Value concept as applied by the appraisers.

We have performed an additional test on the reliability of the estimation by comparing the valuation with the revenues effectively realised upon disposal and by analysing any differences.

Acquisition of investment properties

Key audit matter:

Due to the size of the acquisitions and the complexity of processing these acquisitions under IFRS we consider this as a key audit matter.

How our audit addressed the matter:

Based on the underlying contracts, deeds of transfer and other relevant documentation, we have audited the acquisition of investment property. In addition, we have established the correctness of the authorization for each of the transactions. Furthermore we have verified that the transaction is processed in accordance with relevant IFRS-standards with respect of the accounting of acquisition of assets.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

In addition to the financial statements and our auditor’s report thereon, the annual accounts contain other information that consists of:

- Report of the Management Board
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code
- Arcona Property Fund In Brief
- Key Figures
- Pre-advice of the Supervisory Board
- The Real Estate Portfolio

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the supervisory board as auditor of Arcona Property N.V. on May 18, 2017, as of the audit for the year 2017 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company’s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 6, 2018
Deloitte Accountants B.V.

Signed on the original :

J. Holland