Politickych veznu 10 in Prague

ARCONA PROPERTY FUND N.V.

ANNUAL REPORT 2018

1 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. [**ACFM** or the **Managing Board**]. ACFM 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.

The Managing Board 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 N.V.
Gustav Mahlerlaan 2970
1081 LA Amsterdam
the Netherlands

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

Listing, Paying Agent and Research
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
TCS Depositary B.V.
Woudenbergseweg 11
NL 3953 ME Maarsbergen
the Netherlands

Financial Calendar 2019

General Meeting of Shareholders	21 May 2019
Publication of semi-annual report 2019	29 August 2019
Publication of trading update of 3rd quarter 2019	14 November 2019

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.

CONTENTS

1 FOREWORD FROM THE MANAGING BOARD

2018 was a year of mixed results for the Arcona Property Fund. On the positive side, continuing improvements in the general portfolio occupancy rate were matched by important agreements on lease extensions with key office tenants, substantially de-risking the portfolio for the future. On the negative side, the appointment of administrators to the supermarket chain Piotr I Pavel, one of the Fund´s largest tenants, impacted capital values in Poland and outweighed continuing capital growth from the Czech and Slovak portfolios. Income from operations continued to grow, whilst the loan to value ratio now shows the Fund equity and debt positions to be effectively in balance. The Board completed the secondary listing of the Fund on the Prague Stock Exchange. Significant opportunities to grow the Fund have been identified and will be progressed during 2019.

Distributions to shareholders in 2018 comprised a 14 cent per share final dividend for 2017, paid out in May, and a 10 cent per share interim dividend for 2018, paid out in September. To continue the trend of increases in annual distribution, given the 3.17 million outstanding shares, the Managing Board will be recommending an additional dividend of 25 cents per share for 2018, to be charged to the share premium reserve.

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. Since 31 October 2018 the Fund is also listed on the Prague Stock Exchange [the **PSE**]. The Fund invests in commercial real estate in Central and Eastern Europe [the **CEE**].

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), Sofia (Bulgaria) 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 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 and Prague Stock Exchange.

Strategy
The Managing Board'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 (Romania, Bulgaria, Serbia, Croatia, Slovenia, Hungary) 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.

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. After successful Kriva 18 and 23 renovations, plans are now being prepared for the 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 2018: 50.5% 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.

Diversity
The Dutch Corporate Governance Code requires the Fund to have a diversity policy for the composition of its Supervisory Board. The Supervisory Board of the Fund currently comprises two persons, appointed by the shareholders on the basis of their relevant experience, language skills and professional qualifications. If the membership of the Supervisory Board is expanded in the future, the opportunity may be taken to broaden its

composition in respect of such factors as age, gender and geographical experience. The Management Board of the Fund is Arcona Capital Fund Management [**ACFM**]. ACFM is not required by the Dutch Corporate Governance code to provide information on its diversity policy.

Fund governance

The Managing Board endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association [**DUFAS**]. Following these Principles, the Managing Board will act in the interests of investors of the funds the Managing Board 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 2018, the Fund's real estate portfolio comprises 24 properties, located in two cities in the Czech Republic, three cities in Slovakia and eleven 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 2018 was € 89.03 million, a 0.9% decrease compared to the € 89.80 million portfolio of 24 properties ultimo 2017. The overall decrease resulted from value falls in the Polish retail holdings outweighing increases elsewhere in the portfolio.

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

	2018	2017	2016	2015	2014	2013
Return [1] (in %)	-/- 1.1	15.2	-/- 1.3[2]	2.3	-/-0.9	-/-3.2

[1] Including shareholder distributions

[2] Based on comparable Net Asset Values, corrected for shares issued.

3 KEY FIGURES

Balance sheet statement (x € 1,000)

	2018	2017	2016	2015	2014	2013
Investment properties	89,032	89,798	74,806	53,272	52,080	57,068
Other non-current assets	680	523	1,548	1,523	837	1,609
Current assets	2,945	7,660	7,598	1,408	5,719	2,030
Total assets	**92,657**	**97,981**	**83,952**	**56,203**	**58,636**	**60,707**
Shareholders' equity	40,911	42,036	36,452	28,569	28,554	26,814
Deferred tax liabilities	4,606	4,295	4,177	4,271	4,004	4,709
Other non-current liabilities	26,519	43,942	25,195	21,010	22,183	9,023
Current liabilities	20,621	7,708	18,128	2,353	3,895	20,161
Total equity and liabilities	**92,657**	**97,981**	**83,952**	**56,203**	**58,636**	**60,707**
Loan-to-Value (in %)	50.5	52.7	49.3	41.0	46.6	47.5

Profit and Loss statement (x € 1,000)

	2018	2017	2016	2015	2014	2013
Direct result before tax	1,482	3,161[3]	-/- 325	707	801	1,450
Indirect result before tax	-/- 1,336	3,250	-/- 208	-/- 6	-/- 96	-/- 1,446
Total result before tax	**146**	**6,411**	**-/- 533**	**701**	**705**	**4**
Income tax expense	352	842	-/- 241	263	-/- 419	137
Total result after tax	**-/- 197**	**5,569**	**-/- 292**	**438**	**1,124**	**-/- 133**
Occupancy (in %)	86.9	84.0	80.7	78.0	75.0	73.7
Rentable area (in m²)	104,216	104,186	100,673	80,754	91,727	109,335

Issued capital

	2018	2017	2016	2015	2014	2013
Ultimo outstanding shares	3,165,149	3,165,149	3,165,149	1,438,704	1,438,704	1,339,707
Basic earnings p.share (in €)	-/- 0.05	1.76	-/- 0.14	0.25	0.64	-/- 0.08
EPRA Earnings (in €)	0.42	0.37	n.a.	n.a.	n.a.	n.a.

Data per share

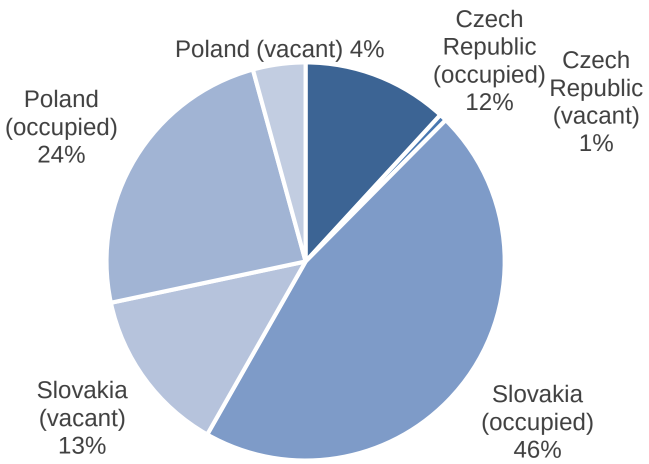
	2018	2017	2016	2015	2014	2013
(Interim-) dividend	0.10	0.24	n.a.	0.35	0.30	-
NAV conform EPRA[4]	-	-	11.69	20.30	20.24	20.42
NNNAV conform EPRA	13.65	14.05				
Avg. monthly turnover (in €)	260,359	231,240	102,192	387,413	163,926	284,227
Highest price	7.95	7.40	8.15	9.51	7.05	7.96
Lowest price	6.79	5.20	5.00	6.84	5.87	5.93
Ultimo price	7.10	7.40	5.40	8.35	6.96	6.99

[3] Including €1.88 million results on disposals of properties
[4] As of 2017 the EPRA NAV calculation method changed, see chapter 7

KEY GRAPHICS

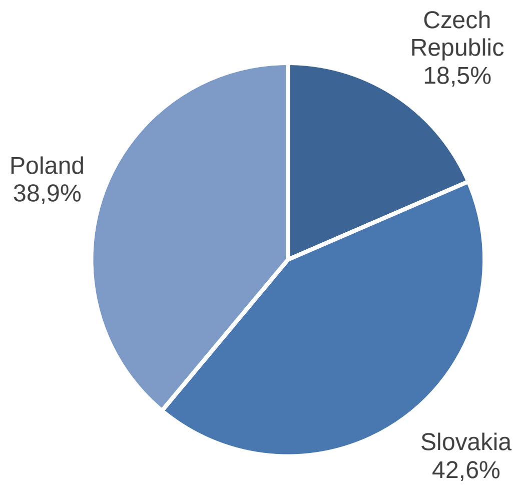
Portfolio occupancy (space) rate per country

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.



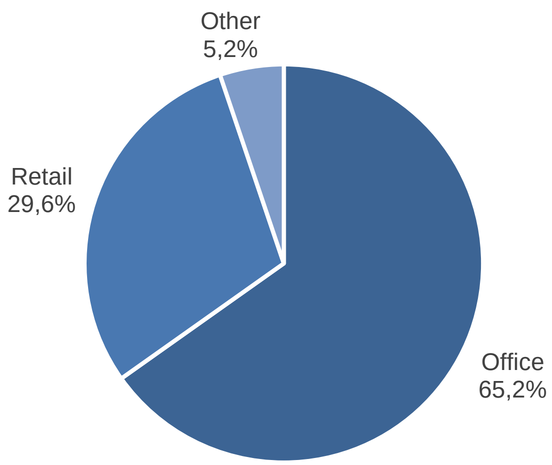
Fair value per country real estate portfolio[5]

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.



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 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 2018. The financial statements are audited and have been approved by Deloitte Accountants N.V. The auditor's report is presented on pages 146 - 151. The Supervisory Board has received notice of this approval.

The Supervisory Board recommends the financial statements for the year 2018 to the General Meeting for approval. The proposal by the Managing Board is to distribute 25 cents per share as a final dividend for 2018.

Meetings and activities of the Supervisory Board

During 2018, the Supervisory Board had six 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.

Dividend policy

The current dividend policy is to pay out ca. 35% of the annual net operational profit as dividend, with the aim of achieving an annual 8% dividend yield within a period of 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 2018

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, 4 April 2019

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

5 REPORT OF THE MANAGING BOARD

The Managing Board hereby presents the annual report of 2018 of Arcona Property Fund N.V. The reporting period is from 1 January 2018 to 31 December 2018.

5.1 SUMMARY OF THE YEAR

5.1.1 DEVELOPMENTS IN 2018

During 2018 the Fund´s positive trends in operational performance continued. Gross and net income increased, occupancy levels increased, key leases were extended and expanded, the Ongoing Charges Figure and Operational Cost ratios fell and loan-to-value ratios improved. The overall operational result, adjusted for one-off factors, showed a satisfactory increase over 2017 despite the smaller portfolio. Occupancy levels increased by 3.1%, to 87% overall, which should now deliver further improvements to the operational result in 2019. Of particular importance to the medium-term stability of the income flow were the extensions to two major leases, Intive in Szczecin and AT&T in Kosice, where the income on ca. 8,500 m² (some 19% of the Fund´s total office space) has now been secured until 2023. This delivers a substantial improvement to the Fund´s risk profile. The repayment of the Tranche II convertible bond in February and steady amortization of secured bank loans over the year reduced the loan-to-value ratio from 52.7% to 50.5%, effectively bringing the Fund´s debt and equity positions into balance.

A challenging situation was created in Poland in September when Piotr & Pawel [**PiP**], one of Poland´s largest supermarket chains and a major tenant in the portfolio, entered administration. PiP was originally the tenant of 6 of the Fund´s 11 supermarkets when the portfolio was acquired in 2016 but an active asset management programme had reduced this weighting to 3 units by the time administration commenced. Replacement tenants were quickly found for two of these three units, in Glogow and Grudziadz, which left PiP occupying one unit, in Inowroclaw, at year-end 2018. The negative impact of these developments on the Fund´s cash flow has been minimal, but the uncertainty in the supermarket sector impacted investor sentiment for convenience retail in Poland in the second half of 2018. This was reflected by the valuers in the year-end capital valuations of the Fund´s retail assets, which showed a 4.7% fall in value compared to December 2017. In the medium term, however, Management considers that the opportunity to replace a troubled food anchor operator by new leases at market level with stronger retail chains should improve portfolio quality and enhance value overall. Further action will be undertaken during H1 2019 to complete this process.

The value falls in Polish retail in 2018 were largely offset by value increases in the Czech Republic, Slovakia and Polish offices, reflecting occupancy increases, rising rents and lease extensions with major tenants. The overall portfolio valuation decreased by 0.9% over the year, to € 89,032,000.

In August 2018 NIBC commenced analyst coverage of the Fund. In October 2018 the Fund achieved a secondary listing in the Collective Investment Securities segment of the Prague Stock Exchange (PSE), as the first-ever entry in the UCITS and AIF sub-segment. This technical step can now be followed by the placing of shares on the PSE by existing shareholders of the Fund. The level of trading in the Fund´s shares in 2018 was similar to 2017, at 424,156 (2017: 424,780), a turnover of 13.4% of the total shares in issue. The stock price traded at the end of 2018 at € 7.10, which represented a 48% discount to the net asset value. The total return to shareholders, including distributions, was -/- 0.8 %, compared to the benchmark MCSI World Real Estate small-cap return of -/- 5.56% over 2018.

In December 2018 the Fund announced an agreement to acquire the majority of the real estate assets of Secure Property Development and Investment PLC, an AIM London-listed company. The planned acquisition will increase the gross asset value of the Fund to ca. € 161 million and expand its activities into South-Eastern Europe. The acquisition will be funded by a combination of share issuance and a takeover of SPDI´s existing asset-level debt arrangements. Execution of the first phase of the acquisition is anticipated for Q2 2019.

The following events were publicly announced in the form of press releases during the reporting period:

Arcona Property Fund N.V. and AT&T expand their co-operation in Košice (25 January 2018)
The Fund announced it reached an agreement with AT&T Enterprises on the expansion of the existing lease for office space in the Letna 45 building in Košice, Slovakia. AT&T rents an additional 495 m^2, bringing the total to 5,892 m^2. The expansion of the lease contract will provide the Fund with approximately € 47,000 additional rental income on an annual basis. AT&T is the main occupier of the Letna 45 property and one of the largest tenants in the Fund´s portfolio.

Arcona Property Fund N.V. redeems convertible bond (20 February 2018)
The Fund announced it redeemed its Tranche II 2015 convertible bond, due for repayment on 20 February 2018, in full. The bond was originally issued for a sum of € 1.42 million. Through the redemption of this the Loan to Value ratio of the Fund decreased to 52.4% as of 20 February 2018.

Publication of Annual Report 2017 (6 April 2018)
The Annual Report 2017 published on 6 April 2018 showed that the Fund occupancy rate increased to 84.0%. The Fund delivered a net profit of € 5.57 million in 2017, against a net loss of € 292,000 in 2016. The operational result for the year jumped from € 748,000 to € 2.13 million.

Publication of the Q1 figures 2018 (9 May 2018)
The figures of Q1 2018 reported an operational result (before tax, valuation gains, and non-recurring items) for Q1 2018 of € 400,000, compared to € 200,000 in Q1 2017. For the full year 2018 the Fund is maintaining its forecast of an operational result of € 2.4 million from the existing portfolio. The aim is to distribute ca. 35% of this amount to shareholders.

General Meeting of Shareholders (25 May 2018)
On 25 May 2018 the General Meeting of Shareholders adopted the annual accounts of 2017 and granted discharge to the Managing Board and the Supervisory Board. The proposal to distribute 14 cents per share as a final cash dividend for the year 2017 was adopted. This follows the interim cash dividend of 10 cents per share, paid in August 2017. The shareholders also approved certain changes to the wording of the text in the Fund prospectus relating to 'performance- related remuneration [PRR]'.

Arcona Property Fund N.V. introduces TUŻ TUŻ brand for retail-location (9 August 2018)
The Fund announced that it has introduced the new brand TUŻ TUŻ for one of its eleven shopping centers in Poland as part of its growth strategy and expansion in Poland. The new brand means 'next door'. After the rebranding, the shopping center in Piotrków Trybunalski has been reopened as TUŻ Piotrków Trybunalski.

Intive extended its lease agreement in Szczecin (10 August 2018)
The Fund has agreed an extension to and an expansion of the existing lease agreement with Intive S.A. for office premises in the MARIS building in Szczecin in Poland. Intive rents a further 420 m2, taking their total occupancy to 2,700 m2. The term of the lease on the 2,700 m^2 is extended by 5 years from 1 January 2019.

Arcona Property Fund N.V. reports good first half year 2018 (30 August 2018)
The Fund generated a 5.8% increase in net rental income in the first six months of 2018. Net income reached € 2.42 million, compared to € 2.29 million in the equivalent period in 2017. Profit after tax excluding valuation effects rose by 41.4%, from € 403,000 in H1 2017 to € 570,000 in the first six months of 2018.

Tenant of Arcona Property Fund N.V. in administration (14 September 2018)
The Fund was informed that the Polish supermarket chain Piotr I Pawel [PiP] has been placed into administration. At that time PiP is a tenant of shopping centres in the Fund´s portfolio on three locations.

Arcona Property Fund N.V. lists on Prague Stock Exchange (31 October 2018)
The Fund announced common shares are listed on the Collective Investment Securities market, a regulated market of the Prague Stock Exchange (Burza cenných papírů Praha). The Fund becomes the first to issue on

that market's UCITS and AIF sub-segment, which is designed for shares in funds that are available to retail investors as well as qualified investors.

Arcona Property Fund leases Piotr I Pawel supermarket space in Poland (19 November 2018)
The Fund found a new tenant for the supermarket space in the shopping center in Grudziadz, Poland. The new tenant is Hildebrandt, a regionally active retail and food processing company from Brodnica. The new lease agreement started on November 16, 2018 and has a term of three years, with an extension option of seven years.

Arcona Property Fund N.V. leases supermarket space in Poland to Stokrotka (3 December 2018)
The Fund found a new tenant for the supermarket space in its shopping center in Glogow, Poland. The new tenant is Gemar Supermarket sp. z.o.o., a franchisee of the well-known Polish supermarket chain Stokrotka. The new lease agreement took effect on December 1, 2018 and has a term of ten years.

Arcona Property Fund N.V. and AT & T extend lease agreement in Košice (17 December 2018)
The Fund has reached agreement with AT & T Enterprises on the extension of the existing lease agreement for the office space in Letna 45 in Košice, Slovakia. The contract is extended by three years until April 2023, with two extension options of three years. In total AT & T leases 5,892 m^2 of space, of which 998 m^2 for an indefinite period. The lease agreement accounts for approximately 8.3% of the total rental income of the Fund on an annual basis.

Arcona Property Fund N.V. agrees major acquisition (17 December 2018)
The Fund has entered into an implementation agreement to acquire most of the property assets of the AIM London-listed Secure Property Development & Investment [**SPDI**] PLC (AIM : SPDI) in an all-share transaction that will increase the portfolio size of the Fund from € 94.8 million to circa € 161 million and its Net Asset Value from € 41.9 million to circa € 78 million. The purchase will be funded by the issuance of 2,102,804 new shares of the Fund and the transfer of existing senior debt at a level of circa € 30 million.

External valuation of property portfolio (31 December 2018)
The Fund has determined its real estate portfolio value at € 88.95 million as at 31 December 2018, a decrease of 1.3% compared to the value of the comparable portfolio at the end of 2017. The value of the four Czech properties of the Fund increased by 1.3% in 2018 and that of the eight Slovak properties increased by 1.6%. The value of the twelve properties in Poland fell by 4.5%. The portfolio occupancy rate increased to 86.9%.

5.1.2 NET ASSET VALUE PER SHARE AND SHARE PRICE DEVELOPMENT

The following tables show the development of the Fund's Triple Net Asset Value and share price during the period 1 January 2018 to 31 December 2018.

Table 2 – Total Return on share price and Triple Net Asset Value during 2018

	Based on share price		Based on NNNAV	
	In €	In %	In €	In %
Start period	7.40		14.05	
End period	7.10		13.65	
Return	-/- 0.30		-/- 0.40	
Distribution to shareholders	0.24		0.24	
Total Return	**-/- 0.06**	**-/- 0.8**	**-/- 0.16**	**-/- 1.1**

Figure 1 –Development of the Fund's stock market price per share during 2018

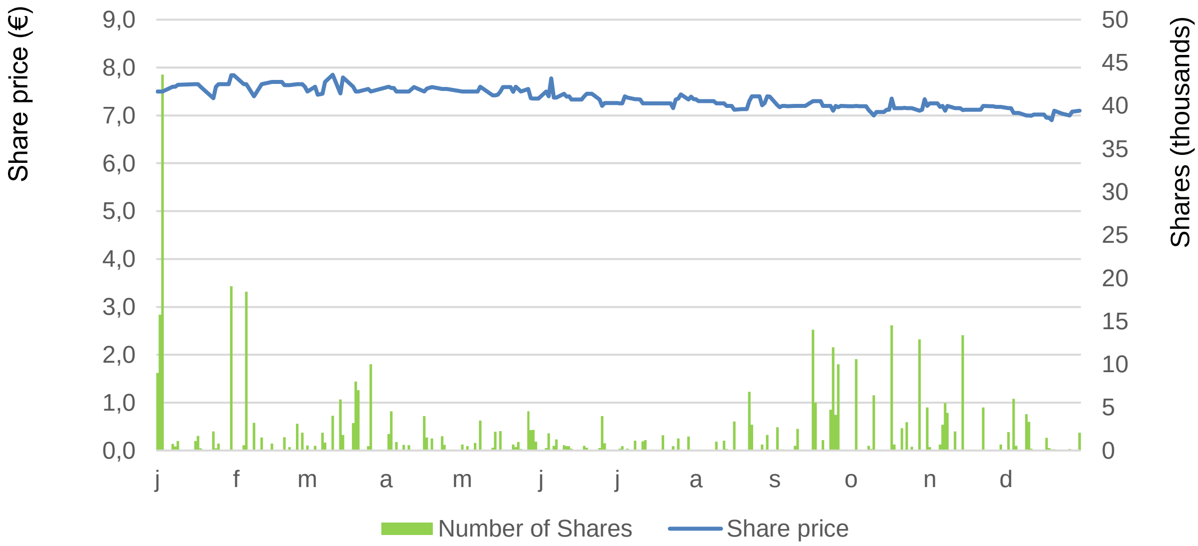


Table 3 – Development of the share price per quarter in 2018

Quarter	Opening price Start of quarter in €	Closing price End of quarter in €	Volume pieces
1st Quarter 2018	7.31	7.50	172,451
2nd Quarter 2018	7.46	7.26	52,999
3rd Quarter 2018	7.26	7.20	85,431
4th Quarter 2018	7.19	7.10	113,275
Average per quarter			*106,039*

The above table shows an average trading volume of 1,731 (2017: 1,733) shares per trading day during 2018. The average quarterly traded volume was stable at 106,039 shares per quarter (2017:106,195), but the average turnover increased, by 13.0%, to € 0.78 million per quarter (2017: € 0.69 million per quarter). Improving the liquidity on the stock market is a priority for the Fund. The stock price traded at the end of 2018 at € 7.10, which represents a 48% discount to the net asset value (2017: 44%).

Table 4 – Comparative statement of the NAV per share

	31-12-2018	31-12-2017
Shareholders' equity in accordance with EPRA NAV (in € 1,000)	45,320	46,159
Include:		
1. Fair value of financial instruments	20	86
2. Fair value of debt	38	261
3. Fair value of deferred tax	-/- 2,169	-/- 2,047
Shareholders equity in accordance with EPRA NNNAV (in €1,000)	**43,209**	**44,459**
Number of ordinary shares in issue	3,165,149	3,165,149
EPRA-NNNAV per profit-sharing share (in €)	**13.65**	**14.05**
Annual return on EPRA-NNNAV (in %)[6]	-/- 2.8	

5.2 FINANCIAL RESULT

5.2.1 BALANCE

Table 5 – Balance statement

	31-12-2018 in € 1,000	31-12-2017 in € 1,000	Change in € 1,000
Investment property	89,032	89,798	-/- 766
Non-current assets	680	523	157
Current assets	2,945	7,660	-/- 4,715
Total assets	**92,657**	**97,981**	**-/- 5,324**
Shareholders' equity	40,911	42,036	-/- 1,125
Deferred tax liabilities	4,606	4,295	311
Long-term loans and borrowings	26,519	43,942	-/- 17,423
Total current liabilities	20,621	7,708	12,913
Total shareholders' equity and liabilities	**92,657**	**97,981**	**-/- 5,324**

The -/- € 0.77 million change in "Investment property" reflects the net impact from investments into the properties and the lower valuation of the Polish retail portfolio.

"Non-current assets" increased by € 0.16 million due to more deferred tax assets (see 15.3).

The decrease in "Current assets" relates to decrease of net changes in trade and other receivables following receipt of the Drahobejlova sale proceeds (see 15.6.2).

Shareholders' equity decreased by € 1.13 million due to the property revaluation and the distribution to shareholders (see 15.10).

The decrease in "Long-term loans and borrowings" of € 17.42 million reflects the reclassification of the DNB Nord Bank loan in Poland and the Sberbank CZ loan for the Czech portfolio to "total current liabilities". During the first quarter of 2019 the Sberbank CZ loan was renewed for a period of 5 years.

[6] excluding the shareholder distributions

5.2.2 RESULT

The profit for 2018 after tax (see table 6 and chapter 9) amounted to -/- € 197,000 (2017: € 5.57 million) and can be divided into direct result and indirect result. A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in chapter 9 and in the following paragraphs.

Table 6 – Overview of result

€ 1,000	**1-1-2018 until 31-12-2018**	**1-1-2017 until 31-12-2017** like-for-like	**Change in** € 1,000
Direct result before tax	1,482	3,161[7]	-/- 1,679
Indirect result before tax	-/- 1,336	3,250	-/- 4,586
Result before tax	**146**	**6,411**	**-/- 6,265**
Tax	352	842	-/- 490
Result after tax	**-/- 197**	**5,569**	**-/- 5,766**

€ 1,000	**1-1-2018 until 31-12-2018**	**1-1-2017 until 31-12-2017** like-for-like	**Change in** € 1,000
Direct result before tax (including sale result)	1,482	3,161	-/- 4,643
Sale result	0	1,877	-/- 1,877
Direct result before tax (without sale result)	1,482	1,284	198
Indirect result before tax	-/- 1,336	3,250	-/- 4,586
Result before tax (without sale result)	**146**	**4,534**	**-/- 4,388**
Tax	352	842	-/- 490
Result after tax (without sale result)	**-/- 197**	**3,692**	**-/- 3,889**

The *direct result* before tax was € 1.48 million. The year 2017 contained € 1.88 million additional income from the sale result from the Drahobejlova 27 sale in Prague and the Gemerská sale in Košice. Hence on a like-for-like basis the direct result 2018 was € 198,000 (+15.4%) higher than 2017.

The *indirect result* before tax of -/- € 1.34 million reflects the revaluation of the real estate portfolio (see 15.2). For more information about the property valuations see 15.2.1.

Ongoing Charges Figure
In 2018 the Ongoing Charges Figure [the **OCF**] decreased as a result of decrease of costs to about 10.85%. In 2018 the Ongoing Charges Figure decreased as a result of a decrease of the total expenses (including "Other operating expenses") by about 6%, in conjunction with the increase of the average shareholders' equity by about 13%. Without non-regular costs, such as "Costs of funding and acquisition" (see section 15.29.5) the OCF would be 10.72% (31 December 2017: 11.71%). The "fund expense ratio", which measures the fund costs such as management fee, audit fees and marketing costs against the average shareholders' equity, decreased to 4.31%. The difference to the OCF is that operating costs, such as maintenance costs, are not in the "fund expense ratio".

[7] including €1.88 million results on disposals of properties

Table 7 – Ongoing Charges Figure

	2018 in %	2017 in %	2016 in %	2015 in %
Ongoing Charges Figure	10.85	13.02	12.82	9.91
OCF excluding one-off and refinancing costs	10.72	11.71	9.32	8.84
Fund expense ratio	4.31	4.50	3.93	3.51

Fund operating expenses

The total fund operating expenses of € 1.99 million contain € 0.25 million incidental expenses related to consultancy fees and local marketing costs during 2018. See also 15.28 and 15.29.

Financial expenses

The financial expenses are € 1.76 million (2017: € 1.72 million), of which € 1.69 million is related to interest expense on loans and convertible bonds. The rest relates to other financial expenses that can be seen at 15.31 ("Financial Expenses").

5.2.3 CASH FLOW

The net cash flow of the Fund after operating, investment and financing activities was -/- € 893,000 (2017: € 435,000). The table below provides a summary of the cash flow (see chapter 12).

Table 8 – Consolidated cash flow statement

	2018 in € 1,000	2017 in € 1,000
Cash flow from operating activities	1,086	6,395
Cash flow from investing activities	3,086	-/- 432
Cash flow from financing activities	-/- 5,065	-/- 5,528
Net increase / decrease (-/-) in cash and cash equivalents	**-/- 893**	**435**

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

The "Cash flow from investing activities" concerns the sale proceeds from Drahobejlova and the net expense of € 3.09 million for capital expenditures to improve asset quality across the portfolio.

The "Cash flow from financing activities" concerns the repayment of loans and borrowings (€ 2.89 million), the repayment of convertible bonds (€ 1.42 million) and distributions to shareholders (€ 0.76 million). See chapter 12 for more information ("Consolidated statement of cash flow").

Table 9 – Statement of comprehensive income

	2018 in € 1,000	2017 in € 1,000
Foreign currency translation differences on net investment in group companies	-/- 200	394
Income tax on foreign currency translation differences on net investments in group companies	32	-/- 63
	-/- 168	331
Net gain/ (loss) recognised directly in equity	**-/- 168**	**331**
Profit for the period	-/-197	5,569
Total recognised income and expense for the period	**-/- 365**	**5,900**

5.2.4 BANK LOANS

Table 10 – Overview of interest-bearing loans and borrowings

	31-12-2018	31-12-2017
	in € 1,000	in € 1,000
Secured bank loans	17,994	34,424
Convertible bonds	3,412	4,427
Subtotal	**21,406**	**38,851**
Other loans and borrowings	4,710	4,710
Total long-term interest-bearing loans and borrowings	**26,116**	**43,561**
Current portion of secured bank loans	15,677	2,127
Current portion other loans and borrowings	2,000	2,000
Current portion of convertible bonds	1,056	1,417
Total short-term interest-bearing loans and borrowings	**18,733**	**5,544**
Total interest-bearing loans and borrowings	**44,849**	**49,105**
Debt Service [8]	**16,244**	**3,205**

Table 11 – Overview of secured bank loans

	31-12-2018	31-12-2017
	in € 1,000	in € 1,000
DNB Bank	0	6,346
Slovenská sporiteľňa	9,612	10,569
Sberbank CZ	0	7,876
Raiffeisen Polbank	8,382	9,633
Total long-term interest-bearing loans and borrowings	**17,994**	**34,424**
DNB Bank	6,396	447
Slovenská sporiteľňa	957	930
Sberbank CZ	7,073	381
Raiffeisen Polbank [9]	1,251	369
Total short-term secured bank loans	**15,677**	**2,127**
Total secured bank loans	**33,671**	**36,551**

Over the past twelve months the total loan-to-value ratio (LTV) of the portfolio has decreased from 52.7% to 50.5% (see also 12.40). The Managing Board intends to maintain 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 1.80 years and a weighted average interest rate of 3.05%. At the same time the convertible bonds had an average maturity of 2.38 years and a weighted average interest rate of 6.38%.

See section 15.11.4 ("Securities, bank covenants and ratios secured bank loans") for more information on statement of financial position's date with the secured bank loans.

[8] End of year annual scheduled amount of contractual interest and instalments related to bank loans for the following year.

[9] See 12.40.1 "Analysis of interest-bearing loans and borrowings"

5.2.5 CURRENCY EXCHANGE RATE

	31-12-2018	**31-12-2017**	**31-12-2016**
Czech Koruna (EUR / CZK)	25.7240	25.5350	27.2100
% change	*-/- 0.7%*	*5.5%*	*0.0%*
Polish Zloty (EUR / PLN)	4.30140	4.1770	4.4103
% change	*-/- 3.0%*	*5.3%*	*-/- 3.4%*
Pound Sterling (EUR / GBP)	0.89453	0.88723	0.85618
% change	*-/- 0.8%*	*-/- 3.6%*	*-/- 16.7%*

Source: European Central Bank (ECB)

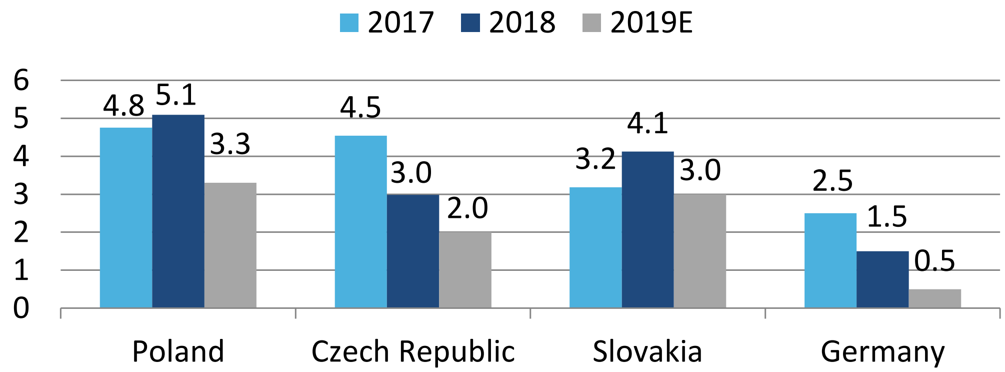
5.3 DEVELOPMENTS IN THE MARKET AND PORTFOLIO

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. Overall the region is expected to continue to demonstrate growth rates significantly in excess of Western and Southern Europe.

5.3.1 ECONOMIC BACKGROUND AND REAL ESTATE MARKET OUTLOOK

The year 2018 followed 2017 as one with strong economic growth momentum in the Central & Eastern European [**CEE**] region. Robust demand for exports, continuing government, EU and private investment and especially domestic consumption sustained GDP dynamics. According to the latest government estimations, Polish real GDP grew 5.1% in 2018, Slovakia expanded 4.1% and the Czech Republic registered 3.0%.

GDP GROWTH, SELECTED CEE COUNTRIES AND GERMANY, 2017-19E



Source: Oxford Economics, Colliers International (2019E)

Key to the sustaining of GDP growth momentum in 2019 and onwards is domestic consumption. High national wage inflation in the past 2-3 years, unemployment falling to recent record low levels and a continuation of a relatively low interest rate environment has stimulated high retail sales growth across the CEE region. These positive drivers are not likely to dissipate in 2019 and only slowly thereafter.

The marked slowdown in the German economy in recent quarters, alongside those of its European peers, is the major factor dragging down GDP growth in the CEE in 2019E. A weakening of global demand, including in the key auto sector, is a major factor explaining the near-recessionary condition of Germany, CEE's locomotive. The export dependency of the Czech and Slovak economies and that of Poland, to a lesser extent, links these open, trading, economies to fluctuations in global demand. The GDP growth outlook is thus somewhat uncertain, though forecasts are still above long-term trends due to the strong consumption effect. A slowdown is most evident thus far in the Czech Republic.

That strong consumption momentum triggered a continuation in 2018 of the tightening of monetary policy in the Czech Republic, with five interest rate rises of 0.25%, following the first two hikes in 2017. The level of Czech interest rates, at 1.75%, remains below that of CPI, currently running at 2.7% year-on-year. Local Czech koruna interest rates are likely to be hiked again in 2019. Poland's interest rates remained on hold at 1.5%, as the CPI pulse is weaker, at just 1.2% year-on-year, on the latest reading. Slovakia's Eurozone interest rates remain anchored at 0%. With the most recent March 2019 downgrade of Eurozone economic growth and inflation assumptions, the European Central Bank [the **ECB**] looks set to remain with a zero interest rate policy for the whole of 2019 and perhaps beyond.

Factors influencing the longer term outlook for CEE include that the region remains very competitive overall relative to western Europe in terms of labour costs, despite the wage hikes seen in recent years. Pockets of activity, such as the high end of the IT sector, have salary levels approaching European norms, which then requires equivalent productivity, which is now indeed often being delivered. Labour shortages are more of an ongoing issue in the region, with the very low unemployment levels and may act as a brake on growth if migration, productivity, participation rates or technology do not offer solutions. The budgetary position of the region's governments are in reasonable condition to offset any economic slowdown or cut to the EU's funding flows in the next 2020-26 Structural Funds cycle. The UK's Brexit, changes to the EU's methodology for assessing the need for funds towards areas within the Union of high unemployment and, more arguably, friction between certain CEE governments and Brussels could well see these flows lessen in coming years. General elections are due in Poland in October 2019, where the often-nationalistic ruling PiS party has a chance of a fresh mandate.

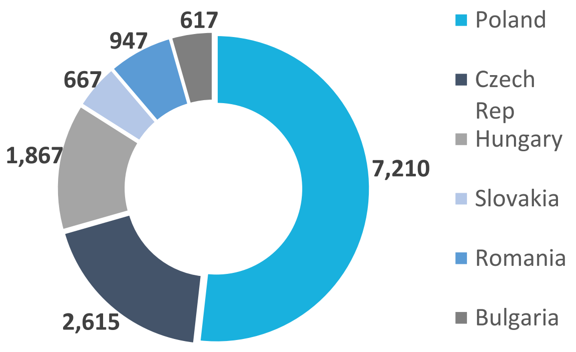
REAL ESTATE MARKETPLACE

Investors purchased a record volume of € 13.9bn of commercial real estate in the CEE-6 markets, up 7% year-on-year in 2018, according to Colliers International data. This was the third year in a row with record volumes set. That 7% rate of growth is slower compared to previous years, correlating with the peaking of GDP growth and economic leading indicators relating to consumption.

Purchases of Polish assets were dominant, with the € 7.2bn making up 52% of the total pie and growing 41% year-on-year from 2017's tax-related "pause" levels. Volume in the Polish regions as opposed to just in Warsaw amounted to a significant majority of deals in both 2017 and 2018. Czech volume dropped -30% year-on-year from the heights scaled in 2016 and 2017, as relatively high prices, a lack of large product in the prime segments of the commercial real estate markets and perhaps the slowing GDP growth meant less purchases, especially from foreign players. Slovakia's turnover grew 46%, rebounding from a slow 2017 but still some way off 2016's levels.

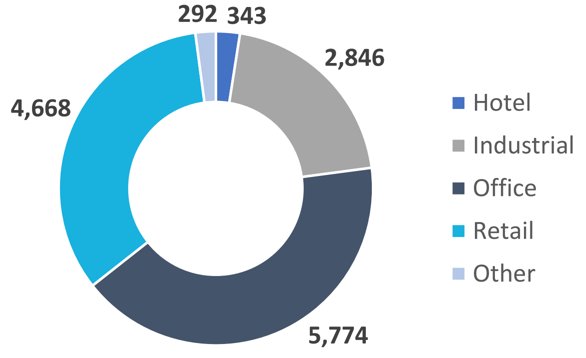
Domestic investors made a significant 62% of Czech purchases in 2018, a higher proportion than seen in recent years and were active across the size scale and sector spectrum. The same cannot be said of Poland, with local buyers comprising just 2% of the transaction volume. The ratio in Slovakia was a more respectable 22%. Local buyers tend to lend stability to commercial real estate markets across the world, being more likely to be present through a whole investment cycle and more prepared to consider higher-yielding assets in less fashionable locations.

CEE-6 FLOWS BY COUNTRY (2018, € m)



Source: Colliers International

CEE-6 FLOWS BY SECTOR (2018, € m)



Source: Colliers International

2018 saw the office sector overhaul retail with the largest portion of deals across the region. As GDP proxies, office (+59%) and industrial (+20%) flows both grew healthily. Retail flows declined just -7%, from 2017's very high levels. Activity was particularly high in Polish regional shopping centres and in retail assets in Romania in 2018, with South African purchasers still prominent.

REAL ESTATE OUTLOOK

The most important macro indicator for CEE real estate investments this year is Eurozone interest rates, which are seen as flat-lining at zero. This should stem some of the potential angst over tightening global credit conditions, keep liquidity high, buyers interested and help pricing to plateau in 2019. Selective compression in prime yields in capital city offices is foreseen. Absent a Eurozone financial crisis or taxation issues, funding from lenders should remain a support.

A continuation of the pattern of pay hikes well above inflation should support consumption and commercial rents across CEE in 2019. It is that recent pattern of wage rises that should see the service sector grow within CEE economies in the coming years, sheltering the region somewhat from any instability appearing in the global economy, affecting exports from CEE.

The Polish office market

Poland is no exception when considering the effect of the recent high economic growth on fundamentals in the commercial office market. Vacancy rates in the capital city Warsaw have tracked down from over 15% in 2016 to less than 10% now. Average rents moved up as a consequence, in the very liquid Warsaw CBD marketplace, by 6% in 2018. A further tick-down in vacancy rates and rise in prime rents is anticipated in 2019. This positive pattern for the capital city is echoed somewhat in the Polish regions.

For Szczecin, where our office asset is located, vacancy rates in the CBD shifted down from 10.0% in Q4 2017 to 5.1% in Q4 2018, according to Colliers International. This is the lowest vacancy rate amongst the office markets of major cities in Poland. Prime (€ 14.0/sqm/month) and average (€ 12.8/sqm/month) rents held steady last year. Colliers expect a steadying of vacancy rates and rents at these levels in 2019 and for prime office yields to also stay where they are at an estimated 9.0%. New office supply, in the form of active construction stands at 38,000 sqm or around 24% of existing stock. This ratio is lower than that seen in recent quarters. Szczecin is a location with lower average wages than Warsaw or comparative EU cities and this factor may see demand from business process outsourcing [**BPO**] players increasing from the current low levels relative to other cities. The market appears to be marginally in favour of landlords, presently.

The Polish retail market

The stronger wage and GDP growth dynamics observed in Poland is a much more healthy demand input for the retail sector than that in more mature, slow-growing western markets. This high growth means that the threat from online shopping is more muted, as there is space for all formats to expand, certainly in the short to medium term. But the battle on the supply side in certain segments has been intense. Poland has seen a high degree of competition in the Polish supermarket and convenience grocery store brand arena, even with the online threat at an immature stage of development. According to a report by Coface, the retail sector faced the largest number of bankruptcies and restructurings in Poland, 234, in 2018 than any other sector. The number of bankruptcies rose 7% year-on-year. Foreign discounters, such as Biedronka and Lidl have taken market share via competitive pricing and scale. Their victims in this intense supply environment were hypermarkets and deli-supermarkets. Names such as MarcPol, Alma Market, Piotr & Pawel and Malpka have fallen into bankruptcy or restructuring proceedings. Coface expect, with a slowing of the German and Polish GDP growth, that the number of bankruptcies will grow by 11% across the Polish economy in 2019. In other words, cyclical risk is introduced to a segment under some supply stress already.

The large traditional shopping centre market appears more resilient, for now. Stock stood at 11.9mn sqm in Poland at the end of 2018, with another 0.4mn (3% of stock) under construction, 60% of which is due in 2019, according to Colliers International. There is no sign of vacancy rates rising due to the threat from online retail, though the new Sunday trading laws in Poland have affected turnover in many retail formats. The outlook for rents in the major shopping centres in the larger cities is seen by Colliers International as stable in 2019, excepting the chance of rent rises in prime assets in Warsaw and declines in Poznan. Vacancy rates for traditional shopping centres across the country are low, for example at 4% in Lodz, 3% in Bydgoszcz and just 1% in Torun. The 2019 outlook for prime traditional shopping centre yields in the major cities outside of Warsaw is stable, in the range of 5.0%-6.75%.

Important trends to consider for 2019 are that more and more mixed-use projects will appear in the Polish real estate market. Examples of this include the Elektrownia Powiśle, ArtN, Browary Warszawskie, Bohema and Port Praski. Some retail schemes will undergo a thorough change and function in a new outlet centre format. Examples of this include Galeria Rumia - Outlet Pomerania or Galeria Plaza - Fashion Outlet Kraków. The year 2019 will bring further development of projects with a convenience shopping profile in some of the smaller cities. Colliers International assume approximately 15 investments of this nature. The Żabka retail chain will implement new technologies, including the application for clients, self-service checkouts and use of artificial intelligence. This is pointing the way for other convenience formats.

The Czech office market

The time lag between the economy slowing down and this being felt in the office market is sufficiently long in the Czech Republic that boom conditions prevailed in 2018 and a positive spill-over looks likely in 2019, if labour force constraints do not intervene. Domestic consumption and private investment have kept demand high: gross take-up in in Prague in 2018 according to Colliers International registered 519,000 sqm, moderately down -3.5% year-on-year but still higher than any other year since 2005. Net take-up was -15% lower than 2017, at 328,600 sqm but again higher than any other year. In Q4 2018, total office stock in Prague reached 3.51 million sqm with some 156,000 sqm, or just 4% added during 2018. This includes 15 new or refurbished properties. The net absorption rate (defined as total change in occupied stock) in the city reached 194,500 sqm in 2018, or a -13% decrease versus 2017. But net absorption has remained positive since Q1 2015 on a quarterly basis and since 2010 on an annual basis.

Reflecting this demand and moderate supply, Prague's office vacancy rate ended 2018 at 5.1%, the lowest level recorded since 2005. Brno's was higher, at 9.6% but Colliers expect this to fall in 2019. With the vacancy rate in Prague expected to steady at this extremely low level this year, the recent observed uptick in headline prime market (7.3% in 2018) and headline market average (11.1% last year) rents in the Czech capital looks set to continue at a moderate rate in 2019. Rents in Brno are forecast to be stable. Prime rental yields in the two cities are seen to remain stable at the Q4 2018 levels of 4.75% and 6.5% in 2019.

The Slovak office market

Conditions in the Slovak office market were generally benign in 2018, given the robust macro performance. Gross take-up in the capital, Bratislava, did slip -7% compared to 2017, to 172,000 sqm according to Colliers International but net take-up was flat, at 117,000 sqm. These figures are some -21%-26% off the peaks seen in 2016. During the year the largest number of transactions was recorded in the segment of less than 200 sqm office premises, while most of the take up in terms of the total area was recorded for transactions between 1,000 – 5,000 sqm. The addition of around 86,000 sqm of new premises brought the total office stock in the Slovak capital to around 1.8mn sqm. Colliers expect around 194,450 sqm of additional office space to be delivered by the end of 2020, an increase of at least 11%. Out of this pipeline, nine projects with a total area of around 143,580 sqm are planned to be delivered in 2019.

With the market roughly balanced, the Bratislava vacancy rate is not seen as likely to vary from the observed 6.0% level in 2019. Rents in turn are also likely to flat-line. Prime office yields are also seen to be steady at 6.0% in 2019.

A feature of 2019 may be reconstructions and refurbishments of old stock in the market to regain the attention of tenants. To boost competitiveness, landlords in Bratislava and the rest of Slovakia are becoming increasingly interested in innovative workplace strategies and certifications (BREEAM, LEED, WELL). Any further tightening of the labour market is likely to limit growth opportunities available to companies, restraining expansion needs of existing occupiers.

5.3.2 REAL ESTATE PORTFOLIO DEVELOPMENT

Table 12 – Comparative statement of the real estate portfolio

	31-12-2018	31-12-2017	change	%
Fair value (in € 1,000)	89,032	89,798	-/- 766	-/- 0.9%
Number of properties	24	24	0	0.0%
Rentable area (in m²)	104,216	104,186	30	0.0%

The fair value as at end 2018 is € 0.77 million lower than a year before and is the net result of capital investments into the portfolio and the devaluation of the retail properties in Poland.

Table 13 – Statement of changes in investment properties

	2018	2017
	in € 1,000	in € 1,000
Balance as at 1 January	**89,798**	**74,806**
Purchases and additions	690	13,671
Exchange rate differences	-/- 120	971
Fair value adjustments	-/- 1,336	3,744
Balance as at 31 December (including assets held for sale)	**89,032**	**93,192**
Reclassification	-	-/- 3,394
Balance as at 31 December	**89,032**	**89,798**

The "Purchases and additions" during 2018 reflects investments into the properties. The 2017 figure reflected the acquisition of four properties in Poland and two office property sales in Slovakia and Czech Republic respectively.

Table 14 – Comparative statement of real estate income within portfolio

	2018	2017	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	8,699	8,426	273	3.2
Service cost income	2,099	2,103	-/- 4	-/- 0.2
Total income	**10,798**	**10,529**	**269**	**2.6**
Service costs	-/- 3,225	-/- 2,939	-/- 286	9.7
Operational costs	-/- 2,754	-/- 2,794	40	-/- 1.4
Net rental income	**4,819**	**4,796**	**23**	**0.5**

The increase in net rental income in the amount of € 23,000 shows the additional operational income related to the higher occupancy.

Table 15 – Comparative statement of real estate income within like-for-like[10] portfolio

	2018	2017	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	8,699	8,135	564	6.9
Service cost income	2,099	2,011	88	4.4
Total income	**10,798**	**10,146**	**652**	**6.4**
Service costs	-/- 3,225	-/- 2,771	-/- 454	16.4
Operational costs	-/- 2,754	-/- 2,677	-/- 77	2.9
Net rental income	**4,819**	**4,698**	**121**	**2.6**

[10] When compared to same portfolio as at end 2017

Like-for-like the net rental income corresponding to the twenty-four properties in the portfolio at ultimo 2018 increased by € 0.12 million. The like-for-like net rental income is 2.6 % higher compared to the same period in the previous year (€ 4.70 million). This increase reflects higher occupancy rates partly offset by additional repair and maintenance costs.

5.3.3 FUND PORTFOLIO OPERATIONS

Table 16 shows how the key ratios of the Fund´s operations changed over 2018:

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

	31-12-2018	31-12-2017	Change	%
Fair value per asset (in € 1,000)	3,710	3,742	-/- 32	-/- 0.9
Number of properties (annual average)	24.0	24.3	-/- 0.3	-/- 1.2
NOI per asset (in € 1,000)	200.8	197.4	3.4	1.7
Occupancy [11] (in %)	86.9	84.0	2.9	3.5
Total loan-to-value (in %)	50.5	52.7	-/- 2.2	-/- 4.2
Discount Share price to NNNAV (in %)	48.0	44.0	4.0	9.1
Ongoing Charges Figure [12] (in %)	10.72	11.71	-/- 0.99	-/- 8.5
Fund expense ratio (in %)	4.31	4.50	-/- 0.19	-/- 4.2
Solvability (in %) [13]	79.1	75.7	3.4	4.5

5.4 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. To achieve this will require significant further increases in the size of the Fund and in the level of dividends distributed to shareholders.

The Fund objectives are:

- An annual dividend yield of ca. 8% on the prevailing share price.
- 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 e.g. Romania, Bulgaria, Serbia, Croatia and Hungary: 30% (€ 150 million)
- A balanced portfolio of modern high-yielding, multi-tenanted real estate across the region.
- Loan to value between 45% - 50% (including convertible bonds).

The Polish portfolio is currently at 38.9% (2017: 40%), the Czech portfolio is 18.5% (2017: 18%) and the Slovakia portfolio is 42.6% (2017: 42%). The loan to value is currently 50.5% (2017: 52.5%).

[11] Weighted based on fair value

[12] Excluding one-off cost elements

[13] Defined as equity / liabilities x 100%

5.5 DIVIDEND POLICY

The dividend policy of the Fund is to distribute, based on the annual results, ca. 35% of the operational 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.

5.6 OUTLOOK

The Central and Eastern European region continues to demonstrate strong economic fundamentals, with above-average growth rates, high rates of inward investment, low unemployment, low government borrowing levels and low taxation levels. Political developments in the region are not seen as likely to disturb this positive environment in the medium term. As such, there is a strong case for investment exposure to the region, particularly exposure offering an element of liquidity (such as exchange-listed stocks). As a sector, Real Estate offers a combination of a relatively high income yield and growth potential when rents rise. This potential for growth is influenced by the supply of new space, which is constrained across CEE and will remain so for the next few years due to the long lead times required for successful property development. The Arcona Property Fund is now very well positioned to take advantage of these regional opportunities and offers a compelling opportunity for investors attracted by the rising dividend yield and the discount to NAV. The ability for locally-based investors to trade the stock in Prague widens its appeal.

For the coming year management has the following operational and corporate priorities:

1. Refinancing of the RECE loan, the Shareholder loan, a convertible loan and the DNB Nord Bank loan: there is a requirement to refinance over € 20 million of debt at asset and corporate level within the next 15 months which, given the positive debt financing environment, the management is confident of being able to achieve at attractive rates by a combination of refinancing at senior level and by the issuance of corporate bonds.
2. Disposals of underperforming and illiquid properties: despite a steady programme of asset sales since 2013 the Fund continues to hold a number of properties which deliver an inadequate return on equity employed or which require disproportionate levels of maintenance expenditure. Management intends to accelerate the disposal of such assets in the coming year, thus generating cash and increasing the Fund´s future strategic options.
3. Acquisitions without dilution: the planned acquisition of the assets of SPDI will significantly expand the Fund, lower its LTV ratios and enhance its revenue-generation capacity without diluting existing shareholders.
4. Progress towards higher dividends: since re-commencing distributions to shareholders in 2015 the Fund is now over half-way towards its 8% annual dividend yield target. Higher occupancy levels achieved during 2018, further operational improvements and the acquisition of SPDI are all expected to enhance this progress during 2019.
5. Special Opportunities to create value: Arcona Capital, the manager of the Arcona Property Fund, has demonstrated its ability over the past decade to recover value for investors in “distressed” structures. Clear opportunities exist in acquisition opportunities now being considered for the Fund for this value recovery competency to be deployed to the advantage of the Fund´s shareholders, specifically by debt re-engineering to deliver one-off increases in NAV.
6. Improve visibility and trading in the stock: the commencement of analyst coverage of the Fund in August 2018 resulted in an increase in the level of trading in the stock which has continued into 2019. The commencement of trading in the Fund´s shares in Prague during 2019 should sustain this increase. The management plans a series of actions together with its advisors during 2019 to raise the profile of the Fund with investors in both Western and Central Europe to further improve liquidity. The planned

issuance of new Fund shares to the shareholders of SPDI will increase the amount of shares in issue and should logically lead to higher turnover in absolute terms.

5.7 RISK MANAGEMENT

Risk Management is considered an important managing board responsibility. In this annual report there were no material changes to the risk management framework specified in paragraph 15.35 “Risk management”.

Risk appetite and risk management
The Funds risk management policy is intended to identify, assess and respond to the main risks that are inherent to the (activities of the) Fund. The risk management framework consists of a top down annual review and risk inventory. Risk exposure is managed by taking mitigating measures, while pursuing our business opportunities to achieve our strategy.

With the exception of the risks presented in paragraph 15.35 “Risk management”, we have not identified any risks that could have a materially adverse effect on our business. Unidentified or unforeseen risks, however, could have a material adverse effect on our business.

Internal control framework
The Funds Internal Control Framework is to provide reasonable assurance that risks are identified and mitigated in order to achieve important objectives. The Internal Control Framework consists of the following elements:

- monthly KPI reporting
- an established data recovery plan, supported by a cloud-based work environment
- a planning & control structure. Administrative organisation and internal controls are based on a division of functions. Both contracting and payments take place based on the ‘four-eyes’ principle.

Risk monitoring
Risk reports are a recurring topic at the supervisory and managing board meetings. The results of stress testing are part of risk management monitoring and discussed with the Managing and Supervisory Board. Risks are monitored on a continuous basis, with mitigating measures in place.

For a description of the main risks and uncertainties, we refer to the paragraph 15.35 “Risk management” and the notes to the consolidated financial statements.

5.8 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 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.

5.9 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, 4 April 2019

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 2018 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: Košiče - Krivá 18
8: Košiče - Krivá 23
9: Košiče - Prazka 2
10: Košiče - Prazka 4
11: Košiče - Kysucka 16
12: Košiče - 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 2018 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)	2.455

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 main tenant is Mila, on a lease expiring in 2019. Extension negotiations are ongoing.

800-lecia Inowroclawia 27, Inowroclaw (Lecia)	
Type	Retail
Rentable Surface (in m²)	2,548
Occupation Rate (in %)	95.3
Fair value (in € m)	2.859

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 2,548 m² lettable area and 100 parking places. The main tenant is Piotr i Pawel on a lease expiring in 2024.

1 Krzemowa, Gdansk (Krzemowa)	
Type	Retail
Rentable Surface (in m²)	1,615
Occupation Rate (in %)	95.4
Fair value (in € m)	3.050

The Gdańsk–Sopot-Gdynia (750,000 inhabitants) conurbation (TriCity) 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 district, Chelm (50,000 inhabitants). To the north-east it borders the Srodmiescie district, home of the medieval old town. 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 has two entry points, provides 46 parking spaces and extends to 5,122 m². The main tenant is Biedronka, on a lease expiring in 2027.

1 Plutona, Glogow (Plutona)	
Type	Retail
Rentable Surface (in m²)	1,825
Occupation Rate (in %)	100.0
Fair value (in € m)	2.088

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. The lettable area is 1,825 m² and there are 62 parking places. The main tenant is Gomar Supermarkets, trading as Stokrotka, on a lease expiring in 2028.

82 Kalinkowa, Grudziadz (Kalinkowa)	
Type	Retail
Rentable Surface (in m²)	2,558
Occupation Rate (in %)	91.0
Fair value (in € m)	2.481

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. The main tenant is Hildebrandt, on a lease expiring in 2021.

137 Wajska Polskiego, Piotrkow Trybunalski (Wajska)	
Type	Retail
Rentable Surface (in m²)	2,650
Occupation Rate (in %)	87.9
Fair value (in € m)	3.597

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 2018 the lease contract with "Piotr i Paweł" was terminated and replaced by a new lease agreement with Biedronka, expiring in 2028.

6 Wolnosci, Slupsk (Wolnosci)	
Type	Retail
Rentable Surface (in m²)	1,872
Occupation Rate (in %)	100.0
Fair value (in € m)	1.392

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 main tenant is Jinfeng on a lease expiring in 2022.

80-82 Graniczna, Kalisz (Kalisz)	
Type	Retail
Rentable Surface (in m²)	2,561
Occupation Rate (in %)	0.0
Fair value (in € m)	1.416

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 sell the property during 2019.

216 Legionow St., Torun (Torun)	
Type	Retail
Rentable Surface (in m²)	2,229
Occupation Rate (in %)	99.5
Fair value (in € m)	2.614

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. The site of the property is held leasehold.

20 Grzymaly Siedleckiego St., Bydgoszcz (Bydgoszcz)	
Type	Retail
Rentable Surface (in m²)	1,793
Occupation Rate (in %)	100.0
Fair value (in € m)	1.487

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. 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. The site of the property is held leasehold.

107 Kardynala Wyszynskiego St., Lodz (Lodz)	
Type	Retail
Rentable Surface (in m²)	1,580
Occupation Rate (in %)	95.1
Fair value (in € m)	2.003

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. Public transport is secured with 7 bus lines that have stops to the west of the property.. The main tenant is Tesco, on a lease expiring in 2021. The site of the property is held leasehold.

9 Holdu Pruskiego Square, Szczecin (Maris)	
Type	Office
Rentable Surface (in m²)	5,974
Occupation Rate (in %)	91.1
Fair value (in € m)	9.189

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 m². The property is currently multi-leased, with 11 tenants. During 2018 the largest tenant Intive increased their leased space by a further 300 m and extended their lease to 2023.

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)	4,655
Occupation Rate (main building) (in %)	88.5
Fair value (in € m)	2.507

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. 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)	2,180
Occupation Rate (in %)	88.0
Fair value (in € m)	2.863

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 2,169 m². The accessibility by road is good and by public transport excellent. The building dates from 1998-1999 and has 28 underground parking spaces.

Prvniho pluku 621, Prague 8 (Karlin)	
Type	Office
Rentable Surface (in m²)	4,055
Occupation Rate (in %)	99.2
Fair value (in € m)	5.676

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 4,055 m². There is sufficient parking capacity, with 35 parking spaces in the courtyard.

Politickych veznu 10, Prague 1	
Type	Office
Rentable Surface (in m²)	2,367
Occupation Rate (in %)	94.9
Fair value (in € m)	5.495

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 2,367 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. The façade was renovated during 2018.

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 %)	76.7
Fair value (in € m)	4.340

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 %)	70.3
Fair value (in € m)	3.330

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.

Pražská 4, Kosiče (Pražská 4)	
Type	Office
Rentable Surface (in m²)	6,088
Occupation Rate (in %)	66.8
Fair value (in € m)	2.540

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)	6,058
Occupation Rate (in %)	88.4
Fair value (in € m)	2.850

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, Kosiče (Krivá 23)

Type	Office
Rentable Surface (in m²)	7,333
Occupation Rate	68.0
Fair value (in € m)	3.380

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 7,333 m² is rentable. There are 111 parking places available. During the previous reporting period the façade was fully refurbished.

Letná 45, Kosiče (Letná)

Type	Office
Rentable Surface (in m²)	11,169
Occupation Rate (in %)	95.1
Fair value (in € m)	10.950

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, has expanded their usage of the property, with a further lease expansion of 495 m² and an extension of the lease term to 2023, recently agreed.

Kysucká 16, Kosiče (Kosmalt)

Type	Office/hostel
Rentable Surface (in m²)	10,711
Occupation Rate (in %)	65.9
Fair value (in € m)	6.110

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.

A. Rudnayova 21, Žilina (Vural)

Type	Office
Rentable Surface (in m²)	10,458
Occupation Rate (in %)	79.4
Fair value (in € m)	4.360

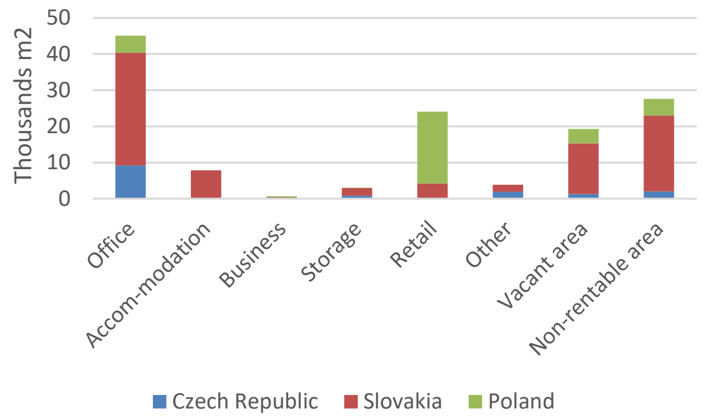
This is a relatively large office building on a 6,200 m² plot. It is located in an accessible location in Žilina, a major city in northern Slovakia some 200km north-east of Bratislava. The building is well recognized in the local office market (telecom company T-Com, software company Kros). There is 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

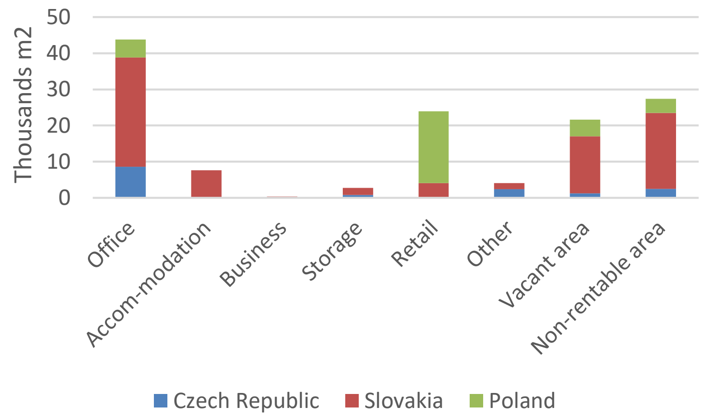
2018

	Office	Accom-modation	Business	Storage	Retail	Other	Vacant area	Non-rentable area	Gross area
Czech Republic	9,155	-	-	800	99	1,938	1,265	1,985	**15,242**
Slovakia	31,207	7,817	429	2,132	4,099	1,956	13,990	21,034	**82,664**
Poland	4,753	-	253	102	19,840	-	4,014	4,623	**33,585**
Total	**45,115**	**7,817**	**682**	**3,034**	**24,038**	**3,894**	**19,269**	**27,642**	**131,491**



2017

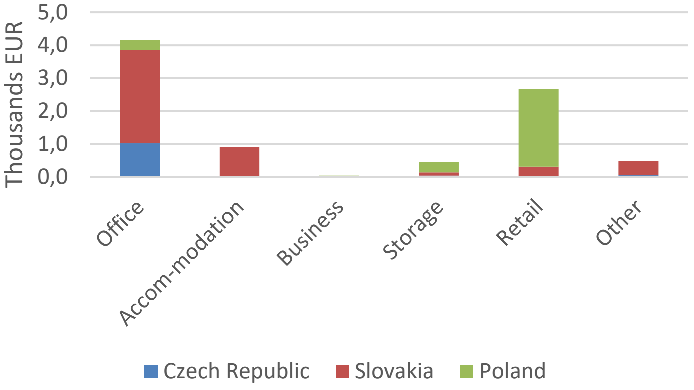
	Office	Accom-modation	Business	Storage	Retail	Other	Vacant area	Non-rentable area	Gross area
Czech Republic	8,575	51	-	776	141	2,403	1,278	2,500	15,724
Slovakia	30,262	7,547	365	2,005	3,929	1,679	15,728	21,009	82,523
Poland	5,001	-	-	-	19,851	-	4,596	3,884	33,331
Total	**43,838**	**7,598**	**365**	**2,781**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



OVERVIEW OF BUSINESS CATEGORIES: GROSS RENTAL INCOME

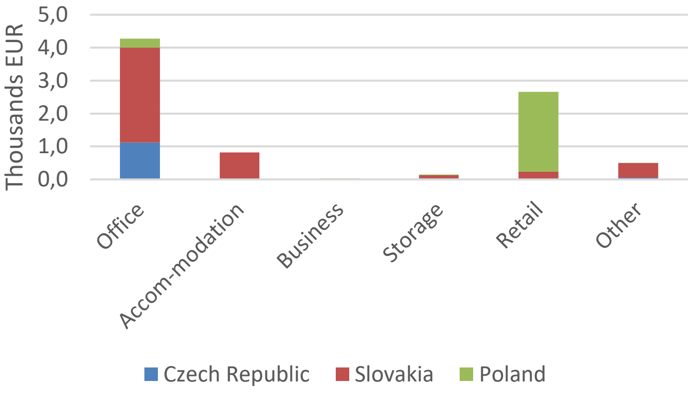
2018

In € 1,000	Office	Accom-modation	Business	Storage	Retail	Other	Total
Czech Republic	1,018	-	-	34	21	46	**1,119**
Slovakia	2,843	898	16	103	284	429	**4,573**
Poland	297	-	24	321	2,356	9	**3,007**
Total	**4,158**	**898**	**40**	**458**	**2,661**	**484**	**8,699**



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**



CONSOLIDATED FINANCIAL STATEMENTS 2018

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7 EPRA PERFORMANCE INDICATORS

The following performance indicators have been prepared in accordance with best practices recommendations as defined by EPRA (European Public Real Estate Association) in its Best Practices Recommendations guide, available on EPRA's website (www.epra.com).

7.1.1 EPRA Earnings

Earnings reported in the Consolidated Income Statement as required under IFRS do not provide shareholders with the most relevant information on the operating performance of real estate investment funds.

EPRA Earnings measures the Fund's operational performance and the extent to which its dividend payments to shareholders are underpinned by earnings is the level of income arising from operational activities. The Fund's operational performance represents the net income generated from the operational activities. Unrealised changes in valuation of properties, gains or losses on disposals of properties and certain other items do not necessarily provide an accurate picture of the Fund's underlying operational performance.

As EPRA Earnings is used to measure the operational performance, it excludes all components not relevant to the underlying net income performance of the portfolio, such as "Valuation results of properties and "Results on disposals of properties". In effect, what is left as EPRA Earnings is the income return generated by the investment, rather than the change in value or capital return on investments.

EPRA Earnings Per Share ("EPRA EPS") should be calculated on the basis of the basic number of shares. The main raison for this is that EPRA Earnings and the dividends to which they give rise, accrue to current shareholders and therefore it is more appropriate to use the basic number of shares.

The Diluted EPRA Earnings Per Share ("Diluted EPRA EPS") should be calculated on a diluted basis taking into account the impact of any options, convertibles, etcetera that are "dilutive". For the explanation of the effect of exercise of options of options, convertibles and other equity interests (fully diluted basis) see the explanation in (3), mentioned in section 7.1.6 "Explanation of adjustments calculation of EPRA Net Asset Value".

7.1.2 Calculation of (Diluted) EPRA Earnings

	31-12-2018	31-12-2017
Earnings per IFRS Consolidated Income Statement (in € 1,000)	-/- 197	5,569
Exclude:		
1. Valuation results of properties and other investments (exclusive "Properties held for sale"	1,337	-/- 3,248
2. Results on disposals of properties and other investments	-	-/- 1,877
3. Tax on results on disposals of properties and other investments	-	353
4. Changes in fair value of financial instruments	68	-/- 21
5. Acquisition costs on share deals	-	-
6. Taxes in respect of EPRA adjustments	130	403
EPRA Earnings	**1,338**	**1,179**
Total number of shares in issue entitled to profit	3,165,149	3,165,149
EPRA Earnings Per Share (in €)	**0.42**	**0.37**
Total number of outstanding profit-sharing shares (fully diluted)	3,165,149	3,165,149
Diluted EPRA Earnings Per Share (in €)	**0.42**	**0.37**

7.1.3 Explanation of adjustments calculation of (Diluted) EPRA Earnings

1. Valuation results of properties and other investments (exclusive “Properties held for sale”)
This adjustment includes the gain or loss in the Consolidated Income Statement arising in the period from the revaluation of investment properties and other investments at their fair value.

2. Results on disposals of properties and other investments
This adjustment includes the profit or loss on disposal of investment properties and other investments.

3. Tax on results on disposals of properties and other investments
This adjustment includes the tax charge or credit relating to profits or losses on investment properties and other investments sold in the period, calculated consistently with 1 and 2 above.

4. Changes in fair value of financial instruments
This adjustment includes the surplus or deficit arising in the period from the net mark-to-market adjustment to the value of financial instruments (market value less acquisition price paid or received) which are used for hedging purposes and where the Fund has the intention of keeping the hedge position until the end of the contractual duration. Whether the Fund has chosen to apply hedge accounting under IFRS is irrelevant. Material profits / costs associated with the early close-out of financial instruments used for hedging and / or debt instruments should also be excluded from EPRA Earnings.

The only exception to this is the early close-out of financial instruments or debt with a maturity date ending within the current reporting period. In such circumstances, the cost of early close-out should not be adjusted as the fair value difference would have been recognised in the current year’s earnings through the interest line and therefore including the cost of early close-out should not significantly change EPRA Earnings for that year.

5. Acquisition costs on share deals
This adjustment includes the acquisition costs related to share deals (IFRS 3) and joint venture interest are, under IFRS, recognised in the Consolidated Income Statement when incurred. Property-related acquisition costs are first capitalised and subsequently recognised in the Consolidated Income Statement as a revaluation movement. To achieve consistency, acquisition costs related to share deals and joint venture interests should be excluded to arrive at EPRA Earnings.

6. Taxes in respect of EPRA adjustments
This adjustment includes the deferred taxes in the period which only relates to the above items and which would not crystallise until or unless the property, investment or financial instrument is sold. This would typically include deferred tax on revaluation surpluses on investment properties which could reverse on disposal of the asset. This adjustment includes also any current income tax relating directly to the above adjustments to the extent that they are considered material.

7.1.4 EPRA Net Asset Value

Net Asset Value (NAV) is a key performance measure used for real estate investment funds. However, NAV reported in the financial statement under IFRS (see also section 15.10.1) does not provide shareholders with the most relevant information on the fair value of the assets and liabilities within an ongoing real estate investment company with a long-term investment strategy.

The EPRA Net Asset Value (EPRA NAV) measures the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on investment property, development property held for investment or other non-current investments are therefore excluded.

EPRA NAV should be calculated on a diluted basis taking into account the impact of any options, convertibles, etcetera that are “dilutive”.

7.1.5 Calculation of EPRA Net Asset Value

	31-12-2018	31-12-2017
Group equity in accordance with IFRS (in € 1,000)	40,911	42,036
Exclude:		
1. Fair value of financial instruments	-/- 20	-/- 86
2. Deferred tax	4,429	4,209
Group equity in accordance with EPRA NAV (in € 1,000)	**45,320**	**46,159**
Total number of shares in issue entitled to profit	3,165,149	3,165,149
3. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	-	-
Total number of outstanding profit-sharing shares (fully diluted)	**3,165,149**	**3,165,149**
EPRA NAV per profit-sharing share (in €)	**14.32**	**14.58**

7.1.6 Explanation of adjustments calculation of EPRA Net Asset Value

1. Fair value of financial instruments

This adjustment includes the net mark-to-market adjustment to the value of financial instruments (market value less acquisition price paid or received) which are used for hedging purposes and where the Fund has the intention of keeping the hedge position until the end of the contractual duration. Whether the Fund has chosen to apply hedge accounting under IFRS is irrelevant. The mark-to-market of any convertible debt is also excluded from the net assets.

The logic for this adjustment is that, under normal circumstances, the financial derivatives which property investment companies use to provide an economic hedge are held until maturity and so the theoretical gain or loss at Statement of Financial Position's date will not crystallise.

The above adjustments do not include (possibly) foreign currency hedging instruments (fair value hedges or net investment hedges) where the hedged item market value changes are also reflected in the Consolidated Statement of Financial Position. The fair value of such instruments should remain in EPRA NAV to offset the movement in the underlying investment being hedged.

2. Deferred tax

This adjustment includes the recognised deferred taxes in the Consolidated Statement of Financial Position in respect of the difference between the fair value and tax value of investment property, development property held for investment or other non-current investments (including investments in group companies) as these deferred taxes would only become payable if the assets are sold.

The deferred tax liability relating to the fair value of financial instruments, which would not crystallise until or unless the financial instrument is sold, should also be added back.

3. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)

According to EPRA Best Practices Recommendations guide a convertible bond is viewed as dilutive provided that the following criteria are satisfied:

1. the convertible bond is dilutive in accordance with IAS 33.50; and
2. the share price as at Statement of Financial Position's date exceeds the conversion price ("in the money").

7.1.7 EPRA Triple Net Asset Value

The EPRA Triple Net Asset Value (EPRA NNNAV) measures the Net Asset Value including fair value adjustments in respect of all material Statement of Financial Position's items which are not reported at their fair values as part of the EPRA NAV.

7.1.8 Calculation of EPRA Triple Net Asset Value

	31-12-2018	31-12-2017
Group equity in accordance with EPRA NAV (in € 1,000)	45,320	46,159
Include:		
1. Fair value of financial instruments (in € 1,000)	20	86
2. Fair value of debt (in € 1,000)	38	261
3. Fair value of deferred tax (in € 1,000)	-/- 2,169	-/- 2,047
Group equity in accordance with EPRA NNNAV (in € 1,000)	**43,209**	**44,459**
Total number of shares in issue entitled to profit	3,165,149	3,165,149
4. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	-	-
Total number of outstanding profit-sharing shares (fully diluted)	**3,165,149**	**3,165,149**
EPRA NNNAV per profit-sharing share (in €)	**13.65**	**14.05**

7.1.9 Explanation of adjustments calculation of EPRA Triple Net Asset Value

1. Fair value of financial instruments

This reinstates, and is equal to, the adjustment 1, as mentioned in the calculation of EPRA NAV. The reason for reinstating is that EPRA NNNAV is an approximation of fair value NAV.

2. Fair value of debt

This adjustment includes the difference between "Loans and borrowings" included in the Consolidated Statement of Financial Position at amortised cost, and the fair value of "Loans and borrowings".

3. Fair value of deferred tax

This adjustment includes the fair value of the deferred taxes concerning investment property, development property held for investment or other non-current investments (including investments in group companies; these three items hereinafter mentioned as "non-current investments"). The deferred taxes are calculated with regard to all taxable temporary differences with regard to the "non-current investments", whether these deferred taxes are included in the Statement of Financial Position or not. For items not included in the Statement of Financial Position, see section 13.27.3 in the Notes to the Consolidated Financial Statements.

The taxable temporary difference with regard to the "non-current investments" is calculated by the difference between the fair value of the "non-current investment" less the tax value of the "non-current investment". In case the taxable temporary difference should result in a deferred tax asset, this deferred tax asset will only be recognised as far as it is probable that future taxable profits will be available against which they can be used. Deferred taxes are measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, using tax rates enacted or substantively enacted at the Statement of Financial Position's date. The deferred taxes are taken into account without applying any discount (nominal value), which is in accordance with IFRS.

The Managing Board approached the fair value for EPRA-purposes of the deferred taxes applicable to non-current investments by multiplying the deferred taxes (at nominal value, as mentioned above) by 50%. This percentage is an estimation of the present value of the tax applicable in the (near) future.

4. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)
For the effect of exercise of options, convertibles and other equity interests (fully diluted basis) see the explanation in section 7.1.6 (3) "Explanation of adjustments calculation of EPRA Net Asset Value" above.

7.1.10 Calculation of EPRA Triple Net Asset Value before distributions to shareholders

	31-12-2018	31-12-2017
Group equity in accordance with EPRA NNNAV (in € 1,000)	43,209	44,459
Exclude:		
1. Cumulative distributions to shareholders (in € 1,000)	2,012	1,252
Group equity in accordance with EPRA NNNAV before distributions to shareholders (in € 1,000)	**45,221**	**45,711**
Total number of shares in issue entitled to profit	3,165,149	3,165,149
2. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	-	-
Total number of outstanding profit-sharing shares (fully diluted)	**3,165,149**	**3,165,149**
EPRA NNNAV per profit-sharing share before distributions to shareholders (in €)	**14.29**	**14.44**

8 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31-12-2018** In € 1,000	**31-12-2017** In € 1,000
Assets			
Investment property	*15.2*	89,032	89,798
Other investments	*15.3*	5	6
Deferred tax assets	*15.5*	236	138
Trade and other receivables	*15.6*	18	10
Prepayments and lease incentives	*15.7*	121	69
Cash and cash equivalents	*15.8*	300	300
Total non-current assets		**89,712**	**90,321**
Current tax assets	*15.9*	124	76
Trade and other receivables	*15.6*	706	4,432
Prepayments and lease incentives	*15.7*	421	533
Cash and cash equivalents	*15.8*	1,694	2,619
Total current assets		**2,945**	**7,660**
Total assets		**92,657**	**97,981**
Group equity (attributable to Parent Company shareholders)	*15.10*	**40,911**	**42,036**
Liabilities			
Loans and borrowings	*15.11*	26,116	43,561
Trade and other payables	*15.12*	37	71
Deferred income and tenants deposits	*15.13*	366	310
Deferred tax liabilities	*15.14*	4,606	4,295
Total non-current liabilities		**31,125**	**48,237**
Current tax liabilities	*15.15*	108	138
Loans and borrowings	*15.11*	18,733	5,544
Trade and other payables	*15.12*	1,595	1,699
Deferred income and tenants deposits	*15.13*	185	327
Total current liabilities		**20,621**	**7,708**
Total liabilities		**51,746**	**55,945**
Total group equity and liabilities		**92,657**	**97,981**

9 CONSOLIDATED INCOME STATEMENT

	Notes	2018 In € 1,000	2017 In € 1,000
Gross rental income	*15.20*	8,699	8,426
Service charge income		2,099	2,103
Service charge expenses	*15.21*	-/- 3,225	-/- 2,939
Property operating expenses	*15.21*	-/- 2,754	-/- 2,794
Net rental and related income		**4,819**	**4,796**
Valuation results of properties	*15.22*	-/- 1,336	3,250
Results on disposals of properties	*15.23*	-	1,877
Net results on properties	*15.24*	**-/- 1,336**	**5,127**
Financial income	*15.26*	190	292
Other operating income	*15.27*	216	166
Other income		**406**	**458**
Total income		**3,889**	**10,381**
Administrative expenses	*15.28*	684	1,021
Other operating expenses	*15.29*	1,302	1,226
		1,986	**2,247**
Net operating result before financial expenses		**1,903**	**8,134**
Financial expenses	*15.31*	1,757	1,723
Profit before income tax		**146**	**6,411**
Income tax expense	*15.33*	343	842
Profit for the period		**-/- 197**	**5,569**
Attributable to:			
Parent Company shareholders		-/- 197	5,569
Profit for the period		**-/- 197**	**5,569**
Basic earnings per share (€)	*15.34.1*	-/- 0.06	1.76
Diluted earnings per share (€)	*15.34.4*	-/- 0.06	1.55

10 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2018** In € 1,000	**2017** In € 1,000
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences on net investment in group companies		-/- 200	394
Income tax on foreign currency translation differences on net investments in group companies		32	-/- 63
		-/- 168	331
Net gain / loss (-/-) recognised directly in group equity		**-/- 168**	**331**
Profit for the period	*9*	-/- 197	5,569
Total comprehensive income for the period		**-/- 365**	**5,900**
Attributable to:			
Parent Company shareholders		-/- 365	5,900
Total comprehensive income for the period		**-/- 365**	**5,900**

11 CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Issued capital	Share premium	Revaluation reserve	Reserve 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 2018	15,826	16,110	7,196	2,304	266	334	42,036
Total comprehensive income	-	-	465	-/- 168	-/- 56	-/- 606	-/- 365
Distributions to shareholders	-	-/- 760	-	-	-	-	-/- 760
Balance as at 31 December 2018	**15,826**	**15,350**	**7,661**	**2,136**	**210**	**-/- 272**	**40,911**
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**

12 CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	2018 In € 1,000	2017 In € 1,000
Cash flow from operating activities			
Profit for the period	*9*	-/- 197	5,569
Adjustments for:			
Net valuation gains / losses on properties[1]	*15.24*	1,336	-/- 5,397
Net valuation gains / losses on derivatives	*15.31*	-/- 24	79
Financial income	*15.26*	-/- 190	-/- 292
Financial expenses	*15.31*	1,757	1,723
Income tax expense	*15.33*	343	842
Changes in:			
Change in current tax assets		-/- 6	5,136
Change in trade and other receivables		-/- 52	198
Change in prepayments and lease incentives		64	-/- 441
Change in current tax liabilities		-/- 16	43
Change in trade and other payables		-/- 93	281
Change in deferred income and tenants deposits		-/- 83	372
Cash generated from operating activities		**2,839**	**8,113**
Interest received		48	3
Interest paid		-/- 1,657	-/- 1,599
Income tax paid		-/- 144	-/- 122
Net cash from / used in (-/-) operating activities		**1,086**	**6,395**
Cash flow from investing activities			
Proceeds from the sale of properties		3,776	1,565
Proceeds from the sale of other investments		-	83
Dividend received from other investments		-	5
Acquisition of subsidiaries, net of cash acquired		-	-/- 1,498
Acquisition of / additions to properties		-/- 690	-/- 587
Net cash from / used in (-/-) investing activities	*15.36.1*	**3,086**	**-/- 432**
Cash flow from financing activities			
Proceeds from other long-term liabilities		-	2,000
Repayment of secured bank loans		-/- 2,885	-/- 7,212
Repayment of convertible bonds		-/- 1,420	-
Distributions to shareholders		-/- 760	-/- 316
Net cash from / used in (-/-) financing activities	*15.36.2*	**-/- 5,065**	**-/- 5,528**
Net increase / decrease (-/-) in cash and cash equivalents		-/- 893	435
Cash and cash equivalents as at 1 January	*15.8*	2,919	2,403
Effect of exchange and currency translation result on cash held		-/- 32	81
Cash and cash equivalents as at 31 December	*15.8*	**1,994**	**2,919**

[1] Transaction costs and transfer tax excluded.

13 ACCOUNTING PRINCIPLES CONSOLIDATED FINANCIAL STATEMENTS

13.1 REPORTING ENTITY

The company Arcona Property Fund N.V., hereinafter referred to as the Fund, was incorporated on 27th 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 13th November 2003 and a listing on the Prague Stock Exchange (PSE) in Prague on 30th October 2018.

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 a closed-end investment company with variable capital within the meaning of Article 76a of Book 2 of the Dutch Civil Code. The Fund invests in commercial real estate in Central and Eastern Europe (CEE).

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.

13.2 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”).

13.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS

The Fund has applied the significant accounting principles as set out in section 13.2 to 13.28. The Managing Board authorised the Consolidated Financial Statements for issue on 4 April 2019.

As at 31 December 2018, group equity of the Fund is positive. As stated in the liquidity forecast up to end-2019, 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.

13.4 CHANGE OF PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are changed on the following items:

- The specification of the group equity is no longer included in the Consolidated Statement of Financial Position.
- In order to align the comparative figures with the Consolidated Statement of Financial Position as at 31 December 2018 as well as in order to comply with IFRS (IAS 12), the deferred tax assets and deferred tax liabilities are offset in the Statement of Financial Position in case the Fund or its subsidiaries has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same

taxation authority. Therefore, in the comparative figures the deferred tax assets for an amount of € 862,000 have been set-off against the deferred tax liabilities.

The above-mentioned changes of presentation in the “Consolidated Statement of Financial Position” have also impact on the presentation of the “Segment reporting” (section 14.4.4 “Overview of geographic assets and liabilities (overview B)”).

13.5 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

13.5.1 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.

13.5.2 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 ongoing 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 15.39 “Estimates and formation of an opinion by the Management”.

13.5.3 Measurement of fair value

Several 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 or 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 included in the following notes:

- 13.9: “Financial instruments”;
- 13.10.2: “Investment property”;
- 13.17.2: “Assets held for sale”.

13.5.4 New and amended IFRS Standards and interpretations that are effective for the current period

A number of new standards, changes to standards and interpretations are applied in these financial statements. Changes that are relevant for the Fund are described below.

IFRS 9 Financial instruments

In these financial statements the Fund has applied IFRS 9 financial instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1st January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparative figures. Since the result of applying IFRS 9 in the comparative figures will not be material, comparative figures are not restated.

Additionally, the Fund adopted consequential amendments to IFRS 7 "Financial instruments: Disclosures" that were applied to the disclosures for 2018 and to the comparative figures.

Details of these new requirements as well as their impact on the Fund's consolidated financial statements are described below.

Requirements IFRS 9

IFRS 9 introduced new requirements for:

A. the classification and measurement of financial assets and financial liabilities,

B. impairment of financial assets and

C. general hedge accounting.

The Fund has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

A. Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Fund has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1st January 2018. Accordingly the Fund has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1st January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1st January 2018. Comparative amounts in relation to instruments to be recognised as at 1st January 2018 have been restated where appropriate.

Apart from above, the application of IFRS 9 has had no impact on the classification and measurement of the Fund's financial assets.

B. Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Fund to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Fund applied the simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables.

Impact IFRS 9

Accordingly, the additional credit loss allowance of € 10,000 as at 1st January 2018 and € 11,000 as at 1st January 2017 should have been recognised against "Retained earnings" on the respective dates, net of their related deferred tax impact of € 2,000 and € 2,000 respectively. The additional loss allowance should have been charged against the respective asset or provision for doubtful trade receivables. The application of the IFRS 9 impairment requirements should have been resulted in additional loss allowance of € 8,000 to be recognised in the comparative income statement. Since this amount is not material, this is not implemented in the comparative figures.

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 under IFRS.

The application of IFRS 15 as at 1st January 2018 has had no impact on the financial statements.

13.5.5 New and amended IFRS Standards and interpretations not yet applied

A number of new standards, changes to standards and interpretations have only taken effect after 1st January 2019 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.

IFRS 16 Leases
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. When it comes into effect, IFRS 16 will supersede the current lease guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model in which lessees have to recognise a right-of-use asset and a corresponding liability for all leases (i.e. all leases on the balance sheet), with the exception of short-term leases and leases for low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses or if it relates to land lease the right of use will be valued at fair value in line with IAS 40. The right of use will additionally be adjusted for any remeasurement of the lease liability, when applicable. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications or other modifications. If the lease is based on an index or rate, changes in the lease payments due to changes in the index or rate will result in an adjustment of the liability and consequently the right of use. Furthermore, the classification of cash flows will also be affected, as under IAS 17 operating lease payments are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively. In contrast to lessee accounting, IFRS 16 carries forward a substantial part of the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, IFRS 16 requires extensive disclosures.

The Fund has three land lease contracts with an average unexpired lease term of 15 years and a total annual rental cost of € 180,000. Based on the current status of the assessment of IFRS 16´s impact, the ground lease contracts will have no material impact on the face of the balance sheet during the reporting year 2019. The Fund also estimates that the effects of the ground lease accounting in accordance with IFRS 16 will not have an impact on equity and net results, as the liabilities of these land leases are already reflected in the fair value assessments in the current external valuations of the Fund´s property investments. The classification of the current lease payments under property expenses will change. The paid ground lease will be deducted directly from the lease liability and an interest charge will be brought to profit and loss in respect to the lease liability. The fair value of the right of use, which will be taken into the investment property position is included in the fair value changes of that account.

For other categories it is not expected that it will have material impact on the presentation and accounting.

13.6 BASIS OF CONSOLIDATION

13.6.1 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 value of the assets transferred, the liabilities incurred to the former owners of the acquired assets 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 acquired assets 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.

13.6.2 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.

13.7 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 13.25.6), 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.

13.8 CURRENCY

13.8.1 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 since the ordinary shares of the Fund are denominated in Euro.

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

13.8.2 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.

13.8.3 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 financial period.

13.8.4 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 “Comprehensive income” and are recognised in the “Reserve currency translation differences”. In case of a (part) reduction of the net investments in foreign activities, the deferred cumulative amount recognised in the “Comprehensive income” relating to that particular foreign operation will be recognised in the Income Statement.

13.8.5 Exchange rates used for the Consolidated Statement of Financial Position

	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014
Czech Koruna (EUR / CZK)	25.72400	25.53500	27.02100	27.02300	27.73500
% change	*-/- 0.7%*	*5.5%*	*0.0%*	*2.6%*	*-/- 1.1%*
Polish Zloty (EUR / PLN)	4.30140	4.17700	4.41030	4.26390	4.27320
% change	*-/- 3.0%*	*5.3%*	*-/- 3.4%*	*0.2%*	*-/- 2.9%*
Pound Sterling (EUR / GBP)	0.89453	0.88723	0.85618	0.73395	0.77890
% change	*-/- 0.8%*	*-/- 3.6%*	*-/- 16.7%*	*5.8%*	*6.6%*

Source: European Central Bank (ECB)

13.8.6 Average exchange rates used for the Consolidated Income Statement

	2018	2017	2016	2015	2014
Czech Koruna (EUR / CZK)	25.6784	26.2891	27.0423	27.2695	27.5505
Polish Zloty (EUR / PLN)	4.2684	4.2427	4.3744	4.2613	n.a.

13.9 FINANCIAL INSTRUMENTS

13.9.1 General

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

13.9.2 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

In accordance with IFRS 7 financial assets have been classified as follows::

I. Debt instruments that meet the following conditions are measured subsequently at amortised cost:
   - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

II. Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
   - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

III. By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Fund may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Fund may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see below); and
- the Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see below).

I. Financial assets at amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Fund recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "financial income".

II. Financial assets classified as at FVTOCI

There are no debt instruments or equity instruments designated as at FVTOCI as at statement of financial position's date.

III. Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see I.) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Fund designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (I.) and (II.) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called "accounting mismatch") that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Fund has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Financial income" or "Financial expenses".

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Fund always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Fund recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Fund's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Fund's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Fund has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Fund considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Fund becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Fund considers the changes in the risk that the specified debtor will default on the contract.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Fund considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Fund, in full (without taking into account any collateral held by the Fund).

Irrespective of the above analysis, the Fund considers that default has occurred when a financial asset is more than 3 months past due unless the Fund has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

A. significant financial difficulty of the issuer or the borrower;
B. a breach of contract, such as a default or past due event (see above);
C. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
D. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
E. the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Fund writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Fund's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.
As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Fund's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Fund in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Fund is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Fund expects to receive from the holder, the debtor or any other party.
If the Fund has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Fund measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which a simplified approach was used.

The Fund recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the "Revaluation reserve", and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

Derecognition of financial assets
The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the "Revaluation reserve" is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Fund has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the "Revaluation reserve" is not reclassified to profit or loss, but is transferred to "Retained earnings".

13.9.3 Financial liabilities and equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Fund are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Fund's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Fund's own equity instruments.

Compound instruments
The component parts of convertible bonds issued by the Fund are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Fund's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to "Retained earnings". Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to "Retained earnings". No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Fund, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is:
1. contingent consideration of an acquirer in a business combination,
2. held for trading or
3. it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Fund of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in "Financial income" or "Financial expenses".

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Fund that are designated by the Fund as at FVTPL are recognised in profit or loss.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not:
1. contingent consideration of an acquirer in a business combination,
2. held-for-trading, or
3. designated as at FVTPL

are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities
The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Fund exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Fund accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

1. the carrying amount of the liability before the modification; and
2. the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Derivative financial instruments

The Fund enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Fund has both the legal right and the intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Fund generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

13.10 INVESTMENT PROPERTY

13.10.1 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 investment properties is at cost including related transaction costs. After initial recognition, investment properties are carried at fair value.

13.10.2 Measurement of fair value

Fair value is the price that would be received for 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 at Statement of Financial Position's date. 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 and capex are based on estimates by relevant market players, on derived data or the appraisers' experience. Capital expense (CAPEX) is expenditure in the foreseeable future which falls 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 these financial statements 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 Yield factors used for each type of property.

13.10.3 Analysis of assumptions and input parameters used in the valuations per property category

The fair value is the outcome of the (theoretical) rent divided by the net initial yield (expressed as a percentage) of the investment property. The yields applied are specific to the type of property, location, maintenance condition and letting potential of each asset. The yields are determined based on comparable transactions, as well as on market and asset-specific knowledge.

The most important assumptions and input parameters used in the valuations are:

No.	Property category	Yield factor 2018[2] in %	Yield factor 2017 in %
A	Office B^{+}-class	6.50 – 8.50	6.50 - 8.50
B	Office B^{-}-class	9.00 – 9.21	8.50 - 10.10
C	Office / business B / C-class	11.75 – 14.00	11.75 - 14.00
D	Retail B-class	7.88 – 11.89	8.15 - 13.75

No.	Property category	Market rent per sqm (€) 2018	Market rent per sqm (€) 2017
A	Office B^{+}-class	103 - 162	101 – 166
B	Office B^{-}-class	140 - 154	141 – 154
C	Office / business B / C-class	52 - 108	53 - 113
D	Retail B-class	72 - 157	72 - 163

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 all legal requirements 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.

13.11 OTHER INVESTMENTS

All other investments are financial instruments. The accounting principles for financial instruments are described in section 13.9 "Financial instruments".

13.12 DEFERRED TAX ASSETS

The accounting principles with regard to deferred tax assets are described in section 13.28 "Income tax expense".

[2] The yield factors 2017 and 2018 correspond with the equivalent yield specifications of the external independent appraiser.

13.13 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.

13.14 PREPAYMENTS AND LEASE INCENTIVES

Prepayments and lease incentives are initially and subsequently measured at historical cost.
Prepayments and lease incentives are allocated proportionally to subsequent periods.

13.15 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 Flow bank overdrafts at call, which constitute an integral part of the Fund's Asset Management, form part of "Cash and cash equivalents".

13.16 CURRENT TAX ASSETS

Current tax assets comprise the expected current tax receivable on the taxable amounts 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.

13.17 ASSETS HELD FOR SALE

13.17.1 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.

13.17.2 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 13.10 "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.

13.18 GROUP EQUITY

For the accounting principles of the several equity components see the sections 18.4.3 to 18.4.7.

13.19 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.

13.20 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.

13.21 DEFERRED INCOME AND TENANTS DEPOSITS

Deferred income and tenants deposits are initially and subsequently measured at historical cost.
Deferred income is allocated proportionally to subsequent periods.

13.22 DEFERRED TAX LIABILITIES

The accounting principles with regard to the deferred tax liabilities are described in section 13.27 “Income tax expense”.

13.23 CURRENT TAX LIABILITIES

Current tax liabilities comprise the expected current tax payable on the taxable amounts 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.

13.24 INCOME

13.24.1 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 adjustments 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.

Revenue received from tenants for early termination of leases is directly recognised in the Income Statement as it arises.

13.24.2 Service charge income and service charge expenses

Service charges to lessees are not included in the gross rental income but are stated in the Income Statement as service charge income. The service charges invoiced to tenants and the corresponding expenses are allocated to the period to which they relate. Service charges are recognised in the Income Statements on the basis of the period of the lease.

13.24.3 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.

13.24.4 Valuation results of properties

The valuation results of properties relate to unrealised changes in the fair value of properties in relation to the fair value as at 31 December of the preceding financial period. In case (part of) a property is sold the valuation result of properties includes also the “counterbooking” of the unrealised changes in the fair value from previous years (see also section 13.25.5).

13.24.5 Results on disposals of properties

The results on disposals of properties comprise 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 comprise the valuation result of properties in the current year, as well as the unrealised valuation results of properties booked in prior years.

13.24.6 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 any lump-sum payments made by tenants as compensation for early termination of rental contracts, as well as positive changes in fair value of derivatives.

13.24.7 Other operating income

Other operating income is recognised in the Income Statement when it transfers control of a product or service to a customer and the (net) revenues can be measured reliably.

13.25 LEASES

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

13.25.1 The Fund as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

In the event that lease incentives are paid or will be paid during the lease term to enter into operating leases, such incentives are recognised in Statement of Financal Position. The aggregate loss of incentives is recognised as a reduction of rental income on a straight-line basis over the lease term.

13.25.2 The Fund as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Land leases are hereby considered in the valuation of the “Investment properties”.

13.26 ADMINISTRATIVE EXPENSES AND OTHER OPERATING 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.

13.27 FINANCIAL EXPENSES

Financial expenses 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.

Financial expenses also include the negative changes in fair value of derivatives.

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

13.28 INCOME TAX EXPENSE

13.28.1 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 comprehensive income.

13.28.2 Current tax

The current tax comprises 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.

13.28.3 Deferred tax

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

- Taxable 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”);
- Taxable 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 taxable 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 taxable 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 in case the Fund or its subsidiaries has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same Tax Authority.

14 SEGMENT INFORMATION

14.1 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 15.2.1 "Analysis of investment properties", 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 15.2.1 "Analysis of investment properties").

14.2 GEOGRAPHIC CATEGORIES

The Fund distinguishes the following geographic categories:

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

14.3 SEGMENTATION CRITERIA

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.

14.4 SEGMENT RESULTS

14.4.1 Overview of segment result (overview A)

Property (in € 1,000)	Gross rental Income 2018	Gross rental Income 2017	Service charge income 2018	Service charge income 2017	Service charge expenses 2018	Service charge expenses 2017	Property operating expenses 2018	Property operating expenses 2017	Net rental & related income 2018	Net rental & related income 2017	Valuation results of properties 2018	Valuation results of properties 2017	Results on disposal of properties 2018	Results on disposal of properties 2017	Total segment result 2018	Total segment result 2017
Czech Republic:																
Drahobejlova	-	132	33	104	-/- 12	-/- 98	-/- 2	-/- 49	19	89	-	-/- 633	-	2,196	19	1,652
Palmovka	190	235	82	94	-/- 84	-/- 76	-/- 68	-/- 65	120	188	-/- 55	-/- 760	-	-	65	-/- 572
Karlin	400	354	161	146	-/- 125	-/- 128	-/- 139	-/- 108	297	264	173	995	-	-	470	1,259
VUP	227	217	187	169	-/- 159	-/- 154	-/- 92	-/- 86	163	146	-/- 8	472	-	-/- 129	155	489
PV 10	302	268	140	123	-/- 108	-/- 108	-/- 133	-/- 86	201	197	-/- 10	308	-	-	191	505
Total CZECH REPUBLIC	**1,119**	**1,206**	**603**	**636**	**-/- 488**	**-/- 564**	**-/- 434**	**-/- 394**	**800**	**884**	**100**	**382**	**-**	**2,067**	**900**	**3,333**
Slovakia:																
Záhradnicka	382	339	9	8	-/- 91	-/- 80	-/- 117	-/- 117	183	150	-/- 160	198	-	-	23	348
Pražská 2	432	405	9	8	-/- 185	-/- 163	-/- 128	-/- 118	128	132	-/- 84	220	-	-	44	352
Pražská 4	363	337	5	5	-/- 117	-/- 109	-/- 101	-/- 86	150	147	-/- 35	-/- 89	-	-	115	58
Krivá 18	398	390	8	6	-/- 106	-/- 104	-/- 114	-/- 129	186	163	49	468	-	-	235	631
Krivá 23	428	427	7	6	-/- 114	-/- 114	-/- 113	-/- 103	208	216	114	-/- 278	-	-	322	-/- 62
Gemerská	-	183	-	7	-	-/- 88	-	-/- 77	-	25	-	177	-	-/- 190	-	12
Letná	1,228	1,161	22	21	-/- 167	-/- 158	-/- 275	-/- 231	808	793	646	42	-	-	1,454	835
Vural	500	484	117	109	-/- 244	-/- 228	-/- 154	-/- 130	219	235	-/- 354	250	-	-	-/- 135	485
Kosmalt	842	772	11	11	-/- 349	-/- 333	-/- 255	-/- 247	249	203	100	-/- 161	-	-	349	42
Total SLOVAKIA	**4,573**	**4,498**	**188**	**181**	**-/- 1,373**	**-/- 1,377**	**-/- 1,257**	**-/- 1,238**	**2,131**	**2,064**	**276**	**827**	**-**	**-/- 190**	**2,407**	**2,701**
SUBTOTAL (transfer)	**5,692**	**5,704**	**791**	**817**	**-/- 1,861**	**-/- 1,941**	**-/- 1,691**	**-/- 1,632**	**2,931**	**2,948**	**376**	**1,209**	**-**	**1,877**	**3,307**	**6,034**

Property (in € 1,000)	Gross rental Income		Service charge income		Service charge expenses		Property operating expenses		Ret rental & related income		Valuation results of properties		Results on disposal of properties		Total segment result	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
SUBTOTAL (transfer)	**5,692**	**5,704**	**791**	**817**	**-/- 1,861**	**-/- 1,941**	**-/- 1,691**	**-/- 1,632**	**2,931**	**2,948**	**376**	**1,209**	**-**	**1,877**	**3,307**	**6,034**
Poland:																
Laubitza 8	200	191	57	74	-/- 74	-/- 43	-/- 64	-/- 94	119	128	-/- 34	108	-	-	85	236
800-lecia Inowroclawia 27	251	298	125	142	-/- 125	-/- 99	-/- 71	-/- 128	180	213	-/- 238	-/- 472	-	-	-/- 58	-/- 259
Krzemowa 1	246	248	136	137	-/- 114	-/- 79	-/- 74	-/- 104	194	202	-/- 85	205	-	-	109	407
Plutona 1	198	195	83	81	-/- 85	-/- 86	-/- 42	-/- 53	154	137	24	265	-	-	178	402
Kalinkowa 82	286	300	116	146	-/- 119	-/- 98	-/- 73	-/- 114	210	234	-/- 495	-/- 39	-	-	-/- 285	195
Wojska Polskiego 137	289	354	132	170	-/- 129	-/- 128	-/- 108	-/- 125	184	271	-/- 254	-/- 132	-	-	-/- 70	139
Wolnosci 6	155	152	63	65	-/- 68	-/- 51	-/- 54	-/- 74	96	92	-/- 109	148	-	-	-/- 13	240
Graniczna 80-82	-	-	-	-	-/- 63	-/- 52	-/- 37	-/- 60	-/- 100	-/- 112	-/- 294	-/- 296	-	-	-/- 394	-/- 408
Grzymaly Siedleckiego 20[3]	170	178	67	65	-/- 67	-/- 64	-/- 91	-/- 95	79	84	-/- 72	105	-	-	7	189
Kard. Wyszynskiego 107[3]	233	214	114	134	-/- 106	-/- 80	-/- 103	-/- 117	138	151	3	491	-	-	141	642
Legionow 216[3]	292	276	129	142	-/- 148	-/- 100	-/- 163	-/- 121	110	197	-/- 188	1,021	-	-	-/- 78	1,218
Maris [4]	687	316	286	130	-/- 266	-/- 118	-/- 183	-/- 77	524	251	30	637	-	-	554	888
Total POLAND	**3,007**	**2,722**	**1,308**	**1,286**	**-/- 1,364**	**-/- 998**	**-/- 1,063**	**-/- 1,162**	**1,888**	**1,848**	**-/- 1,712**	**2,041**	**-**	**-**	**176**	**3,889**
GRAND TOTAL	**8,699**	**8,426**	**2,099**	**2,103**	**-/- 3,225**	**-/- 2,939**	**-/- 2,754**	**-/- 2,794**	**4,819**	**4,796**	**-/- 1,336**	**3,250**	**-**	**1,877**	**3,483**	**9,923**

[3] The figures 2017 relate to the segment results as of date of acquisition investment property (2nd March 2017).
[4] The figures 2017 relate to the segment results as of date of acquisition investment property (6th July 2017).

14.4.2 Reconciliation segment result with profit for the period

The reconciliation between the total segment results as calculated in section 14.4.1 with the profit for the period, mentioned in the Consolidated Income Statement, is made below.

	2018 in € 1,000	**2017** in € 1,000
Total segment result (overview A)	3,483	9,923
Unallocated income	406	458
Unallocated expenses	3,743	3,970
Profit before income tax	146	6,411
Income tax expense	343	842
Profit for the period	**-/- 197**	**5,569**

14.4.3 Major tenants

The Fund has no tenants (2017: one) with a gross rental income more than 10% of the Fund's total gross rental income.

14.4.4 Overview of geographic assets and liabilities (overview B)

	Czech Republic		Slovakia		Poland		The Netherlands		Other countries		Total	
In € 1,000	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Assets												
Investment property	16,541	16,243	37,860	37,280	34,631	36,275	-	-	-	-	89,032	89,798
Other investments	5	6	-	-	-	-	-	-	-	-	5	6
Deferred tax assets	-	-	-	-	236	138	-	-	-	-	236	138
Current tax assets	-	-	-	-	124	76	-	-	-	-	124	76
Trade and other receivables	72	3,837	173	263	479	337	-	-	-	5	724	4,442
Prepayments and lease incentives	74	81	198	88	266	381	4	4	-	48	542	602
Cash and cash equivalents	273	569	577	638	916	827	228	885	-	-	1,994	2,919
Total geographic assets	**16,965**	**20,736**	**38,808**	**38,269**	**36,652**	**38,034**	**232**	**889**	**-**	**53**	**92,657**	**97,981**
Liabilities												
Deferred tax liabilities	310	263	3,828	3,532	412	412	56	88	-	-	4,606	4,295
Current tax liabilities	9	13	48	65	42	39	9	21	-	-	108	138
Loans and borrowings	7,073	8,257	10,569	11,500	16,029	16,794	6,468	7,844	4,710	4,710	44,849	49,105
Trade and other payables	124	387	268	303	360	377	869	691	11	12	1,632	1,770
Deferred income and tenants deposits	164	170	100	109	287	358	-	-	-	-	551	637
Total geographic liabilities	**7,680**	**9,090**	**14,813**	**15,509**	**17,130**	**17,980**	**7,402**	**8,644**	**4,721**	**4,722**	**51,746**	**55,945**
Geographic assets less geographic liabilities	**9,285**	**11,646**	**23,995**	**22,760**	**19,522**	**20,054**	**-/- 7,170**	**-/- 7,755**	**-/- 4,721**	**-/- 4,669**	**40,911**	**42,036**

15 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15.1 SUBSIDIARIES

15.1.1 Consolidated subsidiaries

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

Name of subsidiary	Registered office	Country of incorporation	Proportion of shares held by the parent 31-12-2018	Proportion of shares held by the group 31-12-2018
			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 subsidiary	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

15.1.2 Subsidiaries acquired and incorporated during the period

During the financial period the Fund acquired and / or incorporated no subsidiaries.

15.2 INVESTMENT PROPERTY

15.2.1 Analysis of investment properties

Name of property	Address	Fair value 31-12-2018	Fair value 31-12-2017
		In € 1,000	In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o. (Czech Republic)			
Palmovka	Na Žertvách 34, Prague	2,863	2,788
Karlin	Prvního Pluku 621/8a, Prague	5,676	5,407
VUP	Šujanovo náměsti 3, Brno	2,507	2,524
PV 10	Politických Vězňu 10, Prague	5,495	5,524
Subtotal		**16,541**	**16,243**
In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)			
Záhradnicka	Záhradnícka 46, Bratislava	4,340	4,500
Pražská 2	Pražská 2, Košice	2,850	2,870
Pražská 4	Pražská 4, Košice	2,540	2,530
Krivá 18	Krivá 18, Košice	3,330	3,280
Krivá 23	Krivá 23, Košice	3,380	3,260
Letná	Letná 45, Košice	10,950	10,200
Vural	Alexandra Rudnaya 21, Žilina	4,360	4,630
Kosmalt	Kysucká 16, Košice	6,110	6,010
Subtotal		**37,860**	**37,280**
In ownership of Arcona Capital Real Estate Poland Sp. z o.o. (Poland)			
Laubitza	Laubitza 8, Inowroclaw	2,455	2,489
Lecia Inowroclawia	800-lecia Inowroclawia 27, Inowroclaw	2,859	3,097
Krzemowa	Krzemowa 1, Gdansk	3,050	3,135
Plutona	Plutona 1, Glogow	2,088	2,064
Kalinkowa	Kalinkowa 82, Grudziadz	2,481	2,976
Wojska Polsiekgo	Wojska Polskiego 137, Piotrkow Trybunalski	3,597	3,800
Wolnosci	Wolnosci 6, Slupsk	1,392	1,501
Graniczna	Graniczna 80-82, Kalisz	1,416	1,710
Subtotal		**19,338**	**20,772**
In ownership of Arcona Capital Real Estate Trio Sp. z o.o. (Poland)			
Grzymaly Siedleckiego	Grzymaly Siedleckiego 20, Bydgoszcz	1,487	1,559
Kardynala Wyszynskiego	Kardynala Wyszynskiego 107, Lodz	2,003	2,000
Legionow	Legionow 216, Torun	2,614	2,785
Subtotal		**6,104**	**6,344**
In ownership of Arcona Capital Poland B.V. Project 5 Sp.k. (Poland)			
Maris	Holdu Pruskiego 9 & 12 Malopolska 12, Szczecin	9,189	9,159
Total fair value		**89,032**	**89,798**

15.2.2 Statement of changes in investment properties

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	89,798	74,806
Acquisition of investment properties	-	13,247
Additions to investment properties	690	567
Fair value adjustments	-/- 1,336	3,602
Exchange rate differences	-/- 120	970
Reclassification (to "Assets held for sale")	-	-/- 3,394
Balance as at 31 December	**89,032**	**89,798**

15.2.3 Valuation of investment properties

The investment properties, stated under section 15.2.1 "Analysis of investment properties", were valued by an external, independent appraiser as at Statement of Financial Position's date. 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.

15.2.4 Transactions with related parties

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

15.2.5 Sensitivity analysis

The appraisal of the portfolio implies an average weighted Reversion Yield of 11.6% (31 December 2017: 11.7%).

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 0.5% (31 December 2017: 0.6%). In this situation, the group equity would have been € 353,000 lower (31 December 2017: € 404,000 lower).

In case the yields used for the appraisals of investment properties on 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 2017: 0.6%). In this situation, the group equity would have been € 421,000 higher (31 December 2017: € 408,000 higher).

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

Change in	Change in yield				
ERV 2018	**-/- 0.50%**	**-/- 0.25%**	**0.00%**	**0.25%**	**0.50%**
-/- 5.0%	-/- 3.9%	-/- 4.2%	-/- 4.4%	-/- 4.7%	-/- 5.0%
-/- 2.5%	-/- 1.7%	-/- 1.9%	-/- 2.2%	-/- 2.5%	-/- 2.7%
0.0%	0.6%	0.3%	0.0%	-/- 0.2%	-/- 0.5%
2.5%	2.8%	2.5%	2.3%	2.0%	1.7%
5.0%	5.0%	4.7%	4.5%	4.2%	3.9%

Change in	Change in yield				
ERV 2017	**-/- 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%

The 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 an investment property.

15.3 OTHER INVESTMENTS

15.3.1 Specification of other investments

Name of other investment	Proportion of shares held by the group 31-12-2018	Proportion of shares held by the group 31-12-2017
	In %	In %
Yellow Properties, s.r.o.	5.0	5.0
Eastern European Property Fund Limited	< 0.1	< 0.1

15.3.2 Analysis of other investments

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Non-current part of other investments	5	6
Current part of other investments	-	-
	5	**6**

15.3.3 Statement of changes in other investments

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	6	90
Fair value adjustments	-/- 1	-/- 2
Sales / redemptions	-	-/- 83
Exchange rate differences	-	1
Balance as at 31 December	**5**	**6**

15.4 RECOGNISED DEFERRED TAXES

15.4.1 Specification of recognised deferred taxes

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2018 In € 1,000
Investment property	604	4,977	-/- 4,373
Receivables from shareholders and other group companies	-	56	-/- 56
Tax losses (carried forward)	90	-	90
Trade and other receivables	40	24	16
Prepayments and lease incentives	-	33	-/- 33
Secured bank loans	-	60	-/- 60
Loans due to shareholders and other group companies	-	63	-/- 63
Trade and other payables	71	-	71
Current liabilities due to shareholders and other group companies	38	-	38
Deferred taxes before set-off	843	5,213	-/- 4,370
Set-off deferred taxes	-/- 607	-/- 607	-
	236	**4,606**	**-/- 4,370**

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2017 In € 1,000
Investment property	608	4,729	-/- 4,121
Receivables from shareholders and other group companies	-	88	-/- 88
Tax losses (carried forward)	177	-	177
Trade and other receivables	13	61	-/- 48
Prepayments and lease incentives	-	7	-/- 7
Secured bank loans	-	142	-/- 142
Loans due to shareholders and other group companies	-	130	-/- 130
Trade and other payables	134	-	134
Current liabilities due to shareholders and other group companies	68	-	68
Deferred taxes before set-off	1,000	5,157	-/- 4,157
Set-off deferred taxes	-/- 862	-/- 862	-
	138	**4,295**	**-/- 4,157**

15.4.2 Analysis of recognised deferred taxes

	Will expire 31-12-2018 In € 1,000	**Will never expire 31-12-2018** In € 1,000	**Total 31-12-2018** In € 1,000
Investment property	-	-/- 4,373	-/- 4,373
Receivables from shareholders and other group companies	-	-/- 56	-/- 56
Tax losses (carried forward)	90	-	90
Trade and other receivables	-	16	16
Prepayments and lease incentives	-	-/- 33	-/- 33
Secured bank loans	-	-/- 60	-/- 60
Loans due to shareholders and other group companies	-	-/- 63	-/- 63
Trade and other payables	-	71	71
Current liabilities due to shareholders and other group companies	-	38	38
	90	**-/- 4,460**	**-/- 4,370**

	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	-	-/- 4,121	-/- 4,121
Receivables from shareholders and other group companies	-	-/- 88	-/- 88
Tax losses (carried forward)	177	-	177
Trade and other receivables	-	-/- 48	-/- 48
Prepayments and lease incentives	-	-/- 7	-/- 2
Secured bank loans	-	-/- 142	-/- 142
Loans due to shareholders and other group companies	-	-/- 130	-/- 130
Trade and other payables	-	134	129
Current liabilities due to shareholders and other group companies	-	68	68
	177	**4,334**	**-/- 4,157**

An allocation of the recognised deferred taxes to the various geographic segments is presented in section 14.4.4 “Overview of geographic assets and liabilities (overview B)”.

15.4.3 Analysis of recognised tax losses (carried forward)

	2018 In € 1,000	**2017** In € 1,000
Expires in 2018	-	88
Expires in 2019	-	2
Expires in 2020	71	60
Expires in 2021	1	14
Expires in 2022	18	13
Balance as at 31 December	**90**	**177**

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 recognised tax losses.

15.5 DEFERRED TAX ASSETS

15.5.1 Statement of changes in recognised deferred tax assets

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	138	96
Adjustments related to prior years	-/- 3	38
Additions / withdrawals	109	-/- 1
Change in tax rate	2	-
Exchange rate differences	-/- 5	5
Reclassification (from / to deferred tax liabilities)	-/- 5	-
Balance as at 31 December	**236**	**138**

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 recognised deferred tax assets.

15.5.2 Analysis and specification of unrecognised deferred tax assets

	Will expire 31-12-2018 In € 1,000	Will never expire 31-12-2018 In € 1,000	Total 31-12-2018 In € 1,000
Investment property	-	121	121
Secured bank loans	-	164	164
Current liabilities due to shareholders and other group companies	-	149	149
Current tax liabilities	-	3	3
Trade and other payables	-	3	3
Prepayments and lease incentives	-	1	1
Tax losses (carried forward)	985	-	985
	985	**441**	**1,426**

	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
Trade and other receivables	-	44	44
Secured bank loans	-	138	138
Current liabilities due to shareholders and other group companies	-	119	119
Trade and other payables	-	6	6
Tax losses (carried forward)	863	-	863
	863	**364**	**1,227**

15.5.3 Analysis of unrecognised tax losses (carried forward)

	2018 In € 1,000	2017 In € 1,000
Expires in 2020	75	75
Expires in 2022	123	129
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	353	354
Expires in 2026	179	209
Expires in 2027	159	-
Balance as at 31 December	**985**	**863**

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 unrecognised tax losses.

15.5.4 Statement of changes in unrecognised deferred tax assets

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	1,227	1,086
Adjustments related to prior years	-/- 69	-/- 10
Additions as a result of acquisitions	-	410
Additions / withdrawals	282	-/- 278
Change in tax rate	-/- 2	-
Exchange rate differences	-/- 12	19
Balance as at 31 December	**1,426**	**1,227**

15.6 TRADE AND OTHER RECEIVABLES

15.6.1 Analysis of trade and other receivables

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Non-current part of trade and other receivables	18	10
Current part of trade and other receivables	706	4,432
	724	**4,442**

15.6.2 Specification of trade and other receivables

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Sold properties	-	3,797
Trade receivables	639	580
Invoiceable amounts	50	2
Other receivables	35	63
	724	**4,442**

The receivable from “Sold properties” in the comparative figures as at 31 December 2017 for the amount of € 3,797,000 concerns the investment property Drahobejlova, which was sold at the end of November 2017. The amount was received in full in February 2018.

15.6.3 Analysis of trade receivables

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Trade receivables (gross)	1,352	1,133
Total expected credit losses for trade receivables	-/- 713	-/- 553
	639	**580**

15.6.4 Provision for doubtful trade receivables

The Fund always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The Fund has chosen to apply the "simplified model" for the calculation of the loss allowance for trade receivables. The "expected credit loss-rate" is based on historical information (chosen is a 5-year history), whereby the historical default loss percentage is adjusted for forecast information. The Fund presumed that all trade receivables are homogenous. The Fund has recognised a loss allowance of 100% against all trade receivables over one year past due, because historical experience has indicated that these trade receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Fund writes-off on a trade receivable when there is information indicating the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

15.6.5 Risk profile of trade receivables

The following table details the risk profile of trade receivables based on the Fund's provision matrix.

	Trade receivables as at 31-12-2018				
	Until 1 month past due	**1 until 3 months past due**	**3 months until 1 year past due**	**More than 1 year past due**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Expected credit loss rate	0.5%	3.9%	8.3%	100.0%	
Trade receivables (gross)	299	142	397	514	1,352
Collective assessed expected credit losses	-/- 1	-/- 6	-/- 34	-/- 514	-/- 555
Individually assessed expected credit losses					-/- 158
Trade receivables (net)					**639**

For more information about the risk profile of trade receivables see section 15.35.9.

15.6.6 Movement in lifetime expected credit losses for trade receivables

The following table shows the movement in lifetime expected credit losses that has been recognised for trade and other receivables in accordance with the “simplified approach” set out in IFRS 9.

	2018		
	Collective assesed expected credit losses In € 1,000	Individually assessed expected credit losses In € 1,000	Total expected credit losses In € 1,000
Balance as at 1 January	553	-	553
Adjustment upon application of IFRS 9	10	-	10
Balance as at 1 January – as restated	563	-	563
Amounts written-off	-/- 8	-	-/- 8
Amounts recovered	-/- 60	-	-/- 60
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	61	158	219
Exchange rate differences	-/- 1	-	-/- 1
Balance as at 31 December	**555**	**158**	**713**

15.6.7 Individually assessed expected credit losses for trade receivables

The individually assessed expected credit losses for trade receivables for the amount of € 158,000 relates in full to the debtor Piotr & Pawel. Piotr & Pawel is in suspension of payment. The Managing Board has classified the outstanding amounts with regard to Piotr & Pawel into 3 stages based on an aging analysis of Piotr & Pawel:

Stage 1: low risk: expected credit loss rate of 0% is used;
Stage 2: medium risk: expected credit loss rate of 20% is used;
Stage 3: high risk: expected credit loss rate of 50% is used.

As at statement of financial position’s date the gross outstanding trade receivables (VAT inclusive) with regard to Piotr & Pawel amount to € 564,000, resulting in a maximum credit risk of € 488,000 (VAT exclusive).
Piotr & Pawel recently received Court consent to a PLN 10 million loan to improve ongoing cashflow and a restructuring plan will soon be proposed. Piotr & Pawel has reduced its shop numbers from 145 to 72. Based on the above and several other risk reductions and mitigating circumstances the Managing Board is of the opinion the individually assessed expected credit losses from Piotr & Pawel are sufficient.

15.7 PREPAYMENTS AND LEASE INCENTIVES

15.7.1 Analysis of prepayments and lease incentives

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Non-current part of trade and other receivables	121	69
Current part of trade and other receivables	421	533
	542	**602**

15.7.2 Specification of prepayments and lease incentives

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Deferred expenses	263	326
Prepayments	185	256
Lease incentives	94	20
	542	**602**

15.8 CASH AND CASH EQUIVALENTS

15.8.1 Analysis of cash and cash equivalents

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Non-current part of cash and cash equivalents	300	300
Current part of cash and cash equivalents	1,694	2,619
	1,994	**2,919**

The cash and cash equivalents are at the free disposal of the Fund, with the exception of € 649,000, which amount is retained on reserve accounts (e.g. “Security Deposit Account”, “Repair Reserve Account”, “Debt Service Account” and “CAPEX Account”).

15.8.2 Specification of cash and cash equivalents

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Bank balances	1,691	2,746
Deposits	301	168
Cash	2	5
	1,994	**2,919**

15.9 CURRENT TAX ASSETS

15.9.1 Specification of current tax assets

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Corporate Income Tax (CIT)	118	76
Value Added Tax (VAT)	6	-
	124	**76**

15.10 GROUP EQUITY

15.10.1 Comparative statement

	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014
Group equity (in € 1,000)	**40,911**	**42,036**	**36,452**	**28,569**	**28,554**
Number of ordinary shares in issue	3,138,158	3,138,158	3,138,158	1,411,713	1,411,713
Number of registered shares in issue	26,991	26,991	26,991	26,991	26,991
Total number of shares in issue entitled to profit	**3,165,149**	**3,165,149**	**3,165,149**	**1,438,704**	**1,438,704**
Net Asset Value per ordinary and registered share (in €)	**12.93**	**13.28**	**11.52**	**19.86**	**19.85**

15.10.2 (Interim) distribution to shareholders

At the General Meeting of Shareholders (GM) of the Fund dated 24th May 2018, the GM approved the proposal of the Priority for a final distribution to the shareholders in the amount of € 0.14 per ordinary and registered share. The ex-dividend date was 29th May 2018. Payment date was 31st May 2018.

Based on the interim Parent Company Financial Statements dated 30th June 2018 the Managing Board made an interim distribution to the shareholders in the amount of € 0.10 per ordinary and registered share. The ex-dividend date was 11th September 2018. Payment date was 14th September 2018.

15.10.3 “Closed-end” structure

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

15.10.4 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.

15.10.5 Equity components

For further analysis and statements of changes in the various equity components see sections 19.8 to 19.13.

15.11 LOANS AND BORROWINGS

15.11.1 Analysis of loans and borrowings

	Non-current liabilities 31-12-2018 In € 1,000	Current liabilities 31-12-2018 In € 1,000	Total 31-12-2018 In € 1,000
Secured bank loans	17,994	15,677	33,671
Convertible bonds	3,412	1,056	4,468
Other loans and borrowings	4,710	2,000	6,710
	26,116	**18,733**	**44,849**

	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 loans and borrowings	4,710	2,000	6,710
	43,561	**5,544**	**49,105**

15.11.2 Statement of changes in secured bank loans

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	36,551	35,970
Additions as a result of acquisition	-	7,046
Redemptions	-/- 2,885	-/- 7,212
(Amortisation) flat fee	64	90
Exchange rate differences	-/- 59	657
Balance as at 31 December	**33,671**	**36,551**

15.11.3 Analysis of secured bank loans

Name of company	Name of credit institution	Carrying amount 31-12-2018 In € 1,000	Weighted average interest rate In %
Arcona Capital RE Bohemia s.r.o.	Sberbank	7,073	3.87
Arcona Capital RE Slovakia s.r.o.	Slovenská Sporiteľňa	10,569	2.45
Arcona Capital Real Estate Poland Sp. z.o.o.	Raiffeisen Polbank	9,633	3.34
Arcona Poland B.V. Project 5 Sp.k.	DNB Nordbank	6,396	2.69
		33,671	

15.11.4 Securities, bank covenants and ratios secured bank loans

As at Statement of Financial Position's date the following securities were provided and bank covenants agreed with regard to the secured bank loans. The ratios, as well as the withdrawable facilities as at Statement of Financial Position's date are also mentioned.

	Sberbank	Slovenská Sporiteľňa	Raiffeisen Polbank	DNB Nordbank
Carrying amounts securities:				
• Owned investment property (in € 1,000)	16,541	37,860	19,338	9,189
• Assets held for sale (in € 1,000)	-	-	-	-
• Trade and other receivables (in € 1,000)	22	138	353	21
• Cash and cash equivalents (in € 1,000)	273	575	564	183
Bank covenants:				
• Debt Service Coverage Ratio (DSCR) (minimum)	1.10	1.25	1.20	1.10
• EBITDA / annual instalments of bank or other loans	104%	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%	75.0%
• Negative equity borrower	n.a.	n.a.	None	n.a.
• Issued shares borrower pledged	Yes	No	Yes	No
Ratios:				
Debt Service Coverage Ratio (DSCR)	1.12	1.59	1.14	1.12
Loan to value (LTV)	42.76%	28.02%	50.34%	69,64%
Withdrawable credit facilities:				
Maximum credit facilities	7,073	13,109	9,734	6,400
Outstanding amount	7,073	10,609	9,734	6,400
Withdrawable credit facilities	-	2,500	-	-

For more information with regard to pledged issued shares of the borrower see section 19.1.3.

As at Statement of Financial Position's date, the Fund's financing covenants remain in line with the commitments in its facility agreements.

The secured bank loan from 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). This Tranche B finances 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) if several conditions are met as mentioned in section 15.19.

If the conditions as mentioned in section 15.19 are not met by the 2nd anniversary of disbursement (December 2018), Tranche B is to be repaid in 12 equal principal installments as of 31st March 2019 until 28th February 2020.

15.11.5 Analysis of convertible bonds

Date of issue	Convertible as of	Date of maturity	Nominal interest rate	Interest rate used[5]	Conversion price	Face value	Carrying amount 31-12-2018	Carrying amount 31-12-2017
			In %	In %	In €	In € 1,000	In € 1,000	In € 1,000
01-12-2014	01-12-2015	01-12-2019	6.00	7.50	8.24	1,070	1,056	1,042
20-02-2015	20-02-2016	20-02-2018	6.00	7.50	8.48	n.a.	n.a.	1,417
17-10-2016	01-11-2016	31-10-2021	6.50	7.50	8.76	3,500	3,412	3,385
						4,570	**4,468**	**5,844**

15.11.6 Statement of changes in convertible bonds

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	5,844	5,786
Redemptions	-/- 1,420	-
Accrued interest	44	58
Balance as at 31 December	**4,468**	**5,844**

15.11.7 Analysis of other loans and borrowings

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Secured vendor loan Real Estate Central Europe AS	4,710	4,710
Unsecured loan H.M. van Heijst	2,000	2,000
	6,710	**6,710**

15.11.8 Statement of changes of other loans and borrowings

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	6,710	67
Reclassification (to “Trade and other payables”)	-	-/- 67
Loans advanced	-	6,710
Balance as at 31 December	**6,710**	**6,710**

15.11.9 Conditions of other loans and borrowings

As at Statement of Financial Position’s date the following conditions are applicable with regard to the other loans and borrowings:

- 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.

[5] The interest rate used is based on the estimated interest rate to be paid on comparable non-convertible bonds.

15.12 TRADE AND OTHER PAYABLES

15.12.1 Analysis of trade and other payables

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Non-current part of trade and other payables	37	71
Current part of trade and other payables	1,595	1,699
	1,632	**1,770**

15.12.2 Specification of trade and other payables

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Trade payables	279	352
Accruals	573	850
Interest rate swaps used for hedging	82	59
Interest payables	57	90
Administrative expenses	641	419
	1,632	**1,770**

The decrease of the "Accruals" compared to the comparative figures as at 31 December 2017 is mainly caused by the transaction costs on the sale of the investment property Drahobejlova, which occurred in November 2017.

15.12.3 Specification of administrative expenses

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Fund Management fee	641	73
Performance-related remuneration	-	346
	641	**419**

15.13 DEFERRED INCOME AND TENANTS DEPOSITS

15.13.1 Analysis of deferred income and tenants deposits

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Non-current part of deferred income and tenants deposits	366	310
Current part of deferred income and tenants deposits	185	327
	551	**637**

15.13.2 Specification of deferred income and tenants deposits

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Deposits received from tenants	538	525
Advance payments received from tenants	9	86
Lease incentives	4	26
	551	**637**

15.14 DEFERRED TAX LIABILITIES

15.14.1 Analysis of recognised deferred tax liabilities

For the specification of the recognised deferred tax liabilities see section 15.4.1 “Specification of recognised deferred taxes”.

15.14.2 Statement of changes in recognised deferred tax liabilities

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	4,295	3,382
Adjustments related to prior years	-/- 14	-
Additions / withdrawals	343	819
Change in tax rate	1	61
Exchange rate differences	-/- 14	33
Reclassification (from / to deferred tax assets)	-/- 5	-
Balance as at 31 December	**4,606**	**4,295**

15.15 CURRENT TAX LIABILITIES

15.15.1 Analysis of current tax liabilities

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Value Added Tax (VAT)	83	109
Corporate Income Tax (CIT)	9	22
Withholding Tax (WHT)	16	7
	108	**138**

15.16 LEASE AGREEMENTS

15.16.1 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 15.21.4 “Non-cancellable operating leases”.

15.16.2 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 15.20.4 “Non-cancellable leases”.

15.17 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. The obligations of Arcona Capital Real Estate Poland Sp. z o.o. to repay Tranche B are referred to section 16.4. 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 15.11.6) shall be reduced with the same amount.

As at Statement of Financial Position's date the Fund held no other contingent assets.

15.18 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 (Grzymaly Siedleckiego, Kardynala Wyszynskiego and Legionow). The main conditions are as follows:
   - Grzymaly Siedleckiego: land lease agreement for a plot of 4,862 m^2 to16th January 2025 with a land lease fee of PLN 254,000 (€ 60,000) per annum;
   - Kardynala Wyszynskiego: land lease agreement for a plot of 4,998 m^2 to 1st November 2029 with a land lease fee of PLN 259,000 (€ 61,000) per annum;
   - Legionow: land lease agreement for a plot of 7,262 m^2 to 30th June 2030 with a land lease fee of PLN 282,000 (€ 66,000) per annum;

B. Arcona Capital Poland B.V. (as a General Partner of Arcona Poland B.V. Project 5 Sp.k.) has a non-contingent liability towards DNB Nordbank (the lender of the secured bank loan to Arcona Poland B.V. Project 5 Sp.k.) that not later than 30th September 2019 equity in the amount of € 170,000 is to be contributed to Arcona Poland B.V. Project 5 Sp.k. in a form of a "Subordinated Loan" or another form accepted by Arcona Poland B.V. Project 5 Sp.k.

As at Statement of Financial Position's date the Fund was not subject to any further contractual obligations concerning investments, repairs, maintenance or other non-contingent liabilities that require settlement in a future financial period.

15.19 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 5,901,000 (€ 229,000) 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 leased and a valuation of the investment property results in a minimum "LTV" of 65% based on concluded lease agreements;
- "DSCR" for the tranche B is at minimum 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 12 equal principal instalments from 31st March 2019 until 28th February 2020;

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 12th 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 12th 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' purchase 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' purchase 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 12th 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.

15.20 GROSS RENTAL INCOME

15.20.1 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.

15.20.2 Analysis of gross rental income

	2018	**2017**
	In € 1,000	In € 1,000
Gross rental income collected / accrued	8,686	8,508
Amortisation lease incentives	13	-/- 82
	8,699	**8,426**

15.20.3 Weighted average percentage of the vacant space of the investment properties

Weighted to the fair value, the weighted average percentage of the vacant space of the investment properties in the portfolio as at Statement of Financial Position’s date was 17.3% (2017: 20.1%).

15.20.4 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 average exchange rate used for the Consolidated Income Statement for the financial period):

	31-12-2018	**31-12-2017**
	In € 1,000	In € 1,000
Less than 1 year	5,812	6,311
1 to 5 years	12,091	10,892
More than 5 years	2,017	5,121
	19,920	**22,324**

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

15.21.1 General

As the Fund invoices 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. 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.

15.21.2 Analysis of property operating expenses

	2018 In € 1,000	2017 In € 1,000
Property management	563	633
Asset management	646	601
Maintenance expenses in respect of investment properties	904	945
Taxes on investment properties	346	339
Land lease	182	160
Commission fees	69	68
Insurance premiums	41	39
Other property operating expenses	3	9
	2,754	**2,794**

15.21.3 Allocation of service charges and property operating expenses

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

	2018 In € 1,000	2017 In € 1,000
For investment properties let	5,324	4,984
For investment properties not let	655	749
	5,979	**5,733**

15.21.4 Non-cancellable operating leases

Non-cancellable operating leases of investment properties as at 31 December of the relevant financial period are shown as follows (the future non-cancellable operating leases in foreign currency have been translated at the average exchange rate used for the Consolidated Income Statement for the financial period):

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Less than 1 year	185	180
1 to 5 years	739	720
More than 5 years	2,008	986
	2,932	**1,886**

15.22 VALUATION RESULTS OF PROPERTIES

15.22.1 Analysis of valuation results of properties

	2018 In € 1,000	2017 In € 1,000
Investment properties	-/- 1,336	3,601
Properties held for sale	-	-/- 351
	-/- 1,336	**3,250**

15.22.2 Specification of valuation results of properties

	2018 In € 1,000	2017 In € 1,000
Unrealised value adjustments booked in current year	-/- 1,336	3,602
Unrealised value adjustments booked in prior years	-	-/- 352
	-/- 1,336	**3,250**

15.23 RESULTS ON DISPOSALS OF PROPERTIES

15.23.1 Analysis of results on disposals of properties

	2018 In € 1,000	2017 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**

15.23.2 Specification of results on disposals of properties

	2018 In € 1,000	2017 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**

15.24 NET RESULTS ON PROPERTIES

	2018 In € 1,000	2017 In € 1,000
Valuation gains	1,139	7,624
Valuation losses	-/- 2,475	-/- 2,227
	-/- 1,336	5,397
Costs on sale of properties	-	-/- 270
	-/- 1,336	**5,127**

15.25 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.

15.26 FINANCIAL INCOME

	2018 In € 1,000	2017 In € 1,000
Realised currency results on net investments	139	172
Change in fair value of derivatives	-	79
Interest on trade receivables	47	-
Net dividend from "Other investments"	-	5
Interest income on held bank balances and deposits	1	1
Other exchange and currency translation results	3	35
	190	**292**

15.27 OTHER OPERATING INCOME

	2018 In € 1,000	2017 In € 1,000
Early termination of rent contracts	188	72
Penalty interest and fees	4	14
Other operating income	24	37
	216	123
Reimbursement for transfer tax on acquisition of investment property	-	43
	216	**166**

15.28 ADMINISTRATIVE EXPENSES

15.28.1 Specification administrative expenses

	2018 In € 1,000	2017 In € 1,000
Fund Management fee	684	675
Performance-related remuneration	-	346
	684	**1,021**

15.28.2 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 19th October 2016 and the Security Note dated 28th October 2016 these percentages are:

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

15.28.3 Specification Fund management fee

	2018 In € 1,000	**2017** In € 1,000
Management fee	1,330	1,276
Asset Management fee Arcona Capital Czech Republic s.r.o.	-/- 466	-/- 474
Asset Management fee Arcona Capital Poland Sp. z o.o.	-/- 180	-/- 127
	-/- 646[6]	-/- 601
Fund Management fee (Arcona Capital Fund Management B.V.)	**684**	**675**

15.28.4 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 will be 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 stock exchange price of the share plus the dividends distributed in the relevant financial period is lower than that of any preceding period for which the performance-related remuneration was deducted.

50% of the performance-related remuneration is payable in shares in the Fund, such shares to be issued at Net Asset Value as at year-end rather than the prevailing stock exchange price (unless the stock market price is above the Net Asset Value per share). The share component of the performance-related remuneration due for a financial period is payable after publication of the Annual Report after the end of the relevant financial period, the cash components are payable in three equal amounts on 30th April, 31st July and 31st October following the end of the relevant financial period.

[6] See also section 16.6.2 "Analysis of property operating expenses".

15.29 OTHER OPERATING EXPENSES

15.29.1 Specification of other operating expenses

	2018	2017
	In € 1,000	In € 1,000
Costs of service providers	956	835
Other operating expenses	289	232
	1,245	1,067
Costs of funding and acquisition	57	159
	1,302	**1,226**

15.29.2 Analysis of costs of service providers

	2018	2017
	In € 1,000	In € 1,000
Accounting expenses	298	262
Audit fees	156	142
Consultancy fees	135	197
Marketing expenses	116	28
Custody fees	51	53
Appraisal expenses	41	30
Listing, Paying and Fund Agent fees	37	23
Supervisory Board fees	28	28
Insurance AIFMD	27	25
Supervisors' expenses	23	18
Bank costs	16	9
Court fees	2	-
Other costs of service providers	26	20
	956	**835**

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

- The "Accounting expenses" include the expenses in respect of bookkeeping, consolidation activities on a quarterly basis for results announcements and the determination of corresponding Net Asset Value (NAV), preparation of (Semi)-Annual Report and other activities to fulfil administrative requirements for the Fund and its subsidiaries;
- The "Audit fees" include the fees for the audit of the Consolidated Financial Statements and Parent Company Financial Statements, as well as audits of accounts of subsidiaries. The fees for the audit of the Consolidated Financial Statements and Parent Company Financial Statements 2018 (Deloitte Netherlands) are estimated at € 60,000. During the financial period audit fees related to prior years have been booked in an amount of € 12,000. The fees audits of accounts of subsidiaries (Deloitte other countries) amounts € 84,000. Except for audit of the Consolidated Financial Statements and Parent Company Financial Statements, as well as audits of accounts of subsidiaries, no services of Deloitte have been used;
- The "Consultancy fees", including legal fees, relates mainly to consultancy fees with regard to tax structuring;
- The "Custody fees" include the fees for operational activities by the AIFMD Depositary;
- The "Supervisors' expenses" include expenses for supervision by 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 and Euronext Fund Services ("EFS").

15.29.3 Analysis of Supervisory Board fees

	2018 In € 1,000	2017 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.

15.29.4 Analysis of other operating expenses

	2018 In € 1,000	2017 In € 1,000
Change in provision for doubtful trade receivables	167	115
Non-refundable Value Added Tax	101	84
Irrecoverable trade receivables	15	23
Wages and salaries statutory Directors	6	8
(Transfer) tax on Civil Law Activities (PCC)	-	2
	289	**232**

15.29.5 Analysis of costs of funding and acquisition

	2018 In € 1,000	2017 In € 1,000
Consultancy fees / legal fees	-	102
Due Diligence	57	57
	57	**159**

The “costs of funding and acquisition” shows costs of technical, legal and tax Due Diligence for potential acquisitions.

15.29.6 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:

	2018 In € 1,000	2017 In € 1,000
Transaction costs on purchase of investments	-	69
Transaction costs on sale of investments	-	270
	-	**339**

15.29.7 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). No expenses were therefore incurred or fees requested.

15.29.8 Remuneration for orders on behalf of the Fund

Neither the Managing Board, the Directors of the Managing Board, the Fund, the Depositary of the Fund, nor parties affiliated with these parties, received any remuneration for performing assignments for the Fund, other than as described in section 15.28 “Administrative expenses” and 15.29 “other operating expenses” above.

15.29.9 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 and servicing the administration of subsidiaries to:
  - KNIGHT FRANK, spol. s.r.o., based in Prague (Czech Republic);
  - Zbereko Spol, s.r.o., based in Košice (Slovakia);
  - Arcona Capital Czech Republic, s.r.o., based in Prague (Czech Republic);
  - Arcona Capital Poland Sp. z o.o., based in Warsaw (Poland);
  - Savills, based in Warsaw (Poland).
  - Doradztwo Biznesowe Magdalena Tomaszewska
  - Atrium Management Roman Kaźmierowski
  - Admin Complex Sp. z o.o.

  The related expenses are included in the section “Property management”, as indicated in section 15.21.2 “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 15.29.2 “Analysis of costs of service providers”.

15.29.10 Comparison of actual costs with prospectus

	2018	**2018**	**2017**	**2017**
	Actual	Prospectus	Actual	Prospectus
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Costs of service providers	956,000	900,000	835,000	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 19th October 2016 in conjunction with the Security Note dated 28th October 2016 has been used.

For the analysis of costs of service providers see section 15.29.2 “Analysis of costs of service providers”.

15.30 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 is specified in “Other operating expenses” (see section 15.29.4 “Analysis of other operating expenses”).

15.31 FINANCIAL EXPENSES

	2018 In € 1,000	2017 In € 1,000
Interest expense on secured bank loans	1,135	1,120
Interest expense on convertible bonds	348	432
Interest expense on other loans and borrowings	167	102
Interest expense on derivatives	41	38
Change in fair value of derivatives	24	-
Withholding Tax on loans due to shareholders and other group companies	16	8
Bank guarantee fund charges	13	16
Fine interest for early repayment secured bank loans	4	-
Valuation losses on “Other investments”	1	2
Other financial expenses	8	5
	1,757	**1,723**

15.32 ONGOING CHARGES FIGURE

The Ongoing Charges Figure is calculated by dividing the total expenses (including “Operating expenses”) during the financial year by the average group 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 group 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 surcharges and reductions received, 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 group equity is determined by the average of all calculated and published Net Asset Values (NAV’s).[7]

	2018 In %	2017 In %	2016 In %	2015 In %	2014 In %
Ongoing Charges Figure	10.85	13.02	12.82	9.91	10.65

In 2018 the Ongoing Charges Figure decreased as a result of a decrease of the total expenses (including “Other operating expenses”) by about 6%, in conjunction with the increase of the average group equity by about 13%.

The total expenses also include non-regular costs, such as “Costs of funding and acquisition” (see section 15.29.5) and “Performance-related remuneration” (see section 15.28.1 and 15.28.4). Without these non-regular costs the OCF would be 10.72% (2017: 11.71%).

[7] As of 31st March 2018 this is EPRA NNNAV instead of EPRA NAV.

15.33 INCOME TAX EXPENSE

15.33.1 Tax position

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

15.33.2 Income tax expense recognised in the Income Statement

	2018	2017
Current tax expense	In € 1,000	In € 1,000
Current year	82	65
Adjustments related to prior years	7	-/- 3
	89	62
Deferred tax expense		
Origination and reversal of taxable temporary differences	144	1,289
Recognition of previously unrecognised tax losses	-/- 7	-/- 469
Recognition of previously unrecognised (derecognition of previously recognised) other taxable temporary differences	129	-/- 63
Change in tax rate	-/- 1	61
Adjustments related to prior years	-/- 11	-/- 38
	254	780
	343	**842**

15.33.3 Reconciliation of effective tax rate

	2018	2018	2017	2017
	In %	In € 1,000	In %	In € 1,000
Profit before income tax		**146**		**6,411**
Tax using the Parent Company's domestic tax rate	25.0	36	25.0	1,603
Effect of tax rates in foreign jurisdictions	-/- 13.0	-/- 19	-/- 7.4	-/- 470
Change in tax rate	-/- 0.7	-/- 1	1.0	61
Tax effect of:				
Non-deductible expenses	102.7	150	1.7	111
Tax exempt revenues	-/- 62.5	-/- 91	-/- 2.1	-/- 136
Current year losses for which no deferred tax asset is recognised	102.7	150	3.8	246
Recognition of previously unrecognised tax losses	-/- 4.8	-/- 7	-/- 7.3	-/- 469
Recognition of previously unrecognised (derecognition of previously recognised) other taxable temporary differences	88.2	129	-/- 1.0	-/- 63
Adjustments related to prior years	-/- 2.7	-/- 4	-/- 0.6	-/- 41
	234.9	**343**	**13.1**	**842**

15.33.4 Deferred tax recognised directly in group equity

	2018	2017
	In € 1,000	In € 1,000
Related to receivables from shareholders and other group companies	-/- 32	63

15.33.5 Applicable local Corporate Income Tax rates

	2021	2020	2019	2018	2017
	In %	In %	In %	In %	In %
The Netherlands					
- Up to € 200,000	15.00	16.50	19.00	20.00	20.00
- As of € 200,000	20.50	22.55	25.00	25.00	25.00
Czech Republic	19.00	19.00	19.00	19.00	19.00
Slovakia	21.00	21.00	21.00	22.00	22.00
Poland					
- Regular	19.00	19.00	19.00	19.00	19.00
- Small taxpayers[8]	9.00	9.00	9.00	15.00	15.00

15.34 EARNINGS PER SHARE[9]

15.34.1 Calculation of "Basic earnings per share"

The "Basic earnings per share" are calculated by dividing the profit for the period attributable to holders of shares by the weighted average number of shares outstanding during the financial period.

The weighted average number of shares is 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 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 and of the comparative figures is adjusted retrospectively.

15.34.2 Profit for the period attributable to shareholders of shares (basic)

	2018	2017
	In € 1,000	In € 1,000
Profit for the financial period	-/- 146	5,569

15.34.3 Weighted average number of outstanding shares (basic)

	2018	2017
	In pieces	In pieces
Issued shares as at 1 January	3,165,149	3,165,149
Bonus elementJanu rights issue	-	-
Effect on issued shares during the financial period	-	-
	3,165,149	**3,165,149**

[8] As of 1st January 2017 a reduced corporate income tax rate was introduced for so-called "small taxpayers". Small taxpayers are, for example, entities whose revenues, including Value Added Tax, in a given tax year did not exceed in the preceding tax year the PLN equivalent of € 1,200,000 and the ratio of income to revenues in a previous tax year does not exceed 33%. The reduced corporate income tax rate will not be available for entities created or involved in certain restructuring activities.

[9] The calculation of the "Earnings per share" includes all types of profit-sharing shares (e.g. ordinary and registered shares).

15.34.4 Calculation of “Diluted earnings per share”

The “Diluted earnings per share” are calculated by dividing the profit for the period attributable to holders of shares, adjusted for costs relating to the convertible securities included in the profit for the period, by the weighted average number of shares during the financial period, adjusted for the maximum number of 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 share, these adjustments are not made.

15.34.5 Profit for the period attributable to shareholders of shares (diluted)

	2018	**2017**
	In € 1,000	In € 1,000
Profit for the financial period	-/- 146	5,569
Interest expense on convertible bonds (net of tax)	348	432
	202	**6,001**

15.34.6 Weighted average number of shares outstanding (diluted)

	2018	**2017**
	In pieces	In pieces
Weighted average number of shares outstanding during the financial period (basic)	3,165,149	3,165,149
Effect on conversion of convertible bonds	552,794	696,849
	3,717,943	**3,861,998**

Since a conversion of convertible bonds will not cause dilution of earnings, the diluted earnings are calculated in accordance with the calculation of the “Basic earnings per share”.

15.35 RISK MANAGEMENT

15.35.1 General

According to its investment policy set out in the prospectus, the Registration Document dated 19th October 2016 in conjunction with the Security Note dated 28th 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 this prospectus.

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.

15.35.2 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 15.2.5).

15.35.3 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.

As at Statement of Financial Position's date the Fund had the following exposure with regard to financial assets. The percentages are based on the carrying amount of financial assets.

	31-12-2018	31-12-2017
	In %	In %
Czech Koruna (CZK)	12.6	55.8
Euro (EUR)	57.6	24.2
Polish Zloty (PLN)	29.8	20.0
	100.0	**100.0**

The decrease of the relative part of CZK in the total financial assets is mainly caused by the changes in "Trade and other receivables" with regard to the receivable sold investment property Drahobejlova (see also section 15.6.2).

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 31-12-2018	Monetary liabilities 31-12-2018	Net exposure 31-12-2018
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	348	7,207	-/- 6,859
Euro (EUR)	1,749	39,119	-/- 37,370
Polish Zloty (PLN)	627	401	226
	2,724	**46,727**	**-/- 44,003**

	Monetary assets 31-12-2017	Monetary liabilities 31-12-2017	Net exposure 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**

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:

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Czech Koruna (CZK)	343	213
Polish Zloty (PLN)	-/- 11	-/- 37

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.

15.35.4 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:

	As at 31-12-2018				
	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	6,646	0.22	-	82	Trade and other payables
Interest rate caps	1,890	4.50	-	-	n.a.

	As at 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.

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.

	As at 31-12-2018						
	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	-	-	-	-	-	5	5
Current tax assets	-	-	-	-	-	124	124
Trade and other receivables	-	-	-	-	-	724	724
Prepayments and lease incentives	-	-	-	-	-	542	542
Cash and cash equivalents	1,992	-	-	-	-	2	1,994
Financial assets	**1,992**	**-**	**-**	**-**	**-**	**1,397**	**3,389**
Loans and borrowings	9,734	24,083	3,056	8,123	-	-	44,996
Effect of interest rate swaps	-/- 6,646	-	-	-	-	-	-/- 6,646
Current tax liabilities	-	-	-	-	-	108	108
Trade and other payables	-	-	-	-	-	1,632	1,632
Deferred income and tenants deposits	-	-	-	-	-	551	551
Financial liabilities	**3,088**	**24,083**	**3,056**	**8,123**	**-**	**2,291**	**40,639**
Total interest sensitivity gap	**-/- 1,096**	**-/- 24,083**	**-/- 3,056**	**-/- 8,123**	**-**		**-/- 36,358**

	As at 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**

Fair value sensitivity analysis for fixed-rate instruments
An increase of 100 basis points in interest rates as at Statement of Financial Position's date would have decreased group equity and profit for the period by € 364,000 (2017: € 394,000).
A decrease of 100 basis points in interest rates as at Statement of Financial Position's date would have increased group equity and profit for the period by € 364,000 (2017: € 394,000).

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 Statement of Financial Position's 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.

	31-12-2018	31-12-2018	31-12-2017	31-12-2017
	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	-/- 154	88	-/- 202	21
Interest rate swaps	53	-/- 53	57	-/- 57
Cash flow sensitivity (net)	**-/- 101**	**35**	**-/- 145**	**-/- 36**

Weighted average interest rate of loans and borrowings
The main part of the financial liabilities is the "Loans and borrowings". As at Statement of Financial Position's date the Fund paid the following weighted average interest:

	31-12-2018	31-12-2017
	In %	In %
Weighted average interest rate of loans and borrowings	3.30	3.26

15.35.5 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 lettability 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 15.2.5 "Sensitivity analysis".

15.35.6 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.

15.35.7 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.

15.35.8 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.

15.35.9 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. As at Statement of Financial Position's 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:

	31-12-2018	**31-12-2018**	**31-12-2017**	**31-12-2017**
	In € 1,000	In %	In € 1,000	In %
Current tax assets[10]	6	0.0	-	0.0
Trade and other receivables	724	1.8	4,442	10.6
Cash and cash equivalents	1,994	4.9	2,919	6.9
	2,724	**6.7**	**7,361**	**17.5**

Other than 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.

[10] Exclusive of Corporate Income Tax.

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.

	As at 31-12-2018					
	Current (not past due)	**Until 1 month past due**	**1 until 3 months past due**	**3 months until 1 year past due**	**More than 1 year past due**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Gross monetary assets						
Current tax assets[11]	6	-	-	-	-	6
Trade and other receivables	174	210	142	397	514	1,437
Cash and cash equivalents	1,994	-	-	-	-	1,994
	2,174	**210**	**142**	**397**	**514**	**3,437**
Impairment of monetary assets						
Current tax assets	-	-	-	-	-	-
Trade and other receivables	1	31	26	141	514	713
Cash and cash equivalents	-	-	-	-	-	-
	1	**31**	**26**	**141**	**514**	**713**
Net monetary assets						
Current tax assets[10]	6	-	-	-	-	6
Trade and other receivables	173	179	116	256	-	724
Cash and cash equivalents	1,994	-	-	-	-	1,994
	2,173	**179**	**116**	**256**	**-**	**2,724**

	As at 31-12-2017					
	Current (not past due)	**Until 1 month past due**	**1 until 3 months past due**	**3 months until 1 year past due**	**More than 1 year past due**	**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	-	4,254	142	72	527	4,995
Cash and cash equivalents	2,919	-	-	-	-	2,919
	2,919	**4,254**	**142**	**72**	**527**	**7,913**
Impairment of monetary assets						
Trade and other receivables	-	-	-	26	527	553
Cash and cash equivalents	-	-	-	-	-	-
	-	**-**	**-**	**26**	**527**	**553**
Net monetary assets						
Trade and other receivables	-	4,254	142	46	-	4,442
Cash and cash equivalents	2,919	-	-	-	-	2,919
	2,919	**4,254**	**142**	**46**	**-**	**7,361**

The impairment with regard to "Trade and other receivables" fully relates to "Trade receivables". For further details with regard to this amount see section 15.6 "Trade and other receivables" in the "Notes to the Consolidated Financial Statements".

[11] Exclusive of Corporate Income Tax.

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

	As at 31-12-2018		
	Guarantee deposits from tenants	**Other pledge**	**Total**
	In € 1,000	In € 1,000	In € 1,000
Current tax assets	-	-	-
Trade and other receivables	252	-	252
Cash and cash equivalents	-	-	-
Financial assets	**252**	**-**	**252**

	As at 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**

15.35.10 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.

15.35.11 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.

15.35.12 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 15.20.4 for information about non-cancellable leases.

15.35.13 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.

15.35.14 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 "Loans and borrowings" include the payable interest. The payable interest is calculated by using the weighted average interest rate of "Loans and borrowings" at Statement of Financial Position's date.

	As at 31-12-2018						
	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[12]	91	8	-	-	-	-	99
Loans & borrowings	158	7,793	11,924	28,257	-	-	48,132
Trade and other payables	1,234	270	46	-	-	-	1,550
	1,483	8,071	11,970	28,257	-	-	49,781
Derivative liabilities							
Interest rate swaps	7	6	32	37	-	-	82
Monetary liabilities	**1,490**	**8,077**	**12,002**	**28,294**	**-**	**-**	**49,863**

	As at 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[12]	95	21	-	-	-	-	116
Loans & borrowings	203	1,914	4,977	46,449	-	-	53,543
Trade and other payables	1,265	306	78	62	-	-	1,711
	1,563	2,241	5,055	46,511	-	-	55,370
Derivative liabilities							
Interest rate swaps	-	11	36	12	-	-	59
Monetary liabilities	**1,563**	**2,252**	**5,091**	**46,523**	**-**	**-**	**55,429**

The main components of the financial liabilities are the "Loans and borrowings". As at Statement of Financial Position's date the weighted remaining maturity of the "Loans and borrowings" is 1.73 years (31 December 2017: 2.42 years).

As at Statement of Financial Position's date the Fund has additional credit facilities amounting to € 2,500,000 (31 December 2017: € 2,500,000).

15.35.15 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] Exclusive of Corporate Income Tax.

15.35.16 Tax risk

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

15.35.17 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.

15.35.18 Legal risk

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

15.35.19 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).

15.35.20 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.

15.36 DISCLOSURES CASH FLOW STATEMENT

15.36.1 Changes in cash flows arising from investing activities

The following table shows the changes in cash flows arising from investing activities, including:

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

Investing activities	Cash changes In € 1,000	Non-cash changes In € 1,000	Total 2018 In € 1,000
Proceeds from sale of properties	3,776	-	3,776
Acquisitions / additions of properties	-/- 690	-	-/- 690
Fair value adjustments of properties	-	-/- 1,336	-/- 1,336
Fair value adjustments of other investments	-	-/- 1	-/- 1
Effect of changes in exchange rate of properties	-	-/- 120	-/- 120
	3,086	**-/- 1,457**	**1,629**

Investing activities	Cash changes In € 1,000	Non-cash changes In € 1,000	Total 2017 In € 1,000
Proceeds from sale of properties	1,565	-	1,565
Proceeds from sale of other investments	83	-	83
Dividends received from other investments	5	-	5
Acquisitions / additions of properties	-/- 587	-/- 13,247	-/- 13,834
Acquisition of subsidiaries	-/- 1,498	-	-/- 1,498
Fair value adjustments of properties	-	5,397	5,397
Fair value adjustments of other investments	-	-/- 2	-/- 2
Effect of changes in exchange rates of other investments	-	1	1
	-/- 432	**-/- 7,851**	**-/- 8,283**

15.36.2 Changes in cash flows arising from financing activities

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

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

Financing activities	Cash changes In € 1,000	Non-cash changes In € 1,000	Total 2018 In € 1,000
Repayments of secured bank loans	-/- 2,885	-	-/- 2,885
Repayments of convertible bonds	-/- 1,420	-	-/- 1,420
Distributions to shareholders	-/- 760	-	-/- 760
Amortisation flat fee	-	64	64
Accrued interest	-	44	44
Effect of changes in exchange rates of secured bank loans	-	-/- 59	-/- 59
	-/- 5,065	**49**	**-/- 5,016**

Financing activities	Cash changes In € 1,000	Non-cash changes In € 1,000	Total 2017 In € 1,000
Repayments of secured bank loans	-/- 7,212	-	-/- 7,212
Proceeds from other loans and borrowings	2,000	-	2,000
Distributions to shareholders	-/- 316	-	-/- 316
Proceeds from secured bank loans (as a result of acquisition subsidiaries)	-	7,046	7,046
Proceeds from other loans and borrowings (as a result of acquisition subsidiaries)	-	4,710	4,710
Amortisation flat fee	-	90	90
Accrued interest	-	58	58
Reclassification other loans and borrowings (to “Trade and other payables”)	-	-/- 67	-/- 67
Effect of changes in exchange rates secured bank loans	-	657	657
	-/- 5,528	**12,494**	**6,966**

15.37 RELATED PARTIES

15.37.1 Identity of related parties

For 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).

15.37.2 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 € 466,000 (2017: € 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 € 180,000 (2017: € 127,000).

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

Personal interests of members of the Managing and Supervisory Board are defined in section 20.3 “Personal interests”.

The remuneration for the Managing Board is described in section 15.28 “Administrative expenses”.

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 15.29.3 “Analysis of Supervisory Board fees” and 15.29.4 “Analysis of other operating expenses”.

15.37.3 Specification major investors[13]

	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[14]	n.a.	21.94
	Convertible bonds	n.a.	n.a.	11.05	11.05
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

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

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

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

	01-01-2018 to 31-12-2018		31-12-2018
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	-	2,000
H.M. van Heijst	Payable Interest private unsecured loan	120	2
H.M. van Heijst	Providing convertible bonds	-	3,000
H.M. van Heijst	Payable interest convertible bonds	202	27

	01-01-2017 to 31-12-2017		31-12-2017
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	2,000	2,000
H.M. van Heijst	Payable interest private unsecured loan	62	2
H.M. van Heijst	Providing convertible bonds	-	4,420
H.M. van Heijst	Payable interest convertible bonds	273	57

[13] Major investors: more than 20% voting rights.
[14] Through "Stichting Value Partners".

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

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

01-01-2018 to 31-12-2018				31-12-2018
Name of other related party	Kind of transaction	Other information	Amount of transaction during financial period In € 1,000	Outstanding amount In € 1,000
Arcona Capital Czech Republic s.r.o.	Asset Management fee	-	466	-
Arcona Capital Poland Sp. z o.o.	Asset Management fee	-	180	-
			646	-
Arcona Capital Czech Republic s.r.o.	Advisory services	-	-	-
Several	Rental income	268 m^2	46	-
Statutory directors	Wages and salaries	-	6	-

01-01-2017 to 31-12-2017				31-12-2017
Name of other related party	Kind of transaction	Other information	Amount of transaction during financial period In € 1,000	Outstanding amount In € 1,000
Arcona Capital Czech Republic s.r.o.	Asset Management fee	-	474	-
Arcona Capital Poland Sp. z o.o.	Asset Management fee	-	127	-
			601	-
Arcona Capital Poland Sp. z o.o.	Property Management fee	-	15	-
Arcona Capital Czech Republic s.r.o.	Advisory services	-	27	-
Several	Rental income	268 m^2	46	-
Statutory directors	Wages and salaries	-	8	-

15.37.6 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 2017: all properties are sold).

15.37.7 Agreements with related parties

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

15.38 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE

The following material events after Statement of Financial Position's date have occurred:

A. 18th March 2019 the Czech real estate portfolio is refinanced by Sberbank CZ. The Fund has agreed a new secured loan facility of € 9.2 million with Sberbank Czech Republic for its Czech real estate portfolio. The facility includes a specific line for capital expenditure of € 390,000 and has a term of 5 years with an interest charge of 3.79% (3M PRIBOR + 1.80%). The new secured bank loan replaces the existing € 7.1 million facility with Sberbank which was due to expire shortly. The new loan has the same interest charge as before. This refinancing takes the Loan-to-Value ratio of the Fund to 52.5%.

No further material events have occurred after Statement of Financial Position's date.

15.39 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;
E. Availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
F. Measurement of "expected credit losses" allowance for trade receivables.

In section 13.10.2 and 13.10.3 the critical assessments by the Managing Board in applying the Fund's principles of the valuation of the investment properties are stated.

PARENT COMPANY FINANCIAL STATEMENTS 2018

16 PARENT COMPANY BALANCE SHEET

After proposal result appropriation	***Notes***	**31-12-2018** In € 1,000	**31-12-2017** In € 1,000
Investments			
Investments in group companies	*19.1*	33,741	33,674
Receivables from group companies	*19.2*	18,753	20,219
Total investments		**52,494**	**53,893**
Receivables			
Other receivables	*19.4*	318	584
Deferred expenses	*19.5*	4	53
Total receivables		**322**	**637**
Other assets			
Cash and cash equivalents	*19.7*	207	861
Total assets		**53,023**	**55,391**
Shareholders' equity	*19.8*		
Issued capital	*19.9*	15,826	15,826
Share premium	*19.10*	15,350	16,110
Revaluation reserve	*19.11*	7,661	7,196
Reserve currency translation differences	*19.12*	2,136	2,304
Reserve investments in group companies	*19.13*	4,911	4,177
Equity component convertible bonds	*19.14*	210	266
Retained earnings	*19.15*	-/- 5,183	-/- 3,843
Total shareholders' equity		**40,911**	**42,036**
Provisions			
Deferred tax liabilities	*19.16*	56	88
Long-term liabilities			
Convertible bonds	*19.17*	3,412	4,427
Private loans	*19.18*	4,710	4,710
		8,122	**9,137**
Current liabilities			
Convertible bonds	*19.17*	1,056	1,417
Private loans	*19.18*	2,000	2,000
Tax liabilities	*19.19*	8	21
Other liabilities	*19.20*	19	27
Accruals	*19.21*	851	665
Total current liabilities		**3,934**	**4,130**
Total shareholders' equity and liabilities		**53,023**	**55,391**

17 PARENT COMPANY PROFIT AND LOSS ACCOUNT

	Notes	2018 In € 1,000	2017 In € 1,000
Income from investments			
Interest	*19.24*	960	1,191
Realised valuation results of investments			
Receivables from group companies	*19.25*	139	172
Unrealised valuation results of investments			
Investments in group companies	*19.26*	496	5,887
Receivables from group companies	*19.27*	-	443
		496	6,330
Other operating income	*19.28*	-	9
Total operating income		**1,595**	**7,702**
Administrative expenses	*19.29*	684	1,021
Other operating expenses	*19.30*	583	574
Interest expenses	*19.32*	525	538
Total expenses		**1,792**	**2,133**
Result before income tax		**-/- 197**	**5,569**
Income tax expense		-	-
Result after income tax		**-/- 197**	**5,569**

18 ACCOUNTING PRINCIPLES PARENT COMPANY FINANCIAL STATEMENTS

18.1 GENERAL

The Parent Company Financial Statements for the financial period are part of the Consolidated Financial Statements for the financial period.

18.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Parent Company Financial Statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code (Titel 9, Boek 2 van het Burgerlijk Wetboek). For the purpose of determining the principles of valuation of assets and liabilities and the determination of results for its Parent 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 Parent 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 13.5 to 13.28 inclusive for a description of these principles.

18.3 CHANGE OF PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are changed on the following items:

- In order to align the comparative figures with the Parent Company Financial Statements as at 31 December 2018, a "Reserve investments in group companies" is introduced. This reserve is recognized from the "Retained earnings".

18.4 BASIS OF PREPARATION OF THE PARENT COMPANY FINANCIAL STATEMENTS

18.4.1 Investments in group companies

Investments in group companies in which the Group either exercises voting control or effective Management responsibility are valued at Net Asset Value. The initial processing in the accounts and valuations at balance sheet dates is made at the Net Asset Value. The value is adjusted with the share of the Parent Company in the results of the group company, based on the principles for determining results as applied in the Consolidated Financial Statements and with the share in the other movements in equity of the group company as from the date of acquisition, which are attributable to the Parent Company. The Net Asset Value is determined by valuing assets, provisions and liabilities and by determining results according to the principles which have been used in the Consolidated Financial Statements.

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.

18.4.2 Receivables from group companies

Receivables from group companies are initially measured at fair value and subsequently measured 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. The recognition and determination of impairments takes place in a foreward-looking manner based on the expected credit loss model (ECL). The ECL model applies to the “Receivables from group companies”. Due to the fact that “Investments in group companies” are considered as a combination of assets and liabilities, this means in general that expected credit losses on “Receivables from group companies” are eliminated. The elimination is recognised in the carrying amount of the “Receivables from group companies”.

18.4.3 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”.

18.4.4 Revaluation reserve

The legal “Revaluation reserve” comprises the cumulative unrealised positive net change in the fair value of the properties held by the investments in group companies (“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 in accordance with the principles of valuation for deferred taxes.
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”.

18.4.5 Reserve currency translation differences

Results arising from translation of net investments in group companies outside the euro-zone into the Fund’s reporting currency (Euro) are recognised directly in the shareholders’ equity in a legal “Reserve currency translation differences”. In the event of sale of the net investment in group companies the cumulative exchange differences related to that group company are transferred to the “Retained earnings”.

18.4.6 Reserve investments in group companies

The Fund maintains a legal reserve (“Reserve investments in group companies”) to the amount of its share in the positive result in its group companies and of its share in direct increases in equity since the first valuation of the group company was made. Negative cumulative results in a group company since its first valuation, are not taken into account.

The reserve will be reduced with:

- distributions to which the Fund until the moment of adoption of its own financial statements, has acquired an entitlement;
- direct decreases in equity of the group company;
- distributions which the Fund may effectuate without restrictions.

The distributions meant in this section do not include distributions made in the form of shares.

18.4.7 Equity component convertible bonds

This reserve contains the equity component of issued convertible bonds. The equity component is calculated at date of issue. The equity component of a compound financial instrument is not remeasured. The equity component is calculated as 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 will be transferred to the “Retained earnings” at the date of redemption or conversion of the convertible bond.

18.4.8 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, have 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.

18.5 SIZE AND COMPOSITION OF THE EQUITY AND RESULTS IN THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

Since the Fund makes use of the option provided in Book 2, article 2:362 (8) of the Dutch Civil Code, the size of the Group equity (in the Consolidated Statement of Financial Position) and the shareholders‘ equity (in the Parent Company Balance Sheet) are identical.
Although the equity in the Consolidated Statement of Financial Position comprises “Group equity”, the composition of the equity (in the Consolidated Statement of Financial Position) and the shareholders‘ equity (in the Parent Company Balance Sheet) are not identical.

Since the Fund makes use of the option provided in Book 2, article 2:362 (8) of the Dutch Civil Code, the profit for the period in the Consolidated Income Statement and profit for the period in the Parent Company Profit and Loss Account are identical.

19 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

19.1 INVESTMENTS IN GROUP COMPANIES

19.1.1 Analysis of investments in group companies

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Arcona Capital RE Bohemia s.r.o.	4,661	4,473
Arcona Capital RE Slovakia s.r.o.	18,225	16,926
Arcona Capital Real Estate Poland Sp. z o.o.	4,130	5,346
Arcona Capital Real Estate Trio Sp. z o.o.	6,056	6,436
Arcona Real Estate B.V.	669	493
Total	**33,741**	**33,674**

The companies indicated above are included in the Consolidated Financial Statements. For further analysis of the investments in group companies see section 15.1.1 “Consolidated subsidiaries”.

19.1.2 Statement of changes in investments in group companies

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	33,674	16,940
Acquisitions	-	10,675
Share in result of group companies	496	5,887
Dividends received	-/- 396	-
Exchange rate differences	-/- 33	172
Balance as at 31 December	**33,741**	**33,674**

The “Dividends received” relates to the dividend payments during the financial period from Arcona Capital Real Estate Trio Sp. z o.o.

19.1.3 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 credit institutions and bank covenants see section 15.11.4.

19.2 RECEIVABLES FROM GROUP COMPANIES

19.2.1 Analysis of receivables from group companies

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Loan to Arcona Capital RE Bohemia s.r.o.	4,537	6,862
Loan to Arcona Capital RE Slovakia s.r.o.	5,537	5,560
Loan to Arcona Capital Real Estate Poland Sp. z o.o.	6,432	5,840
Loan to Arcona Real Estate B.V.	2,247	1,957
Total	**18,753**	**20,219**

As at balance sheet date the weighted average interest rate on all “Receivables from group companies” is 5.22% per annum (31 December 2017: 5.0% per annum).

19.2.2 Statement of changes in receivables from group companies

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	20,219	24,355
Loans advanced	1,477	3,159
Redemption on loans advanced	-/- 2,915	-/- 8,132
Fair value adjustments (provision)	-	443
Exchange rate differences	-/- 28	394
Balance as at 31 December	**18,753**	**20,219**

19.3 OTHER FINANCIAL INVESTMENTS

19.3.1 Analysis of other financial investments

Name of other investment	Proportion of shares held 31-12-2018 In %	Proportion of shares held 31-12-2017 In %
Eastern European Property Fund Limited	< 0.1	< 0.1

19.3.2 Statement of changes in other financial investments

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	-	70
Redemption on loans advanced	-	-/- 70
Balance as at 31 December	**-**	**-**

19.4 OTHER RECEIVABLES

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

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Interest on receivables from group companies	318	584

19.5 DEFERRED EXPENSES

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

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Prepayments	4	53

19.6 DEFERRED TAX ASSETS

19.6.1 Analysis of unrecognised deferred tax assets

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Tax losses carried forward (will expire)	952	805

19.6.2 Analysis of unrecognised tax losses carried forward

	2018 In € 1,000	2017 In € 1,000
Expires in 2020	75	75
Expires in 2022	95	95
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	354	354
Expires in 2026	176	185
Expires in 2027	156	-
Balance as at 31 December	**952**	**805**

19.6.3 Statement of changes in unrecognised deferred tax assets

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	805	630
Adjustments related to prior years	-/- 9	-/- 10
Additions	156	185
Balance as at 31 December	**952**	**805**

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 unrecognised tax losses.

19.7 CASH AND CASH EQUIVALENTS

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

19.8 SHAREHOLDERS' EQUITY

19.8.1 Statement of changes in shareholders' equity

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve currency translation differences In € 1,000	Reserve investments in group companies In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Total Share-holders' equity In € 1,000
Balance as at 1 January 2018	15,826	16,110	7,196	2,304	4,177	266	-/- 3,843	42,036
Result for the financial period	-	-	-	-	-	-	-/- 197	-/- 197
Change in revaluation reserve	-	-	465	-	-	-	-/- 465	-
Change in reserve currency translation differences	-	-	-	-/- 168	-	-	-	-/- 168
Change in reserve investments in group companies	-	-	-	-	734	-	-/- 734	-
Change in equity component convertible bonds	-	-	-	-	-	-/- 56	56	-
Distributions to shareholders	-	-/- 760	-	-	-	-	-	-/- 760
Balance as at 31 December 2018	**15,826**	**15,350**	**7,661**	**2,136**	**4,911**	**210**	**-/- 5,183**	**40,911**
Balance as at 1 January 2017	15,826	16,426	4,524	1,973	2,639	266	-/- 5,202	36,452
Result for the financial period	-	-	-	-	-	-	5,569	5,569
Change in revaluation reserve	-	-	2,672	-	-	-	-/- 2,672	-
Change in reserve currency translation differences	-	-	-	331	-	-	-	331
Change in reserve investments in group companies	-	-	-	-	1,538	-	-/- 1,538	-
Distributions to shareholders	-	-/- 316	-	-	-	-	-	-/- 316
Balance as at 31 December 2017	**15,826**	**16,110**	**7,196**	**2,304**	**4,177**	**266**	**-/- 3,843**	**42,036**

19.9 ISSUED CAPITAL

19.9.1 Analysis of issued capital

	31-12-2018 In pieces	**31-12-2018** In € 1,000	**31-12-2017** In pieces	**31-12-2017** 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**

19.9.2 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.

	2018 In pieces	2018 In € 1,000	2017 In pieces	2017 In € 1,000
Balance in issue as at 1 January	3,138,158	15,691	3,138,158	15,691
Issued for payment in cash	-	-	-	-
Balance in issue as at 31 December fully paid	**3,138,158**	**15,691**	**3,138,158**	**15,691**

19.9.3 Registered shares

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

	2018 In pieces	2018 In € 1,000	2017 In pieces	2017 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**

19.9.4 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.

	2018 In pieces	2018 In € 1,000	2017 In pieces	2017 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**	**-**

19.9.5 Analysis of authorised share capital

	31-12-2018 In pieces	31-12-2018 In € 1,000	31-12-2017 In pieces	31-12-2017 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**

19.10 SHARE PREMIUM

The paid-up share premium for tax purposes as at 31 December 2018 was € 15,350,000 (31 December 2017: € 16,110,000).

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	16,110	16,426
Distributions to shareholders	-/- 760	-/- 316
Balance as at 31 December	**15,350**	**16,110**

19.11 REVALUATION RESERVE

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	7,196	4,524
Addition to / reduction on (-) change in fair value during the financial period	465	2,672
Balance as at 31 December	**7,661**	**7,196**

19.12 RESERVE CURRENCY TRANSLATION DIFFERENCES

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	2,304	1,973
Realised currency results on net investments	-/- 139	-/- 172
Unrealised currency results on net investments	-/- 29	503
Balance as at 31 December	**2,136**	**2,304**

19.13 RESERVE INVESTMENTS IN GROUP COMPANIES

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	4,177	2,639
Additions	734	1,538
Balance as at 31 December	**4,911**	**4,177**

19.14 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 15.11.5 “Analysis of convertible bonds”).

	2018	2017
	In € 1,000	In € 1,000
Balance as at 1 January	266	266
Reductions in connection with redemptions of convertible bonds	-/- 56	-
Balance as at 31 December	**210**	**266**

19.15 RETAINED EARNINGS

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	-/- 3,843	-/- 5,202
Profit for the period	-/- 197	5,569
	-/- 4,040	367
Change in revaluation reserve	-/- 465	-/- 2,672
Change in reserve investments in group companies	-/- 734	-/- 1,538
Change in equity component convertible bonds	56	-
Balance as at 31 December	**-/- 5,183**	**-/- 3,843**

19.16 DEFERRED TAX LIABILITIES

19.16.1 Analysis of recognised deferred tax liabilities

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Receivables from group companies	56	88

19.16.2 Statement of changes in deferred tax liabilities

	2018 In € 1,000	2017 In € 1,000
Balance as at 1 January	88	25
Additions / withdrawals	-/- 32	63
Balance as at 31 December	**56**	**88**

19.17 CONVERTIBLE BONDS

For the analysis, statement of changes and valuation of the convertible bonds see section 15.11.5 and 15.11.6.

19.18 PRIVATE LOANS

For the analysis, statement of changes, valuation and conditions of the private loans see section 15.11.7 to 15.11.9.

19.19 TAX LIABILITIES

	31-12-2018 In € 1,000	31-12-2017 In € 1,000
Value Added Tax (VAT)	8	21

19.20 OTHER LIABILITIES

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

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Trade payables	19	27

19.21 ACCRUALS

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

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Administrative expenses	641	419
Other operating expenses	153	157
Interest payables	57	89
	851	**665**

19.21.1 Specification of administrative expenses

	31-12-2018	31-12-2017
	In € 1,000	In € 1,000
Fund Management fee	641	73
Performance-related remuneration	-	346
	641	**419**

19.22 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.

19.23 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 15.19.

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.

19.24 INTEREST INCOME FROM INVESTMENTS

	2018 In € 1,000	2017 In € 1,000
Receivable from Arcona Capital RE Bohemia s.r.o.	243	309
Receivable from Arcona Capital RE Slovakia s.r.o.	232	277
Receivable from Arcona Capital Real Estate Poland Sp. z o.o.	354	547
Receivable from Arcona Real Estate B.V.	131	58
	960	**1,191**

19.25 REALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2018 In € 1,000	2017 In € 1,000
Realised currency results Arcona Capital RE Bohemia s.r.o.	139	34
Realised currency results Arcona Capital RE Slovakia s.r.o.	-	138
	139	**172**

19.26 UNREALISED VALUATION RESULTS INVESTMENTS IN GROUP COMPANIES

	2018 In € 1,000	2017 In € 1,000
Arcona Capital RE Bohemia s.r.o.	221	2,717
Arcona Capital RE Slovakia s.r.o.	1,300	1,469
Arcona Capital Real Estate Poland Sp. z o.o.	-/- 1,216	-/- 449
Arcona Capital Real Estate Trio Sp. z o.o.	15	1,657
Arcona Real Estate B.V.	176	493
	496	**5,887**

19.27 UNREALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2018 In € 1,000	2017 In € 1,000
Arcona Capital Real Estate Poland Sp. z o.o.	-	443

19.28 OTHER OPERATING INCOME

	2018 In € 1,000	2017 In € 1,000
Other exchange and currency translation results	-	9

19.29 ADMINISTRATIVE EXPENSES

For the remuneration of the Managing Board see section 15.28 “Administrative expenses”.

19.30 OTHER OPERATING EXPENSES

19.30.1 Specification of other operating expenses

	2018 In € 1,000	2017 In € 1,000
Costs of service providers	526	441
Costs of funding and acquisition	57	133
	583	**574**

19.30.2 Analysis of costs of service providers

	2018 In € 1,000	2017 In € 1,000
Consultancy fees	27	77
Accounting expenses	138	116
Audit fees	72	67
Supervisory Board fees	28	28
Marketing expenses	117	28
Custody fees	51	53
Listing, Paying and Fund Agent fees	37	23
Supervisors’ expenses	23	18
Insurance AIFMD	27	25
Other costs of service providers	6	6
	526	**441**

19.30.3 Analysis of Supervisory Board fees

For the analysis of the Supervisory Board fees see section 15.29.3 “Analysis of Supervisory Board fees”.

19.30.4 Analysis of costs of funding and acquisition

	2018 In € 1,000	2017 In € 1,000
Consultancy fees / legal fees	-	102
Due diligence	57	31
	57	**133**

The “costs of funding and acquisition” are costs of technical, legal and tax Due Diligence on potential acquisitions.

19.31 PERSONNEL COSTS

The Fund does not employ any personnel (2017: nil).

19.32 INTEREST EXPENSES

	2018 In € 1,000	2017 In € 1,000
Interest expenses on convertible bonds	348	432
Interest expenses on private loans	167	102
Other exchange and currency translation results	6	-
Other interest expenses	4	4
	525	**538**

19.33 RELATED PARTIES

19.33.1 Identity of related parties

With regard to the Fund the following categories of related party were identified 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).

19.33.2 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 € 466,000 (2017: € 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 € 180,000 (2017: € 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 15.28 “Administrative expenses”.

The remuneration for the Supervisory Board is described in section 15.29.3 “Analysis of Supervisory Board fees”.

19.33.3 Specification major investors[15]

	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[16]	n.a.	21.94
	Convertible bond	n.a.	n.a.	11.05	11.05
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

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

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

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

	01-01-2018 to 31-12-2018		31-12-2018
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	-	2,000
H.M. van Heijst	Payable Interest private unsecured loan	120	2
H.M. van Heijst	Providing convertible bonds	-	3,000
H.M. van Heijst	Payable interest convertible bonds	202	27

	01-01-2017 to 31-12-2017		31-12-2017
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	2,000	2,000
H.M. van Heijst	Payable interest private unsecured loan	62	2
H.M. van Heijst	Providing convertible bonds	-	4,420
H.M. van Heijst	Payable interest convertible bonds	273	57

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

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

A. Received dividends from group companies, as described in section 19.1.2 "Statement of changes in investments in group companies"

B. Providing and repayments loans to group companies, as described in section 15.6 "Receivables from group companies".

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

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

[15] Major Investors: more than 20% voting rights.
[16] Through "Stichting Value Partners".

19.34 TAXES

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

19.35 PROPOSAL FOR THE PARENT COMPANY RESULT APPROPRIATION

The Parent Company´s loss for the financial period amounts to € 197,000. Recognising the mandatory net addition of € 465,000 to the “Revaluation reserve” and the mandatory net addition of € 734,000 to the “Reserve investments in group companies” the remaining loss for the financial period was € 1,396,000. In accordance with the Articles of Association dated 21st September 2016, the Managing Board will deduct the net result for the financial period from the “Retained earnings”.

This deduction has already been recognised in the Parent Company balance sheet.

19.36 EVENTS AFTER BALANCE SHEET DATE

The following material events after balance sheet date have occurred:

A. 18th March 2019 the Czech real estate portfolio is refinanced by Sberbank CZ. The Fund has agreed a new secured loan facility of € 9.2 million with Sberbank Czech Republic for its Czech real estate portfolio. The facility includes a specific line for capital expenditure of € 390,000 and has a term of 5 years with an interest charge of 3.79% (3M PRIBOR + 1.80%). The new secured bank loan replaces the existing € 7.1 million facility with Sberbank which was due to expire shortly. The new loan has the same interest charge as before. This refinancing takes the Loan-to-Value ratio of the Fund to 52.5%.

No further material events have occurred after balance sheet date.

Amsterdam, 4 April 2019

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	

20 OTHER INFORMATION

20.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION

In accordance with Article 28 of the Articles of Association dated 21st 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 Parent 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 Parent Company in its own capital are not included.

20.2 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION

On 24th 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 1st January 2007 to act as the management company of the Fund.

As at 22nd July 2013, the Alternative Investment Fund Managers Directive (AIFMD) came into force. Since Arcona Capital Fund Management B.V. already held a Wft-permit as at 21st July 2013, by law this permit became an AIFMD-permit automatically after the transition period of one year (as of 22nd July 2014).

20.3 PERSONAL INTERESTS

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Parent Company, except for B. Vos M.Sc. who had 4,400 ordinary shares (31 December 2017: 4,400) in private possession and 4,562 ordinary shares (31 December 2017: 4,562) in possession through Bas Vos B.V.

As at balance sheet date Arcona Capital GmbH held 26,991 registered shares (31 December 2017: 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.

20.4 SPECIAL CONTROLLING RIGHTS

Special rights in respect of control of the Parent 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 20.1) shall be reserved;
- To make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a Parent Company reserve;
- To make the proposal to the General Meeting of Shareholders to amend the Articles of Association of the Parent Company;
- To make the proposal to the General Meeting of Shareholders for statutory merger or statutory demerger of the Parent Company;
- To make the proposal to the General Meeting of Shareholders for dissolution of the Parent Company.

The General Meeting of Shareholders needs the approval of the Foundation for decisions of the Managing Board concerning:

- Reduction of the issued share capital.

20.5 INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the shareholders the supervisory board of Arcona Property Fund N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2018 of Arcona Property Fund 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 Fund N.V. as at 31 December 2018, and of its result and its cash flows for 2018 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 Fund N.V. as at 31 December 2018, and of its result for 2018 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 2018.

2. The following statements for 2018: 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 2018.

2. The company profit and loss account for 2018.

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.

1.1.1G

We are independent of Arcona Property Fund 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 Fund 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 Fund N.V.

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.

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 components 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 etermined whther we required an audit of their complete financial information or whether other procedures would be sufficient.

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 the account balances 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 valuations 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 realized upon disposal and by analyzing any differences.

Collectability outstanding amounts debtor in receivership

Key audit matter:

Due to the receivership of one of the debtors, the risk exists that the receivable is not fully collectable. Management accounted for a provision for doubtful debtors in accordance with IFRS 9 is uncertain due it's financial performance and is therefore significantly influenced by management assumptions. Due to the significance of the account balance, the estimation uncertainty, and that the accounting for the provision can be significantly influenced by management assumptions we consider this as a key audit matter.

How our audit addressed the matter:

We have critically reviewed the management position on the total provision on the outstanding amounts.

We tested assumptions in the expected credit loss model with information required during the audit as well as publically available information.

We have tested that the uncertainty regarding collectability of outstanding amounts on debtor in receivership is reflected correctly in the valuation of the investment property by reviewing future cash flows in valuation model.

We have verified that the potential consequences of reletting the affected properties have been reflected in the year-end valuations of the investment property

Furthermore we verified that the sensitivity and residual risks of the outstanding debtor has been reflected properly in the financial statements.

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 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 Fund N.V. on October 15, 2018, as of the audit for the year 2018 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.

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DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management 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 4, 2019

Deloitte Accountants B.V. Initial for identification purposes:

J. Holland

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