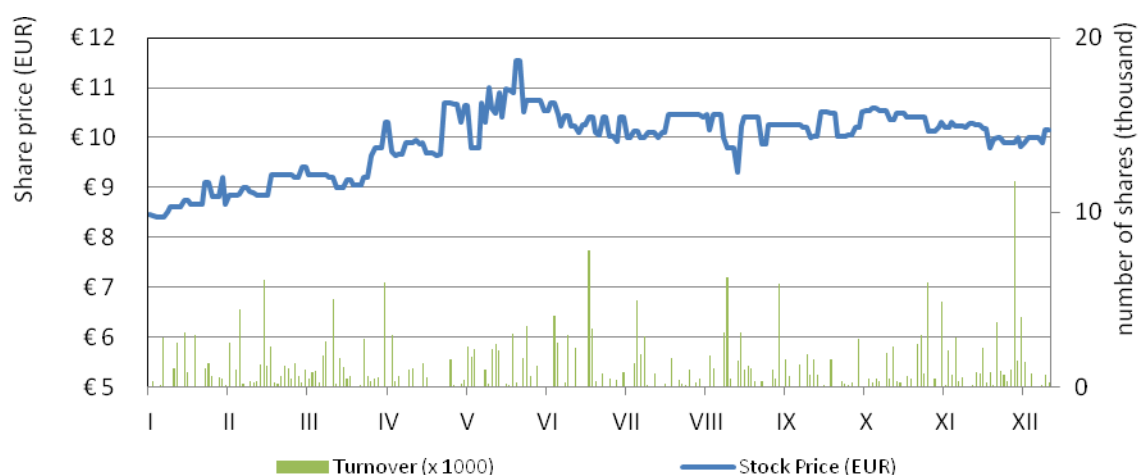




**ANNUAL REPORT 2015**

**PALMER CAPITAL EMERGING EUROPE PROPERTY FUND N.V.**

## PCEEPF Stock Price and turnover development in 2015



Source: NYSE EURONEXT

## Key figures balance sheet (IFRS)

	2015	2014	2013	2012	2011	2010
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Investment properties	53,272	52,080	57,068	59,830	63,973	70,518
Other non-current assets	786	837	1,609	2,278	2,683	2,917
Current assets	2,145	5,719	2,030	2,394	2,412	4,061
<b>Total assets</b>	<b>56,203</b>	<b>58,636</b>	<b>60,707</b>	<b>64,502</b>	<b>69,068</b>	<b>77,496</b>
Shareholders' equity	28,569	28,554	26,814	26,471	23,670	28,594
Deferred tax liabilities	4,271	4,004	4,709	4,956	4,018	4,493
Other non-current liabilities	21,010	22,183	9,023	10,783	32,935	37,334
Current liabilities	2,353	3,895	20,161	22,292	8,445	7,075
<b>Total equity and liabilities</b>	<b>56,203</b>	<b>58,636</b>	<b>60,707</b>	<b>64,502</b>	<b>69,068</b>	<b>77,496</b>

## Key figures results (IFRS)

	2015	2014	2013	2012	2011	2010
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Direct result before tax	707	801	1,450	1,081	1,019	1,464
Indirect result before tax	-/- 6	-/- 96	-/- 1,446	147	-/- 6,151	1,889
<b>Profit before tax</b>	<b>701</b>	<b>705</b>	<b>4</b>	<b>1,228</b>	<b>-/- 5,132</b>	<b>3,353</b>
Income tax expense	263	-/- 419	137	809	-/- 499	250
<b>Profit after tax</b>	<b>438</b>	<b>1,124</b>	<b>-/- 133</b>	<b>419</b>	<b>-/- 4,633</b>	<b>3,103</b>

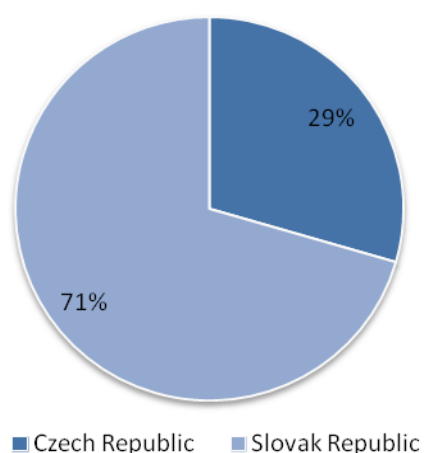
## Key data per 31-12-2015 and 31-12-2014

	31-12-2015	31-12-2014
Number of properties	14	15
Total Assets (in € 1,000)	56,203	58,636
Shareholders' Equity (in € 1,000)	28,569	28,554
Total Liabilities (in € 1,000)	27,634	30,082
Interest-bearing loans and borrowings (in € 1,000)	22,164	24,682
Bank LTV (in %)*	36.5	44.7
Total LTV (in %)	41.0	46.6
Net Asset Value per share (in €)	20.30	20.24
Share price at Euronext (in €)	10.15	8.45
Occupancy (in %)	78.0	75.0
Gross Income (in € 1,000)	6,431	6,960

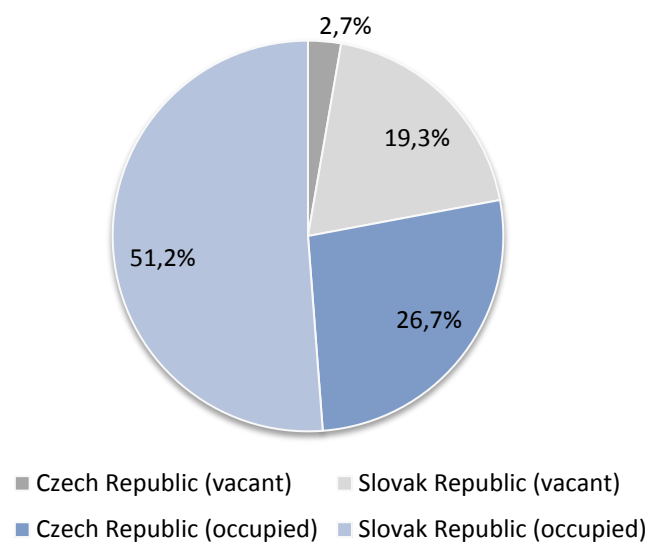
\* defined as Bank Debts / Investment property and other investments

## Portfolio distribution at end 2015

Fair value per city at 31-12-2015



Portfolio area occupancy<sup>1</sup> at 31-12-2015



<sup>1</sup> weighted based fair value

## **PALMER CAPITAL EMERGING EUROPE PROPERTY FUND N.V.**

### **Incorporation**

Palmer Capital Emerging Europe 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 'Oost Nederland' under number 08110094.

### **Office Address**

Parkweg 4  
7411 SH Deventer  
the Netherlands  
Tel: +31 (0)570 66 58 60  
F: +31 (0)570 66 58 61  
E-Mail: [info@palmercapital.eu](mailto:info@palmercapital.eu)  
Website: [www.palmercapital.nl](http://www.palmercapital.nl)

### **Correspondence Address**

P.O. Box 211  
7400 AE Deventer  
the Netherlands

### **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 Palmer Capital Emerging Europe Equity Fund N.V. in liquidation, Palmer Capital Emerging Europe Russian Midcap Fund N.V. in liquidation, MEI-Middle Europe Opportunity Fund N.V. in liquidation, Middle Europe Opportunity Fund II N.V., Middle Europe Opportunity Fund III N.V. and Chairman of the Advisory Board of Kempen Capital Management.

### **Managing Board**

The Fund is managed by Palmer Capital Fondsenbeheer B.V. (formerly MEI-Fondsenbeheer B.V., MFB). Palmer Capital Fondsenbeheer B.V. (Managing Board) was incorporated under the name Midden-Europa Fondsenbeheer B.V. (subsequently changed into MFB) 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.

Palmer Capital Fondsenbeheer B.V. is registered in Deventer and is entered in the Trade Register of the Chamber of Commerce 'Oost Nederland' under number 08107686.

Palmer Capital Fondsenbeheer B.V. currently has the following directors:  
G.St.J. Barker LLB FRICS  
P.H.J. Mars M.Sc.

P.H. van Kleef M.Sc (stepped down per 1 October 2015)

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

KPMG Accountants N.V.  
Papendorpseweg 83  
3528 BJ Utrecht  
the Netherlands

#### **Legal Advisor**

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

#### **Listing and Paying Agent**

SNS Securities N.V.  
Nieuwezijds Voorburgwal 162  
1012 SJ Amsterdam  
the Netherlands

#### **Administrator**

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

#### **Depository**

Infintax Fund Services B.V.  
Gustav Mahlerplein 60p  
ITO Tower, 7<sup>th</sup> floor  
1082 MA Amsterdam  
the Netherlands

#### **Identification codes**

The ISIN code is NL0006311706  
The REUTERS code is MERE.AE  
The BLOOMBERG code is MERENVNA

Palmer Capital Fondsenbeheer B.V. is the management company of the Fund. On 24 January 2006 it obtained from the AFM a permit under the Act on the Supervision of Investment Institutions (“Wft”). Since 1 January 2007 the Fund has operated under the Wft.

On 22 July 2013, the Alternative Investment Fund Managers Directive (AIFMD) came into force. Since Palmer Capital Fondsenbeheer B.V. already owned a “Wft-permit” on 21 July 2013, this permit legally proceeded into an “AIFMD-permit” after the transition period of one year on 22 July 2014.

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## 1 FOREWORD

Against a background of dynamic economic growth in its core markets in 2015, the Palmer Capital Emerging Europe Property Fund has delivered improvements in all key ratios of performance over the reporting period. The Fund completed its financial restructuring during the reporting period by repaying the final tranche of the loan to SNS Bank and completing the sale of the GiTy property in Brno. The occupancy ratio improved by 3% to 78%, the fair value of the comparable portfolio increased by 1.5% and the total LTV decreased by 5.6% to 41.0%. The Fund's management expects the improvements in operational performance demonstrated during 2015 to continue during 2016. Regular distributions to shareholders recommenced in June, with a payment of € 0.30 per share based on the 2014 results and later with an interim payment of € 0.10 per share based on the H1 2015 results.

The Fund's management has made progress with its plans to grow the Fund by announcing the acquisition of a retail portfolio of 11 properties in regional cities in Poland. This expansion, which should complete in the second quarter of 2016, will increase the income ratio, reduce the cost ratio and substantially reduce the portfolio risk by diversification.

The Fund continues intends to pursue opportunities to grow the Fund substantially, to generate and sustain capital growth and further enhance levels of distributions to shareholders. Based on the 2015 performance of the Fund, Management will be recommending a final distribution of 25 cents per share for that year, making 35 cents per share in total. The timing and form of this distribution will be dependent on the outcome of the planned acquisition in Poland and the financing measures currently being undertaken to facilitate this deal. The current expectation of management is that the final distribution for 2015 will be made in September 2016.

## 2 SUMMARY

Palmer Capital Emerging Europe Property Fund N.V. (the Property Fund, PCEEPF) is an investment company with variable capital incorporated under Dutch law and registered in Amsterdam. The shares have been listed on the NYSE Euronext Amsterdam since 2003. The Fund invests in commercial real estate in Central and Eastern Europe.

The Fund offers several important features that distinguish it from other real estate funds:

- The focus on Central and Eastern Europe;
- Local representation of Palmer Capital with its own offices in Munich (Germany), Prague (Czech Republic), Warsaw (Poland) and Cluj-Napoca (Romania) with its own highly qualified staff and specific know-how;
- Access to regional property management knowledge and facilities;
- Long-term management experience in Central Europe (since 1992)

Palmer Capital Fondsenbeheer B.V. (PCFB) is a management company of investment funds and has its seat in Deventer (the Netherlands).

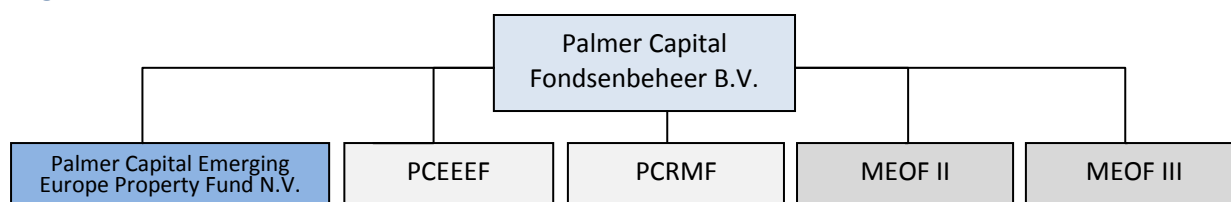
PCFB manages also two Equity Funds which are listed on the NYSE Euronext Amsterdam:

- Palmer Capital Emerging Europe Equity Fund N.V. i.l. (PCEEEF);
- Palmer Capital Russian Midcap Fund N.V. i.l. (PCRMF).

PCFB also manages two non-listed Private Equity and Project Development Funds:

- Middle Europe Opportunity Fund II N.V. (MEOF II);
- Middle Europe Opportunity Fund III N.V. (MEOF III).

### Organisation chart



### Portfolio and historical returns

As at 31 December 2015, the Fund's real estate portfolio comprised 14 properties, located in two cities in the Czech Republic and three cities in Slovakia. The majority of the rentable space is designated as secondary office space and the remainder is mostly retail, ho(s)tel space and student accommodation. The fair value of the current 14 properties as at 31 December 2015 was € 53.27 million, a 2.3% increase compared to € 52.08 million for the comparable portfolio of 14 properties ultimo 2014.

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

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Return (in %)	2.3	-/-0.9	-/-3.2	2.9	-/-17.2	11.0	5.6	-/-17.3	11.6	11.3	8.7

\* including shareholder distributions

### 3 PROFILE

The Palmer Capital Emerging Europe Property Fund N.V. (the Fund) invests in the established and emerging real estate markets of Central and Eastern Europe. The Fund currently specialises in commercial real estate investments in the Czech Republic and Slovakia. The Fund invests in principle through local companies on the basis of local legislation.

#### Objective

The Fund offers institutional and private investors the possibility to invest in a real estate portfolio in the emerging markets of Central and Eastern Europe. It uses the expertise of in-company and external commercial real estate specialists, who operate in the local markets concerned. The Fund's investment policy is to deliver a high income return from commercial real estate whilst preserving capital value.

#### Fund Structure and tradability

On 4 January 2012 the Fund became active as a closed-end investment institution. From 5 January 2012 daily share trades as a closed-end investment fund are actioned through NYSE Euronext Amsterdam.

#### Management

Palmer Capital Fondsenbeheer B.V. is the management company of the Fund. On 24 January 2006 it obtained from the AFM a permit under the Act on the Supervision of Investment Institutions ("Wft"). Since 1 January 2007 the Fund has operated under the Wft.

On 22 July 2013, the Alternative Investment Fund Managers Directive (AIFMD) came into force. Since Palmer Capital Fondsenbeheer B.V. already owned a "Wft-permit" on 21 July 2013, this permit legally proceeded into an "AIFMD-permit" after the transition period of one year on 22 July 2014.

#### Investment Policy

The Fund invests in income-producing commercial real estate in Central and Eastern Europe in accordance with predetermined investment criteria. The company aims at a diversified real estate portfolio, spreading risk across sectors and locations. Positions will be analysed regularly and adjusted where necessary.

The Fund uses the local organisation of Palmer Capital and selected property management organisations with a good regional presence to identify, acquire and manage its real estate holdings. As a result, the Fund is able to invest effectively in A, B and C-class real estate, which, if professionally and actively managed, can generate a higher relative return on investment than a portfolio concentrated solely on A-class assets.

#### Investment Criteria

The managing board pursues an investment policy that takes the following investment criteria into consideration:

- The Fund will invest in commercial real estate in Central and Eastern Europe, direct and indirect;
- In principle not more than 60% of the book value of the total real estate portfolio will be financed with borrowed capital;
- The Fund is allowed to invest in securities or place money on deposit to have enough cash available;
- Investments are diversified at the following levels:
  - Countries, regions and cities in Central and Eastern Europe;
  - Commercial sectors, including offices, retail, industry, logistics;
  - Property classes: A-/ B-/ C-class;
  - Size of individual projects;

The Fund may use financial instruments to hedge the currency risks. The Fund actively manages its portfolio, using its thorough knowledge of the local real estate markets and its experience in various Central and Eastern European countries to identify new investment opportunities. Existing assets will be assessed regularly, to determine whether they should be retained in the portfolio or be sold.

### **Financing policy**

The Fund finances a substantial portion (31-12-2015: 41.0%) of the real estate portfolio with long-term external debt, although a Loan-to-Value percentage of up to 60% is possible. Management 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 management, supervisory board and independent external parties.

### **Fund governance**

Palmer Capital Fondsenbeheer B.V. endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association (DUFAS). Following these Principles, Palmer Capital Fondsenbeheer B.V. will act in the interests of investors of the funds Palmer Capital Fondsenbeheer B.V. 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.

## 4 PRE-ADVICE OF THE SUPERVISORY BOARD

This annual report of the Palmer Capital Emerging Europe 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 until 31 December 2015.

The financial statements are audited and have been approved by KPMG Accountants N.V. The auditor's report is presented on pages 110 - 114. The Supervisory Board has received notice of this approval.

The Supervisory Board recommends the financial statements for the year 2015 to the General Meeting for approval. The proposal by the Managing Board to distribute a final distribution of 25 cents per share for that year, making 35 cents per share in total, has been approved by the Supervisory Board. The timing and form of this distribution will be dependent on the outcome of the planned acquisition in Poland and the financing measures currently being undertaken to facilitate this deal. The current expectation of management is that the final distribution for 2015 will be made in September 2016.

During 2015, 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.

Deventer, 28 April 2016

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

## 5 REPORT OF THE MANAGEMENT BOARD

The Management Board hereby presents the annual report of 2015 of Palmer Capital Emerging Europe Property Fund N.V. (the Fund). The reporting period is from 1 January 2015 to 31 December 2015.

### 5.1 FUND STRATEGY

Implementation of the revised strategy presented by the Management Board of the Fund to shareholders in April 2012 continues, with the aim of positioning the Fund as the leading quoted vehicle investing in income-generating real estate in Central and Eastern Europe. Distributions to shareholders recommenced in 2015 and steps to grow the Fund by expansion into new sectors and additional countries within Central and Eastern Europe are being now actively under way.

### 5.2 SUMMARY OF EVENTS

**Table 1 – Total Return on share price and Net Asset Value during 2015**

	Based on share price		Based on NAV	
	EUR	%	EUR	%
begin period	8.45		20.24	
end period	10.15		20.30	
Return	1.70	20.1%	0.06	0.3%
Distribution to share holders	0.40	4.7%	0.40	2.0%
<b>Total Return</b>	<b>2.10</b>	<b>24.9%</b>	<b>0.46</b>	<b>2.3%</b>

#### 5.2.1 DEVELOPMENTS DURING 2015

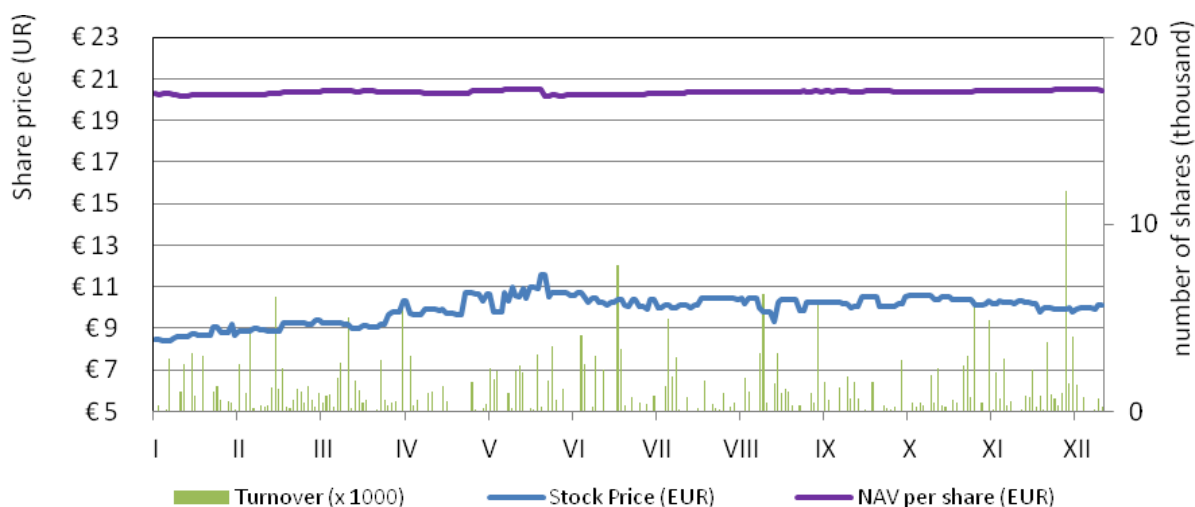
Key events during the reporting period were the sale of the Gity property in Brno, the full instalment of the SNS loan and the expansion process of the portfolio into Poland.

The annual debt service has dropped from € 1.99 million to € 1.80 million (-/- 9.5%) and the total LTV ratio sank from 46.6% to 41.0%.

Occupancy over the reporting period increased from 75.0% to 78.0%. The contracted annual net rental income remained relatively stable at € 2.92 million as at December 31 2015 (€ 3.03 million in 2014) despite the sale of one of the largest properties in the Fund's portfolio, Marianske namesti 1 (GiTy) in Brno.

The net asset value increased, after distributing € 568,000 to shareholders, with € 15,000, to € 28.57 million. The Fund concluded the period with a net asset value (NAV) per share of € 20.30 at 31 December 2015 (figure 1), including distribution to shareholders 2.3% higher than end 2014. During the same period the price per share on the stock exchange increased by 20.1% from € 8.45 to € 10.15. The change in NAV per share was the net result of three components: the positive operational result, the higher property valuation and exchange rate movements.

Figure 1 –Development of the Fund’s net asset value and stock price per share during 2015



The following events took place during the reporting period:

**February**      *Convertible bond issue (February 20, 2015)*

The Property Fund placed a second tranche of the convertible bond on 20 February 2015 as announced in October 2014.

The second tranche of the convertible bond amounted to € 1.42 million and was placed privately. The loan has a term of 3 years and a coupon of 6%. The conversion price is € 10.30 and the bonds are convertible as from 20 February 2016. The funds raised were used to repay the residual € 1.37 million loan from SNS Bank.

With the repayment of this loan the financial restructuring of the Property Fund was completed. The restructuring involved the sale of some buildings, the refinancing of senior debt in the Czech Republic and Slovakia and the issuance of new shares and a convertible bond.

**March**            *Sale of office in Brno (March 16, 2015)*

The Property Fund concluded the sale of the GiTy office building in the Czech city of Brno. The buyer was a local entrepreneur. The gross sales proceeds were € 3.18 million. The financial settlement took place during May 2015 and the sale proceeds were largely used to repay part of the Sberbank loan. This improved the loan to value ratio (LTV) of the portfolio from 44.7% at year-end 2014 to 43.9% end March 2015. Because the building was partially empty, the occupation rate of the remaining portfolio improved.

**April**             *Property Fund binds Czech 'UVV' as existing long-term tenant (April 2, 2015)*

The Property Fund agreed with the Czech Labour Office to convert their lease in Sujanovo Namesti in Brno from an indefinite term cancellable on six months' notice into a lease for six years term certain. The net annual rent, on an area of 1,800 m<sup>2</sup>, now amounts to € 100,000. The new long-term lease offers the Property Fund more security and will contribute positively to the long-term performance of the building.

**May**                *General Meeting of Shareholders (May 13, 2015)*

The General Meeting of Shareholders adopted the annual accounts of 2014 and approved the proposal to distribute € 0.30 per share to the shareholders for 2014.

**July**                *New lease agreement with AT&T in Letna, Kosice (July 10, 2015)*

The Fund agreed a new lease with the major tenant AT&T Enterprises in the largest property in its portfolio, Letna 45 in Kosice. The agreement for € 822,000 in annual rent starts on 1



January 2016 and replaces the lease agreement with Sykes. The securing of an S&P 100 listed multinational as a direct tenant for Kosice, contributing over 14% of the portfolio's income, is a clear improvement to the income quality of the portfolio.

**October** *Polish retail portfolio acquisition (October 14, 2015)*  
The Fund signed a conditional agreement for the acquisition of a portfolio of 11 neighborhood retail centers in ten regional Polish cities. The net acquisition cost will be € 27.4 million. The acquisition will bring portfolio diversification benefits and significant improvements to income and cost ratios.

*Interim distribution (October 21, 2015)*  
In October the € 0.10 per share interim distribution to shareholders as announced in August was distributed.

**December** *External valuation of property portfolio (December 30, 2015)*  
The Fund implemented the updated external valuation of the property portfolio. The fair value of the fourteen property portfolio as at 31 December 2015 is € 53.27 million (2014: € 55.25 million | 15 properties). However on a like for like basis (14 properties) the fair value increased by 2.3%.

## 5.2.2 NET ASSET VALUE PER SHARE AND SHARE PRICE DEVELOPMENT

The Net Asset Value of the Fund increased by EUR 15,000 during the reporting period as a result of the increase in value of the property assets and the profit from operational performance. The following tables show the development of the Fund's Net Asset Value during the period 1 January 2015 to 31 December 2015.

**Table 1 – Comparative statement of the NAV per share**

	31-12-2015	31-12-2014
Shareholders' equity (in € 1,000)	28,569	28,554
50% of the deferred tax liabilities concerning revaluation gains on investment property (in € 1,000)	636	563
Shareholders equity in accordance with EPRA (in €1,000)	29,205	29,117
Number of ordinary shares in issue	1,438,704	1,438,704
<b>Adjusted EPRA-NAV (in €)</b>	<b>20.30</b>	<b>20.24</b>
Return on NAV YTD (in %)	*0.3	-/- 0.9

\* including the shareholder distributions during 2015 it is 2.3%

**Table 2 –Development of the share price per month in 2015**

Month	Opening price	Closing price	Volume
	Start of month	End of month	
	in €	in €	pieces
January 2015	8.44	9.20	13,219
February 2015	8.85	9.25	13,874
March 2015	9.20	9.20	15,828
April 2015	9.20	10.69	64,331
May 2015	10.70	11.55	213,030
June 2015	10.60	10.40	21,019
July 2015	10.10	10.45	43,023
August 2015	10.45	10.40	29,851
September 2015	10.00	10.51	10,144
October 2015	10.51	10.50	9,222
November 2015	10.40	10.29	18,162
December 2015	10.20	10.15	11,048

The above table shows an average trading volume of 1,814 shares per trading day during 2015. The stock price traded at the end of 2015 at € 10.15, which represents a 50% discount to the net asset value, down from 58% on December 31 2014.

### 5.3 OPERATIONAL HIGHLIGHTS

#### 5.3.1 ECONOMIC BACKGROUND AND REAL ESTATE MARKET

Both the Czech and Slovak economies showed dynamic growth in 2015. The Czech Republic in particular demonstrated an acceleration of GDP growth to 4.0%<sup>2</sup> in 2015, one of the best performances of all emerging economies outside Asia, driven by booming domestic consumption and record exports of manufactured goods. Slovakia delivered a healthy 4.2% uplift in GDP over the same period. This positive performance is affecting both business sentiment and the demand from companies for office, retail and warehouse space. This, in turn, will lead to increases in occupancy levels and ultimately to rental growth.

Reflecting these trends and the continuing availability of cheap debt finance, turnover volumes in the regional real estate investment markets continue to grow. In the Czech Republic and Slovakia investment trading volume during 2015 increased by 21% year-on-year (yoy) to € 3.06 billion compared to € 2.53 billion in 2014. The expectation of the Fund's management is that these positive trends will continue in the medium term.

#### 5.3.2 OPERATIONAL DEVELOPMENT

The weighted occupancy rate of the portfolio was 78.0% at year-end 2015. The occupancy rate of the Czech part of the portfolio was 90.8% (78.3%). The Czech portfolio has shown a steady increase in occupancy since mid-year. The Slovak portfolio has shown a slight decrease in occupancy over the year, to 72.6%, compared to 73.2% at the start of the year. See also 12.47.1.

#### 5.3.3 REAL ESTATE PORTFOLIO DEVELOPMENT

The net rental and related income of EUR 2.92m from the current portfolio in 2015 was 3.5% lower compared to the previous year. This decrease was due to the sale of one asset (Marianske namesti 1 in Brno (GiTy)) from the portfolio. For the comparable portfolio excluding the sold property the net rental and related income increased by 1.3%. New lettings contracted in 2015 have increased contracted annual rental income to € 5.69 million (a like-for-like increase of 1.6% on 2014) which should result in a further improvement in financial performance in 2016.

**Table 3 – Comparative statement of the real estate portfolio**

	31-12-2015	31-12-2014 <sup>3</sup>	change	%
Fair value (in € 1,000)	53,272	55,253	-/- 1,981	-/- 3.6
Number of properties	14	15	-/- 1	-/- 6.7
Rentable area (in m <sup>2</sup> )	80,754	91,727	-/- 10,973	-/- 12.0
Occupancy* (in %)	78.0	75.0	3.0	4.0

\*weighted based on fair value

<sup>2</sup> <http://www.tradingeconomics.com/>

<sup>3</sup> Including GiTy, asset held for sale

**Table 4 – Statement of changes in investment properties**

	<b>2015</b>	<b>2014</b>
	in € 1,000	in € 1,000
<b>Balance as at 1 January</b>	<b>52,080</b>	<b>57,068</b>
Purchases and additions	511	365
Exchange rate differences	-	-/- 210
Fair value adjustments	279	54
Sales	402	-/- 2,024
<b>Balance as at 31 December (including assets held for sale)</b>	<b>53,272</b>	<b>55,253</b>
Reclassification	-	-/- 3,173
<b>Balance as at 31 December</b>	<b>53,272</b>	<b>52,080</b>

The “Purchases and additions” during 2015 mainly concern additional investments in the Slovak properties Kriva 18 and 23, located in Košice.

The "Fair value adjustments" and the "Sales" refer to the sales of the Račianska property in Bratislava and the Šaca property in Košice. See also 12.24.2 ('Statement of changes in investment properties').

The “Reclassification” for the amount of € 3,173,000 relates to the investment property GiTy, which had been reclassified as at 31 December 2014 to “Assets held for sale” (see section 12.30).

**Table 5 – Comparative statement of real estate income within portfolio**

	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>Change</b>
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	5,688	6,105	-/- 417	-/- 6.8
Service cost income	743	855	-/- 112	-/- 13.1
<b>Total income</b>	<b>6,431</b>	<b>6,960</b>	<b>-/- 529</b>	<b>-/- 7.6</b>
Service costs	-/- 1,946	-/- 2,224	278	-/- 12.5
Operational costs	-/- 1,563	-/- 1,709	146	-/- 8.5
<b>Net rental income</b>	<b>2,922</b>	<b>3,027</b>	<b>-/- 105</b>	<b>-/- 3.5</b>

The decrease in net rental income in the amount of € 105,000 was due to the sale of the Marianske namesti 1 property in Brno at the beginning of 2015 and the sale of the Račianska property in Bratislava and the Šaca property in Kosice at the end of 2014.

**Table 6 – Comparative statement of real estate income within like-for-like<sup>4</sup> portfolio**

	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>Change</b>
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	5,623	5,534	89	+1.6
Service cost income	695	623	72	+11.6
<b>Total income</b>	<b>6,318</b>	<b>6,157</b>	<b>161</b>	<b>+2.6</b>
Service costs	-/- 1,879	-/- 1,823	-/- 56	+3.1
Operational costs	-/- 1,548	-/- 1,495	-/- 53	+3.5
<b>Net rental income</b>	<b>2,891</b>	<b>2,839</b>	<b>52</b>	<b>+1.8</b>

Like-for-like the gross rental income increased by 1.6%. Net rental income increased by € 52,000 (1.8%). This increase is due to the improved occupancy rate in the Czech portfolio.

<sup>4</sup> Excluding GiTy, Šaca and Račianska

## 5.4 FINANCIAL HIGHLIGHTS

### 5.4.1 BALANCE

**Table 7 – Balance statement**

	<b>31-12-2015</b>	<b>31-12-2014</b>
	in € 1,000	in € 1,000
Investment property	53,272	52,080
Non-current assets	786	837
Current assets	2,145	5,519
<b>Total assets</b>	<b>56,203</b>	<b>58,636</b>
Shareholders' equity	28,569	28,554
Deferred tax liabilities	4,271	4,004
Long-term loans and borrowings	21,010	22,183
Total current liabilities	2,353	3,895
<b>Total shareholders' equity and liabilities</b>	<b>56,203</b>	<b>58,636</b>

The decrease in current assets results from the sale of the GiTy property (listed as "Asset held for sale"). The decrease in long-term debt of € 1.17 million results from the bank debt repayments during 2015.

### 5.4.2 BANK LOANS

**Table 8 – Overview of bank loan position**

	<b>31-12-2015</b>	<b>31-12-2014</b>
	in € 1,000	in € 1,000
Tatra Banka, a.s.	10,002	11,250
Sberbank, a.s.	8,554	9,887
Convertible bonds	2,395	1,005
<b>Subtotal</b>	<b>20,951</b>	<b>22,142</b>
Other long-term liabilities	59	41
<b>Total long-term liabilities</b>	<b>21,010</b>	<b>22,183</b>
Current portion of secured bank loans	1,154	1,165
SNS Bank N.V.	-	1,334
<b>Total short-term liabilities</b>	<b>1,154</b>	<b>2,499</b>
<b>Total interest-bearing loans and borrowings</b>	<b>22,164</b>	<b>24,682</b>
<b>Debt Service*</b>	<b>1,799</b>	<b>1,987</b>

\* end of year annual scheduled amount of contractual interest and installments

Over the past 12 months the bank loan-to-value ratio (LTV) of the portfolio has further been reduced, from 44.7% to 36.5% (see also 12.39). Management intends to maintain the total LTV-ratio of the portfolio in the band 40% – 50%. At the end of the reporting period the bank loans had an average maturity of 3.63 years and a weighted average interest rate of 3.37%. At the same time the convertible bonds had an average maturity of 2.91 years and a weighted average interest rate of 6.00%.

### 5.4.3 RESULT

The profit for 2015 after tax (see table 8 and 12.61.1) amounted to € 0.44 million (2014: € 1.12 million) and can be divided into direct result and the indirect result. A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in chapter 7 and in the following paragraphs.

**Table 9 – Overview of result**

	2015	2014
	in € 1,000	in € 1,000
Direct result before tax*	707	801
Indirect result before tax**	-/- 6	-/- 96
<b>Result before tax</b>	<b>701</b>	<b>705</b>
Tax	-/- 263	+ 419
<b>Result after tax</b>	<b>438</b>	<b>1,124</b>

\* the result generated from lettings net of costs

\*\* the result that arises primarily from realised and unrealised increases in the value of the portfolio

The decrease of the direct result before tax in the amount of € 94,000, is mostly related to lower net rental and related income due to the sale of the properties GiTy in Brno, Šaca in Kosice and Račianska in Bratislava during 2014 and the first part of 2015.

The indirect result of -/- € 6,000 did not have a significant impact on the result before tax. The net realized and unrealized valuation impact is limited.

The financial result after tax (€ 438,000) is lower than the result during the same period last year (€ 1,124,000), due entirely to the 2014 positive exceptional item of € 419,000 tax exempt revenues and adjustments in respect to previous years (see also 12.60).

#### *Ongoing Charges Figure*

In 2015 the Ongoing Charges Figure (OCF) decreased, partly as a result of a ca. 4% increase of average shareholders' equity and partly due to a decrease in total expenses (including operating expenses) of ca. 3%. The relatively high total expenses reflect the additional costs associated with the Polish acquisition which began during H2 2015. Without these one-off costs the OCF ratio would be 8.84%. The table below provides a specification summary of the OCF ratio (see also 12.59).

**Table 10 – Ongoing Charge Figure**

	2015	2014	2013	2012
	in %	in %	in %	in %
Ongoing Charges Figure	9.91**	10.65*	10.24	13.23

\* Without the refinancing project costs the OCF figure would be 9.31%.

\*\* Without the "Polish acquisition capital raise" costs the OCF figure would be 8.84%.

### 5.4.4 CASH FLOW

The net cash flow of the Property Fund after operating, investment and financing activities was -/- € 53,000 (2014: € 1,045,000). The table below provides a summary of the cash flow (see chapter 11).

**Table 11 – Consolidated cash flow statement**

	2015	2014
	in € 1,000	in € 1,000
Cash flow from operating activities	215	795
Cash flow from investing activities	3,050	1,822
Cash flow from financing activities	-/- 3,318	-/- 1,596
<b>Net increase / decrease (-/-) in cash and cash equivalents</b>	<b>-/- 53</b>	<b>1,045</b>

#### 5.4.5 FINANCIAL POSITION

The positive result of € 0.44 million reflects the operating result, the valuation result, the reversal of deferred taxes and the effects of exchange rate movements. The total return (including distribution to shareholders) on Net Asset Value in 2015 was 2.3%. The following table provides a statement of investment results for the period and the same period last year.

**Table 12 – Statement of recognised income and expense**

	2015	2014
	in € 1,000	in € 1,000
Equity component convertible bonds	56	66
Foreign currency translation differences on net investment in group companies	135	-/- 70
Income tax on foreign currency translation differences on net investments in group companies	-/- 25	-
Income tax on equity component convertible bonds	-/- 14	-/- 17
<b>Net gain/ (loss) recognised directly in equity</b>	<b>96</b>	<b>-/- 21</b>
Profit for the period	438	1,124
<b>Total recognised income and expense for the period</b>	<b>590</b>	<b>1,103</b>

The total interest-bearing loans and borrowings decreased net by € 2.52 million during the period to € 22.16 million. The bank LTV at 31-12-2015 was 36.5% (31-12-2014: 44.7%).

#### 5.4.6 EXCHANGE RATE MOVEMENTS

The Czech Koruna (CZK) appreciated by 2.6% against the Euro during 2015. On 31 December 2014 the exchange rate was EUR/CZK 27.735 and on 31 December 2015 EUR/CZK 27.023 (see 12.7.4).

Since the investments in the Czech Republic are in local currency, currency risk is present. The Management Board has decided not to hedge the currency risk as within the Czech part of the portfolio both income and costs are in CZK. All lease agreements in the Czech Republic are in CZK. All bank loans in the Czech Republic are also in CZK, which effectively hedges some of the currency risk within the portfolio. The net exposure to the CZK is 14.2% of the total Fund assets. See also 12.62.3 (*'Currency risk'*) for more.

#### 5.5 RISK MANAGEMENT

For a description of the main risks and uncertainties, we refer to the Risk paragraph 12.62 and the notes to the consolidated financial statements.

#### 5.6 FUND COMMENTARY AND OUTLOOK

During 2015, the Property Fund demonstrated considerable improvements in occupancy levels, further reductions in operating costs and significant reductions in debt levels and debt service costs. These measures will have a strong positive effect on bottom-line Fund performance in 2016 and beyond.

This sustained improvement in the Fund's financial performance should permit further increases in distributions to shareholders. Based on the 2015 performance of the Fund, Management will be recommending a final distribution of 25 cents per share for that year, making 35 cents per share in total. The timing and form of this distribution will be dependent on the outcome of the planned acquisition in Poland and the financing measures currently being undertaken to facilitate this deal. The current expectation of management is that the final distribution for 2015 will be made in September 2016.

Parallel to this plan for the existing portfolio, the Management intends to pursue opportunities to grow the Fund substantially, to generate and sustain share price growth and further enhance levels of distributions to

shareholders. Significant growth in assets under management is also necessary to improve the trading liquidity of the Fund's stock.

The first step to implement the growth strategy was announced in October 2015 with a conditional agreement to acquire an 11-property Polish retail portfolio. This acquisition process is expected to finalize during the second quarter of 2016 and will be followed by further portfolio acquisitions, likely to be in the Czech market.

#### 5.7 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL

Management 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 Palmer Capital Emerging Europe 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.

*Deventer, 28 April 2016*

*The management, Palmer Capital Fondsenbeheer B.V.  
G.St.J. Barker LLB FRICS, Managing director  
P.H.J. Mars, M.Sc., Managing director*

## 6 THE REAL ESTATE PORTFOLIO

As at 31 December 2015 the Fund's portfolio comprised fourteen properties. The following section gives an overview of each property in the portfolio. The properties are located in five Central European cities: Bratislava, Košice, Brno, Prague and Žilina. These cities are important regional and (inter)national economic centres with strong economic fundamentals.

### 6.1 THE REAL ESTATE PORTFOLIO IN THE CZECH REPUBLIC

The Fund has five properties in the Czech portfolio. All office buildings, which are located in two cities, Prague and Brno. Below the main characteristics of each property are summarised.



#### Sujanovo nam.3, Brno (VUP)

<b>Type</b>	Office & Storage
<b>Rentable Surface</b> (in m <sup>2</sup> )	5,013
<b>Occupation Rate</b> (main building) (in %)	84.4
<b>Fair value</b> (in € m)	2.203

This administrative complex is located 1,200 meters southeast of the Brno city centre, in a commercial and residential area. The accessibility by car and public transport is excellent. The total gross area is 6,077 m<sup>2</sup>. During the previous reporting period the light manufacturing space located behind the main building was sold.



#### Na Zertvach 34, Prague 8 (Palmovka)

<b>Type</b>	Office
<b>Rentable Surface</b> (in m <sup>2</sup> )	2,180
<b>Occupation Rate</b> (in %)	100.0
<b>Fair value</b> (in € m)	3.223

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 Karlín, Libeň and Vysočany. The total rentable area is 2,180 m<sup>2</sup>. The accessibility by road is good and by public transport excellent. The building dates from 1998-1999 and has 28 underground parking spaces.



#### Prvního pluku 621, Prague 8 (Karlín)

<b>Type</b>	Office
<b>Rentable Surface</b> (in m <sup>2</sup> )	3,262
<b>Occupation Rate</b> (in %)	89.5
<b>Fair value</b> (in € m)	3.794

This office complex contains two adjoining buildings. It is located in Karlín, Prague 8. One of the buildings was recently refurbished to modern standard and the other building was constructed in 2002. Both buildings have 4 floors. The total rentable space (predominantly office space) is 3,262 m<sup>2</sup>. There is sufficient parking capacity, with 35 parking spaces in the courtyard.





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**Politických veznu 10, Prague 1 (Newton House)**

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<b>Type</b>	Office
<b>Rentable Surface (in m<sup>2</sup>)</b>	2,362
<b>Occupation Rate (in %)</b>	88.1
<b>Fair value (in € m)</b>	4.693

This representative office building is located in Prague's city centre, near Wenceslas Square. The main building has 8 floors. The total rentable space is 2,362 m<sup>2</sup>. 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.



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**Drahobejlova 27, Prague 8 (Drahobejlova)**

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<b>Type</b>	Office
<b>Rentable Surface (in m<sup>2</sup>)</b>	2,405
<b>Occupation Rate (in %)</b>	91.6
<b>Fair value (in € m)</b>	1.784

This office building, originally a 1930's industrial building, is located in the lively mixed-use Vysočany district of Prague close to the O<sup>2</sup> hockey stadium. The total interior rentable area is 2,405 m<sup>2</sup> in the current layout. Although it was reconstructed in 2000 as an administrative building, it does not meet all modern market requirements for this property class. It has, however, excellent public transport connections and interesting potential for conversion to residential use (lofts) which Management is now investigating in detail.

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## 6.2 THE REAL ESTATE PORTFOLIO IN THE SLOVAK REPUBLIC

The Fund has nine properties in its Slovak portfolio. Mainly office properties, they are located in three cities, Bratislava, Žilina and Košice. The main characteristics of each property are briefly summarised below:



### Záhradnícka 46, Bratislava (Záhradnícka)

Type	Office
Rentable Surface (in m <sup>2</sup> )	3,755
Occupation Rate (in %)	64.2
Fair value (in € m)	4.210

The underground floors and first 4 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 6 stories and 2 underground floors in total, providing 3,755 m<sup>2</sup> of rentable area. The building has 28 parking spaces.



### Gemerská 3, Košice (Gemerská)

Type	Office
Rentable Surface (in m <sup>2</sup> )	4,523
Occupation Rate (in %)	53.3
Fair value (in € m)	1.460

This C-class 1970's administrative building is prominently located on one of the main roads into the centre of Košice, near the 55,000 m<sup>2</sup> Cassovia retail park. The total rentable space is 4,523 m<sup>2</sup>. The building is easily accessible by car and by public transport. There is a controlled-access parking lot with 88 parking spaces available.



### Krivá 18, Košice (Krivá 18)

Type	Office
Rentable Surface (in m <sup>2</sup> )	6,058
Occupation Rate (in %)	67.4
Fair value (in € m)	3.140

This 10-storey commercial building occupies an accessible location approximately 500m south east from the city centre. The premises can be used for office or retail purposes. The total rentable space of Krivá 18 is 6,058 m<sup>2</sup>. There are 111 parking places available. During the reporting period the façade was fully refurbished.



### Pražská 4, Košice (Pražská 4)

Type	Office
Rentable Surface (in m <sup>2</sup> )	6,088
Occupation Rate (in %)	60.6
Fair value (in € m)	2.520

The two administrative 10-floor buildings are located in the residential area Terasa, approximately 1,5 km west from the historical centre of Košice. The premises can be used for office, business and accommodation purposes. The total space of Pražská 4 is 7,670 m<sup>2</sup> of which 6,088 m<sup>2</sup> is rentable. There are 71 parking spaces available.



### Pražská 2, Kosiče (Pražská 2)

Type	Office
Rentable Surface (in m <sup>2</sup> )	6,024
Occupation Rate (in %)	75.6
Fair value (in € m)	2.630

The two administrative 10-floor buildings are located in the residential area Terasa, approximately 1.5 km west from the historical centre of Košice. The premises can be used for office, business and accommodation purposes. The total space of Pražská 2 is 7,723 m<sup>2</sup> of which 6,024 m<sup>2</sup> is rentable.



### Krivá 23, Kosiče (Krivá 23)

Type	Office
Rentable Surface (in m <sup>2</sup> )	7,318
Occupation Rate	66.1
Fair value (in € m)	2.840

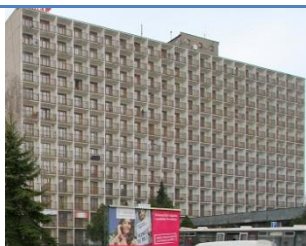
This 10-storey commercial building occupies an accessible location approximately 500m south east from the city centre. The premises can be used for office or retail purposes. The total space of Krivá 23 is 9,034 m<sup>2</sup> of which 7,318 m<sup>2</sup> is rentable. There are 111 parking places available. During the reporting period the façade was fully refurbished.



### Letná 45, Kosiče (Letná)

Type	Office
Rentable Surface (in m <sup>2</sup> )	11,229
Occupation Rate (in %)	87.7
Fair value (in € m)	9.940

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 total rentable space is 11,229 m<sup>2</sup>. 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.



### Kysucká 16, Kosiče (Kosmalt)

Type	Office/hostel
Rentable Surface (in m <sup>2</sup> )	10,712
Occupation Rate (in %)	67.9
Fair value (in € m)	6.340

Two storeys with a total of 1,787 m<sup>2</sup> are used for administrative purposes and retail. The remaining eleven storeys of 9,830 m<sup>2</sup> 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.



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#### A. Rudnayova 21, Žilina (Vural)

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<b>Type</b>	Office
<b>Rentable Surface (in m<sup>2</sup>)</b>	9,825
<b>Occupation Rate (in %)</b>	73.0
<b>Fair value (in € m)</b>	4.310

This is a relatively large office building on a 6,200 m<sup>2</sup> plot. It is located in an accessible location in Žilina. 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.

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## 6.3 PORTFOLIO OVERVIEW

### OVERVIEW OF BUSINESS CATEGORIES: GROSS AREA IN M<sup>2</sup>

Property In m <sup>2</sup>	Office		Accommodation		Business		Storage		Retail		Other		Subtotal rented out area		Non-rentable area		Vacant area		Gross area		
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
<b>Czech Republic</b>																					
Drahobejlva	1,847	1,040	-	-	37	37	149	308	-	-	169	21	2,202	1,406	717	818	203	898	3,122	3,122	
Palmovka	1,871	1,244	-	-	10	15	47	96	-	-	252	550	2,180	1,905	694	683	-	286	2,874	2,874	
Karlin	2,361	1,841	-	-	34	34	102	130	-	-	424	650	2,921	2,655	1,721	1,696	341	632	4,983	4,983	
GiTy <sup>5</sup>	N.a.	2,279	N.a.	-	N.a.	144	N.a.	2,852	N.a.	630	N.a.	880	N.a.	6,785	N.a.	2,555	N.a.	4,075	N.a.	13,415	
VUP	2,199	2,193	-	-	69	69	638	926	50	50	1,276	1,396	4,232	4,634	1,064	857	781	586	6,077	6,077	
Newton House	1,689	1,251	64	64	27	27	81	96	-	-	219	530	2,080	1,968	611	668	282	337	2,973	2,973	
<b>Total Czech Republic</b>	<b>9,967</b>	<b>9,848</b>	<b>64</b>	<b>64</b>	<b>177</b>	<b>326</b>	<b>1,017</b>	<b>4,408</b>	<b>50</b>	<b>680</b>	<b>2,340</b>	<b>4,027</b>	<b>13,615</b>	<b>19,353</b>	<b>4,807</b>	<b>7,277</b>	<b>1,607</b>	<b>6,814</b>	<b>20,029</b>	<b>33,444</b>	
<b>Slovakia</b>																					
Záhradnicka	1,490	1,008	-	-	-	-	330	270	590	809	-	-	2,410	2,087	1,108	1,108	1,345	1,668	4,863	4,863	
Pražská 2	2,654	2,614	1,733	2,100	-	-	20	20	150	150	-	-	4,557	4,884	1,700	1,700	1,467	1,140	7,724	7,724	
Pražská 4	3,488	3,803	-	-	-	-	18	18	182	148	-	-	3,688	3,969	1,633	1,602	2,400	2,150	7,721	7,721	
Krivá 18	3,838	4,000	-	-	-	-	7	10	237	111	-	-	4,082	4,121	1,709	1,709	1,976	1,937	7,767	7,767	
Krivá 23	3,797	3,846	-	-	-	-	325	269	192	192	521	521	4,835	4,828	1,717	1,717	2,483	2,490	9,035	9,035	
Gemerská	2,274	2,846	-	-	-	-	135	153	-	-	-	-	2,409	2,999	1,967	1,967	2,114	1,524	6,490	6,490	
Letná	8,340	8,289	-	-	177	177	541	634	724	617	69	14	9,851	9,731	3,665	3,665	1,378	1,498	14,894	14,894	
Vural	5,883	5,906	-	-	45	45	353	305	874	874	13	13	7,168	7,143	4,519	2,682	2,657	2,682	14,344	14,344	
Kosmalt	1,027	890	5,664	6,064	187	187	106	90	289	289	-	-	7,273	7,520	5,608	5,608	3,439	3,192	16,320	16,320	
<b>Total Slovakia</b>	<b>32,791</b>	<b>33,202</b>	<b>7,397</b>	<b>8,164</b>	<b>409</b>	<b>409</b>	<b>1,835</b>	<b>1,769</b>	<b>3,238</b>	<b>3,190</b>	<b>603</b>	<b>548</b>	<b>46,273</b>	<b>47,282</b>	<b>23,626</b>	<b>21,758</b>	<b>19,259</b>	<b>18,281</b>	<b>89,158</b>	<b>89,158</b>	
<b>GRAND TOTAL</b>	<b>42,758</b>	<b>43,050</b>	<b>7,461</b>	<b>8,228</b>	<b>586</b>	<b>735</b>	<b>2,852</b>	<b>6,177</b>	<b>3,288</b>	<b>3,870</b>	<b>2,943</b>	<b>4,575</b>	<b>59,888</b>	<b>66,635</b>	<b>28,433</b>	<b>29,035</b>	<b>20,866</b>	<b>25,095</b>	<b>109,187</b>	<b>122,602</b>	

<sup>5</sup> GiTy has been sold during March 2015.

OVERVIEW OF BUSINESS CATEGORIES: GROSS RENTAL INCOME

Property In € 1,000	Office		Accommodation		Business		Storage		Retail		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Czech Republic</b>														
Drahobejlova	95	72	-	-	1	1	4	10	-	-	2	-	102	83
Palmovka	238	198	-	-	1	1	3	7	-	-	8	22	250	228
Karlin	276	288	-	-	2	3	7	10	-	-	13	25	298	326
GiTy <sup>6</sup>	31	159	-	-	1	5	18	102	12	67	3	16	65	349
VUP	142	143	-	-	2	2	21	30	5	5	21	23	191	203
Newton House	226	171	2	2	2	2	5	7	-	-	7	18	242	200
<b>Total Czech Republic</b>	<b>1,008</b>	<b>1,031</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>14</b>	<b>58</b>	<b>166</b>	<b>17</b>	<b>72</b>	<b>54</b>	<b>104</b>	<b>1,148</b>	<b>1,389</b>
<b>Slovakia:</b>														
Račianska	N.a.	15	N.a.	-	N.a.	20	N.a.	26	N.a.	-	N.a.	6	N.a.	67
Záhradnícka	162	143	-	-	-	-	33	28	84	114	-	1	279	286
Pražská 2	234	225	160	174	-	-	-	-	9	9	-	1	403	409
Pražská 4	312	336	-	-	-	-	1	1	10	10	-	1	323	348
Krivá 18	347	357	-	-	-	-	1	1	18	18	-	-	366	376
Krivá 23	301	305	-	-	-	12	29	28	11	2	43	44	384	391
Gemerská	185	229	-	-	-	-	10	13	-	-	-	1	195	243
Letná	1,104	1,095	-	-	17	18	53	52	80	80	2	2	1,256	1,247
Šaca	N.a.	4	N.a.	-	N.a.	16	N.a.	11	N.a.	-	N.a.	124	N.a.	155
Vural	385	383	-	-	3	3	13	12	38	38	4	4	443	440
Kosmalt	108	95	780	658	1	-	1	-	1	1	-	-	891	754
<b>Total Slovakia</b>	<b>3,138</b>	<b>3,187</b>	<b>940</b>	<b>832</b>	<b>21</b>	<b>69</b>	<b>141</b>	<b>172</b>	<b>251</b>	<b>272</b>	<b>49</b>	<b>184</b>	<b>4,540</b>	<b>4,716</b>
<b>GRAND TOTAL</b>	<b>4,146</b>	<b>4,218</b>	<b>942</b>	<b>834</b>	<b>30</b>	<b>83</b>	<b>199</b>	<b>338</b>	<b>268</b>	<b>344</b>	<b>103</b>	<b>288</b>	<b>5,688</b>	<b>6,105</b>

<sup>6</sup> GiTy has been sold during March 2015.

OVERVIEW OF TENANT CATEGORIES: GROSS RENTAL INCOME

Property	IT, Media & communication		Professional services		Industrial & manufacturing		Retail & catering		Residential & accommodation		General commerce		Government		Pharmaceutical and healthcare		Financial services		Construction		Other		Total gross rental income	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
In € 1,000																								
<b>Czech Republic</b>																								
Drahobejllova	7	6	30	17	-	2	9	11	-	-	38	24	-	4	4	-	-	-	5	9	9	10	102	83
Palmovka	88	76	12	17	53	26	24	34	-	-	31	4	-	-	41	39	-	-	-	31	1	1	250	228
Karlin	84	45	80	70	53	126	26	31	-	-	41	31	-	10	2	2	-	-	-	-	12	11	298	326
GiTy <sup>7</sup>	16	85	18	112	5	26	20	96	-	-	2	3	-	-	4	20	-	-	-	7	-	-	65	349
VUP	15	27	13	8	45	44	1	2	-	-	-	1	106	113	-	-	-	-	6	6	5	2	191	203
Newton House	12	12	76	73	-	-	3	2	-	-	48	47	17	17	11	1	-	-	28	12	47	36	242	200
<b>Total Czech Rep.</b>	<b>222</b>	<b>251</b>	<b>229</b>	<b>297</b>	<b>156</b>	<b>224</b>	<b>83</b>	<b>176</b>	<b>-</b>	<b>-</b>	<b>160</b>	<b>110</b>	<b>123</b>	<b>144</b>	<b>62</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>39</b>	<b>65</b>	<b>74</b>	<b>60</b>	<b>1,148</b>	<b>1,389</b>
<b>Slovakia</b>																								
Račianska	N.a.	-	N.a.	15	N.a.	38	N.a.	-	N.a.	-	N.a.	-	N.a.	-	N.a.	12	N.a.	-	N.a.	-	N.a.	2	N.a.	67
Záhradnícka	-	-	101	102	13	14	16	17	-	-	28	28	-	-	35	37	16	16	-	1	70	71	279	286
Pražská 2	30	29	73	75	22	20	19	17	160	174	19	17	2	2	23	21	5	4	4	3	46	47	403	409
Pražská 4	25	27	61	67	19	21	10	11	-	-	47	50	-	-	49	52	10	11	8	8	94	101	323	348
Krivá 18	66	67	89	92	13	13	16	17	-	-	12	13	40	41	24	25	8	8	8	8	90	92	366	376
Krivá 23	25	26	51	49	29	30	22	22	-	3	59	60	16	16	37	38	29	30	42	42	74	75	384	391
Gemerská	18	22	39	47	11	14	39	49	-	-	19	24	-	-	25	31	19	24	-	-	25	32	195	243
Letná	782	776	74	73	59	58	56	56	-	-	15	14	10	10	40	40	55	55	21	21	144	144	1,256	1,247
Šaca	N.a.	3	N.a.	4	N.a.	52	N.a.	-	N.a.	14	N.a.	-	N.a.	-	N.a.	-	N.a.	73	N.a.	9	N.a.	-	N.a.	155
Vural	226	224	19	19	20	20	115	114	-	-	36	35	-	-	-	-	3	3	-	1	24	24	443	440
Kosmalt	9	8	4	3	33	30	2	2	780	656	10	9	-	-	3	3	1	1	29	25	20	17	891	754
<b>Total Slovakia</b>	<b>1,181</b>	<b>1,182</b>	<b>511</b>	<b>546</b>	<b>219</b>	<b>310</b>	<b>295</b>	<b>305</b>	<b>940</b>	<b>847</b>	<b>245</b>	<b>250</b>	<b>68</b>	<b>69</b>	<b>236</b>	<b>259</b>	<b>146</b>	<b>225</b>	<b>112</b>	<b>118</b>	<b>587</b>	<b>605</b>	<b>4,540</b>	<b>4,716</b>
<b>GRAND TOTAL</b>	<b>1,403</b>	<b>1,433</b>	<b>740</b>	<b>843</b>	<b>375</b>	<b>534</b>	<b>378</b>	<b>481</b>	<b>940</b>	<b>847</b>	<b>405</b>	<b>360</b>	<b>191</b>	<b>213</b>	<b>298</b>	<b>321</b>	<b>146</b>	<b>225</b>	<b>151</b>	<b>183</b>	<b>661</b>	<b>665</b>	<b>5,688</b>	<b>6,105</b>

<sup>7</sup> GiTy has been sold during March 2015.

**CONSOLIDATED FINANCIAL STATEMENTS 2015**



## 7 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31-12-2015 In € 1,000	31-12-2014 In € 1,000
<b>Assets</b>			
Investment property	12.24	53,272	52,080
Other investments	12.25	76	89
Deferred tax assets	12.27	710	748
<b>Total non-current assets</b>		<b>54,058</b>	<b>52,917</b>
Trade and other receivables	12.28	485	854
Cash and cash equivalents	12.29	1,660	1,692
Assets held for sale	12.30	-	3,173
<b>Total current assets</b>		<b>2,145</b>	<b>5,719</b>
<b>Total assets</b>		<b>56,203</b>	<b>58,636</b>
<b>Shareholders' equity<sup>1</sup></b>			
Issued capital	12.31	7,194	7,194
Share premium	12.32	16,786	17,361
Revaluation reserve	12.33	4,157	4,004
Reserve for currency translation differences	12.34	2,245	2,135
Equity component convertible bonds	12.35	91	49
Retained earnings	12.36	-/- 1,904	-/- 2,189
<b>Total shareholders' equity</b> (attributable to parent company shareholders)		<b>28,569</b>	<b>28,554</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	12.37	21,010	22,183
Deferred tax liabilities	12.38	4,271	4,004
<b>Total non-current liabilities</b>		<b>25,281</b>	<b>26,187</b>
Interest-bearing loans and borrowings	12.39	1,154	2,499
Trade and other payables	12.40	1,195	1,393
Income tax payable	12.41	4	3
<b>Total current liabilities</b>		<b>2,353</b>	<b>3,895</b>
<b>Total liabilities</b>		<b>27,634</b>	<b>30,082</b>
<b>Total shareholders' equity and liabilities</b>		<b>56,203</b>	<b>58,636</b>

<sup>1</sup> Group equity

## 8 CONSOLIDATED INCOME STATEMENT

	<b>Notes</b>	<b>2015</b> In € 1,000	<b>2014</b> In € 1,000
Gross rental income	12.47	5,688	6,105
Service charge income		743	855
Service charge expenses	12.48	-/- 1,946	-/- 2,224
Property operating expenses	12.48	-/- 1,563	-/- 1,709
<b>Net rental and related income</b>		<b>2,922</b>	<b>3,027</b>
Valuation results of properties	12.49	4,458	1,946
Results on disposals of properties	12.50	-/- 4,464	-/- 2,042
<b>Net results on properties</b>	12.51	<b>-/- 6</b>	<b>-/- 96</b>
Financial income	12.53	99	111
Other operating income	12.54	5	22
Other income		104	133
<b>Total income</b>		<b>3,020</b>	<b>3,064</b>
Administrative expenses	12.55	400	352
Other operating expenses	12.56	940	932
<b>Total expenses</b>		<b>1,340</b>	<b>1,284</b>
<b>Net operating result before financial expenses</b>		<b>1,680</b>	<b>1,780</b>
Financial expenses	12.58	979	1,075
<b>Profit before income tax</b>		<b>701</b>	<b>705</b>
Income tax expense	12.60	-/- 263	419
<b>Profit for the period</b>		<b>438</b>	<b>1,124</b>
<b>Attributable to:</b>			
Parent company shareholders		438	1,124
<b>Profit for the period</b>		<b>438</b>	<b>1,124</b>
Basic earnings per (ordinary and registered) share (€)	12.61.1	0.30	0.82
Diluted earnings per (ordinary and registered) share (€)	12.61.4	0.30	0.82

## 9 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Notes</b>	<b>2015</b> In € 1,000	<b>2014</b> In € 1,000
<b>Items never reclassified subsequently to profit or loss:</b>			
Equity component convertible bonds		56	66
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences on net investment in group companies		135	-/- 70
Income tax on foreign currency translation differences on net investments in group companies		-/- 25	-
Income tax on equity component convertible bonds		-/- 14	-/- 17
		96	-/- 87
<b>Net gain / loss (-/-) recognized directly in shareholders' equity</b>		<b>152</b>	<b>-/- 21</b>
<b>Profit for the period</b>	<b>8</b>	<b>438</b>	<b>1,124</b>
<b>Total comprehensive income for the period</b>		<b>590</b>	<b>1,103</b>
<b>Attributable to:</b>			
Parent company shareholders		590	1,103
<b>Total comprehensive income for the period</b>		<b>590</b>	<b>1,103</b>

## 10 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve for currency translation differences In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Total shareholders' equity In € 1,000
Balance as at 1 January 2015	7,194	17,361	4,004	2,135	49	-/- 2,189	28,554
Total comprehensive income	-	-	153	110	42	285	590
Distributions to shareholders	-	-/- 575	-	-	-	-	-/- 575
<b>Balance as at 31 December 2015</b>	<b>7,194</b>	<b>16,786</b>	<b>4,157</b>	<b>2,245</b>	<b>91</b>	<b>-/- 1,904</b>	<b>28,569</b>
Balance as at 1 January 2014	6,699	17,219	4,191	2,205	-	-/- 3,500	26,814
Total comprehensive income	-	-	-/- 187	-/- 70	49	1,311	1,103
Own ordinary shares issued	495	142	-	-	-	-	637
<b>Balance as at 31 December 2014</b>	<b>7,194</b>	<b>17,361</b>	<b>4,004</b>	<b>2,135</b>	<b>49</b>	<b>-/- 2,189</b>	<b>28,554</b>

## 11 CONSOLIDATED STATEMENT OF CASH FLOW

	<i>Notes</i>	<b>2015</b> In € 1,000	<b>2014</b> In € 1,000
<b>Cash flow from operating activities</b>			
Profit for the period	8	438	1,124
<i>Adjustments for:</i>			
Net valuation gains / losses on properties <sup>2</sup>	12.51	-/- 235	-/- 54
Net valuation gains / losses on other investments	12.58	15	-/- 51
Exchange and currency translation results		-/- 40	-/- 1
Interest income	12.53	-/- 99	-/- 60
Interest expensed	12.58	964	1,075
Income tax expensed		288	-/- 419
Change in trade and other receivables		19	270
Change in trade and other payables		-/- 200	-/- 720
<b>Cash generated from operations</b>		<b>1,150</b>	<b>1,164</b>
Interest received		4	657
Interest paid		-/- 936	-/- 1,002
Income tax paid		-/- 3	-
<b>Net cash from / used in (-/-) operating activities</b>		<b>215</b>	<b>819</b>
<b>Cash flow from investing activities</b>			
Proceeds from the sale of properties		3,529	1,674
Proceeds from the sale of other investments		-	513
Dividends received from other investments		32	-
Acquisition of / additions to properties		-/- 511	-/- 365
<b>Net cash from / used in (-/-) investing activities</b>		<b>3,050</b>	<b>1,822</b>
<b>Cash flow from financing activities</b>			
Proceeds from the issue of share capital		-	637
Proceeds from the issue of convertible bonds		1,420	1,070
Proceeds from loans and borrowings		48	10,799
Repayments of loans and borrowings		-/- 4,211	-/- 14,102
Distributions to shareholders		-/- 575	-
<b>Net cash from / used in (-/-) financing activities</b>		<b>-/- 3,318</b>	<b>-/- 1,596</b>
Net increase / decrease (-/-) in cash and cash equivalents		-/- 53	1,045
Cash and cash equivalents as at 1 January		1,692	659
Effect of exchange and currency translation result on cash held		21	-/- 12
<b>Cash and cash equivalents as at 31 December</b>	12.29	<b>1,660</b>	<b>1,692</b>

<sup>2</sup> Transaction costs and transfer tax excluded.

## **12 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **12.1 GENERAL**

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

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

### **12.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the interpretations thereof adopted by the International Accounting Standards Board (“IASB”) as adopted by the European Union (hereinafter referred to as “EU-IFRS”). In the preparation of these consolidated financial statements account has also been taken of other legal regulations, which include Book 2, Title 9 of the Dutch Civil Code (Boek 2, Titel 9 Burgerlijk Wetboek) and the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”).

Use has been made for purposes of the Property Fund N.V.’s company profit and loss account of the exemption pursuant to Book 2, article 2:402 of the Dutch Civil Code.

### **12.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS**

The Property Fund has applied the significant accounting principles as set out in section 12.2 to 12.22. The Managing Board authorized the consolidated financial statements for issue on 28 April 2016.

As at 31 December 2015, shareholders’ equity of the Property Fund is positive. As stated in the liquidity forecast up to mid 2017, the current cash position is sufficient to cover budgeted costs. Based on these assumptions, the Managing Board is of the opinion that the Property Fund is able to continue as a going concern. Therefore these consolidated financial statements are based on assumptions of going concern.

## **12.4 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

### **12.4.1 General**

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

The consolidated financial statements are presented in Euros, rounded to the nearest thousand.

### **12.4.2 Judgements, estimates and assumptions**

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized 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 Management in the application of the EU-IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are described in section 12.65 of the Notes.

### **12.4.3 Change to the presentation of the consolidated income statement**

To give a better insight to unrealized results (“Valuation results of properties”) and realized results (“Results on disposals of properties”), these results are mentioned in the consolidated income statement instead of in the Notes. The amounts of “Valuation gains on investment property” and “valuation losses on investment property” are now mentioned in the Notes to the consolidated financial statements. The presentation of comparable figures has also been changed.

### **12.4.4 New standards and interpretations not yet applied**

A number of new standards, changes to standards and interpretations have only taken effect after 1 January 2015 and therefore have not been applied to this consolidated annual statements. New standards that might be relevant for the Property Fund are described below. The Property Fund does not plan to apply early adoption of these standards. The Property Fund expects that the changes listed below will not have material effect on its results and financial position.

#### ***IFRS 9 Financial Instruments***

IFRS 9, published in July 2014, is intended to replace the existing directive IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. Furthermore, IFRS 9 shall apply the provisions of IAS 39 for recognising and derecognising financial instruments. IFRS 9 is effective for fiscal years beginning on or after 1 January 2018. Early application is permitted. However, IFRS 9 has currently not yet been endorsed by the EU.

The Property Fund is currently assessing the potential impact of the adoption of IFRS 9 on the consolidated financial statements, but based on initial analysis it is not expected to have a significant impact as the Property Fund doesn't hedge its currency or interest rate risk.

### **IFRS 15 Revenue from contracts with customers**

IFRS 15 provides a comprehensive framework to determine whether, how and when revenue should be recognized. The standard is intended to replace the existing provisions for processing yields, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer loyalty programmes. IFRS 15 is effective for fiscal years beginning on or after 1 January 2017. Earlier application is permitted.

The Property Fund is currently assessing the potential impact of the adoption of IFRS 15 on the consolidated financial statements.

### **Other new or amended standards**

The following new or amended standards are expected not to have a significant effect on the consolidated financial statements of the Property Fund.

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11).
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38).
- Equity method in the separate financial statements (changes to the IAS 27).
- Sale or contribution between an investor and its associate or joint venture (changes in IFRS 10 and IAS 28).
- Investment entities: applying the consolidation exception (IFRS 10, 12 and IAS 28)
- Agriculture: bearer plants (amendments of IAS 16 and IAS 41)
- Annual improvements to IFRS (IFRS 5, 7 and IAS 19, 34).
- Disclosure initiative (amendments to IAS 1).

## **12.5 BASIS OF CONSOLIDATION**

### **12.5.1 Subsidiaries**

Subsidiaries are those entities controlled by the Property Fund. Control exists when the Property Fund is exposed or has rights to variable returns from its involvement with that entity and has the ability to affect those returns through its power over that entity. The financial statements of subsidiaries have been included in the consolidated financial statements with effect from the date on which control commences until the date that control ceases.

### **12.5.2 Consolidated subsidiaries**

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

<b>Company</b>	<b>Registered office</b>	<b>Country of incorporation</b>	<b>Holding as at 31-12-2015</b>	<b>Holding as at 31-12-2014</b>
			In %	In %
Palmer Capital RE Bohemia, s.r.o.	Prague	Czech Republic	100.0	100.0
Palmer Capital RE Slovakia, s.r.o.	Bratislava	Slovakia	100.0	100.0
Palmer Capital Real Estate Poland Sp. z.o.o.	Warsaw	Poland	100.0	N.a.

Palmer Capital Real Estate Poland Sp. z.o.o. (formerly: Bovill Investments Sp. z.o.o.) was acquired by the Property Fund as at 8 September 2015 and concerns a dormant company, without activities during the financial period.

### **12.5.3 Elimination of transactions on consolidation**

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



## 12.6 BASIS OF PREPARATION OF CONSOLIDATED STATEMENT OF CASH FLOW

The Property Fund has used the indirect method for the consolidated statement of cash flow. Given the nature of the Property Fund (investment company) financial income is not netted against financial expenses, but presented separately under the total income (see also section 12.18.5), 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 “Bank overdrafts”. Cash flows in foreign currencies are converted at the exchange rate applicable on settlements date. Transactions without settlement in cash are not recognized in the consolidated statement of cash flow.

## 12.7 FOREIGN CURRENCY

### 12.7.1 Foreign currency transactions

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

Foreign currency transactions are translated into Euros at the exchange rate applicable on the transaction date. Monetary assets and liabilities in foreign currency are translated into Euros at the statement of financial position’s date at the exchange rate applicable on that date. Exchange rate differences arising from translation are recognized in the income statement. Non-monetary assets and liabilities expressed in a foreign currency and stated on a historical cost basis are translated at the exchange rate on the transaction date. Non-monetary assets and liabilities in foreign currency that are stated at fair value are translated into Euros at the exchange rates applicable on the dates on which the fair values were determined.

### 12.7.2 Financial statements of foreign activities

The assets and liabilities of foreign operations, including goodwill 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 to Euro at rates approximating to the foreign exchange rates applicable at the dates of the transactions. Foreign currency translation differences arising on translation are recognized as a separate component of equity.

### 12.7.3 Net investment in foreign activities

Foreign currency translation differences resulting from translation of the net investment in foreign activities, and the associated hedging transactions, are recognized in the reserve for currency translation differences. In case of disposal they are transferred to the income statement.

### 12.7.4 Exchange rates

	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011
Czech Koruna (EUR / CZK)	27.023	27.735	27.427	25.151	25.787
% change	2.6%	-/- 1.1%	-/- 9.0%	2.5%	-/- 2.9%
Polish Zloty (EUR / PLN)	4.2639	4.2732	4.1543	4.0740	4.4580
% change	0.2%	-/- 2.9%	-/- 2.0%	8.6%	-/- 12.4%
Pound Sterling (EUR / GBP)	0.73395	0.77890	0.83370	0.81610	0.83530
% change	5.8%	6.6%	-/- 2.2%	2.3%	2.2%

Source: European Central Bank (ECB)

## **12.8 FINANCIAL INSTRUMENTS**

### **12.8.1 General**

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

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

All the Property Fund's financial assets are classified as "loans and receivables", with the exception of the 5%-investment in Yellow Properties s.r.o. This investment is classified as "financial assets at fair value through the profit or loss". Loans and receivables are measured at amortized cost.

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

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

All the Property Fund's financial liabilities are classified as "financial liabilities measured at amortized cost".

### **12.8.2 Recognition and initial measurement**

Financial assets and financial liabilities at fair value through the profit or loss are initially recognised on the trade date, which is the date on which the Property Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

Financial assets and financial liabilities at fair value through the profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss. Financial assets or financial liabilities not at fair value through the profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

### **12.8.3 Derecognition**

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

### **12.8.4 Offsetting financial instruments**

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

### **12.8.5 Compound financial instruments**

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

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

The equity component is recognized directly in the shareholders' equity under "Equity component convertible bonds". The deferred tax liabilities are deducted taking into account the principles of valuation for deferred taxes (see section 12.21 "Income tax expense").

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

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

## 12.9 INVESTMENT PROPERTY

An investment property is a property that is held to realize rental income or an increase in value, or both. The initial recognition of the investment properties is at cost. Investment properties are stated at fair value. An external, independent valuer with a relevant recognized qualification and recent experience with the location and the type of property to be appraised values the portfolio annually. 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, are based on estimates by relevant market players, on derived data or the appraisers' experience.
- The hard core and top-slice method is similar to the logic behind the term and reversion model. Net income generated by the property – up to the market rent (hard core component) – is capitalised at a normal market interest rate as a perpetual yield over the entire term (term of the rental contract plus subsequent rental). The top-slice component (the net income for this same term that exceeds the market rent) is then discounted at a risk-adjusted market interest rate. The amount of the risk premium is dependent on the probability of vacancy.
- The initial yield method applies a single all risks yield at the date of valuation, i.e. net income / gross purchase price.

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

### 12.9.1 Analysis of Yield factor per property category

No.	Property category	Yield factor 2015 <sup>3</sup>	Yield factor 2014 <sup>4</sup>
		in %	in %
A	Office B <sup>+</sup> -class	8.00 - 9.00	8.25 - 9.50
B	Office B-class	9.75 - 14.00	11.00 - 14.00
C	Office / storage B-class	12.50	11.16
D	Industrial storage B-class	n.a.	21.15

Where necessary the following is 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 regarding their creditworthiness;
- Void periods, vacancies and maintenance costs, which are based on estimates by relevant market players, on derived data or the appraisers' experience;
- The residual economic life of the property. Standard and infinite economic life is assumed;
- Whereby it is assumed that in the case of rent adjustment or extension of the lease, in the case of which a rent increase is expected, all notifications, and where necessary notices to the contrary, meet the requirements to be set and have been sent in good time.

Profits or losses arising from changes in the fair value are recognized in the income statement.

### 12.10 OTHER INVESTMENTS

All other investments are financial instruments. The accounting principles for financial instruments are described in section 12.8 "Financial instruments".

### 12.11 DEFERRED TAX ASSETS

The principles of valuation with regard to the deferred tax assets are described in section 12.21 "Income tax expense".

### 12.12 TRADE AND OTHER RECEIVABLES

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

<sup>3</sup> The yield factor 2014 and 2015 are in accordance with the specification to the external independent valuer.

<sup>4</sup> Including the property GiTy, classified as "Assets held for sale".

### **12.13 CASH AND CASH EQUIVALENTS**

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

### **12.14 ASSETS HELD FOR SALE**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less cost of disposal, except for investment property. Investment property held for sale is measured in accordance with section 12.9 "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 Property Fund's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognized in profit or loss.

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

### **12.15 IMPAIRMENT**

Other investments, trade and other receivables and cash and cash equivalents are classified as "Loans and receivables" and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment, with the exception of the 5%-investment in Yellow Properties s.r.o. This investment is classified as "Financial assets at fair value through the profit or loss" (see also section 12.8). A provision for impairment is established when there is objective evidence that the Property Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that a receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

### **12.16 SHAREHOLDERS' EQUITY**

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

## **12.17 LIABILITIES**

### **12.17.1 Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings are recognized initially at fair value, net of transaction costs incurred. The cost in foreign currency is translated at the exchange rate applicable on the transaction date. After first inclusion, interest-bearing loans and borrowings are stated at amortized cost, with any difference between cost and the redemption amount being stated in the income statement over the term of the loans on the basis of the effective interest method.

### **12.17.2 Provisions**

A provision is recognized in the statement of financial position when the Property Fund has a legal or constructive obligation as result of a past event, and when it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks to the obligation.

### **12.17.3 Deferred tax liabilities**

The principles of valuation with regard to the deferred tax liabilities are described in section 12.21 "Income tax expense".

### **12.17.4 Income tax payable**

Income tax on profits still to be paid, which is presented under this heading, is recognized at nominal value.

### **12.17.5 Trade and other payables**

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

## **12.18 INCOME**

### **12.18.1 Gross rental income**

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 for from the date of acquisition by the Property Fund. If office or other equipment is leased together with the premises, this is included in the rental income.

Incentives paid as encouragement for entering into leases are included in the statement of financial position as prepayments, and recognized in the income statement as an integral part of total rental income. The incentives included in the statement of financial position are stated in the income statement on a straight-line basis on the basis of the duration of the lease.

Amounts separately charged to lessees, which are regarded as service charges, are not included in rental income but stated in the income statement as income from service charges.

### **12.18.2 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 Property Fund.

### **12.18.3 Valuation results of properties**

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

### **12.18.4 Results on disposals of properties**

The results on disposals of properties relate to realized results on disposals of properties. This result is calculated by the difference between the selling price (in EUR) less the original purchase price (in EUR). Therefore the results on disposals of properties compromise the realized valuation result of properties , as well as the unrealized valuation results of properties booked in previous years.

### **12.18.5 Financial income**

Interest income on funds invested is recognized in the income statement as it accrues, by means of the effective interest method.

Given the nature of the Property Fund (investment company) finance income is not netted against finance charges, but presented separately under the total of 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.

### **12.18.6 Other operating income**

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

## **12.19 EXPENSES**

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

## **12.20 FINANCIAL EXPENSES**

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

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

## **12.21 INCOME TAX EXPENSE**

The income tax expense for the financial period comprises the tax on profits and deferred tax on profits owed and deductible during the financial period.

### **12.21.1 Tax on profits**

The tax on profits is recognized in the income statement.

The tax owed and deductible for the financial period is the anticipated tax payable on the taxable profits for the financial period, calculated on the basis of tax rates applicable at the statement of financial position's date, or which have been materially decided upon at the statement of financial position's date, and adjustments on the tax owed for preceding years.

Additional tax on profits as a result of dividend distributions is recognized at the same time as the obligation to distribute the dividend concerned.

### **12.21.2 Deferred tax liabilities**

The provision for deferred tax liabilities is formed on the basis of the statement of financial position method, whereby a provision is made for temporary differences between the book value of assets and liabilities for the purposes of financial reporting and the book value of those items for tax purposes.

No provision is made for the following temporary differences: goodwill not deductible for tax purposes, the first inclusion of assets or liabilities that influence neither the profit for financial statements purposes nor the profit for tax purposes, and differences associated with investments in subsidiaries to the extent that they will probably not be settled in the foreseeable future. The amount of the provision for deferred tax liabilities is based on the manner in which it is expected that the carrying amount of the assets and liabilities will be realized or settled, whereby use is made of the tax rates adopted at the statement of financial position's date, or which have already been materially decided upon at the statement of financial position's date.

### **12.21.3 Deferred tax assets**

A deferred tax asset is included only to the extent that it is probable that taxable profits will be available in the future which can be used for realization of the asset item. The amount of the deferred tax assets is reduced to the extent that it is no longer probable that the associated tax benefit will be realized.

## **12.22 SEGMENT REPORTING**

### **12.22.1 General**

Segment information is given for each operating segment. An operating segment is a component of the Property 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 Property Fund);
- Whose operating results are used by the Property Fund's chief operating decision maker 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 Property Fund's management decision-making structure and internal reporting structure each property is indicated as an operating segment. The properties held during the financial period (current period and / or previous period), as mentioned in section 12.24.1 "Analysis of investment properties", as well as section 12.30.1 "Analysis of assets held for sale" are taken into account in the segment reporting overviews.

The following segment reporting overviews are given for each property:

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

Since each separate property is indicated as an operating segment, most of the Property Fund's assets and liabilities cannot be allocated to the operating segments. Therefore only the carrying amount of each property is reported as segment assets (see section 12.24.1 "Analysis of investment properties", as well as section 12.30.1 "Analysis of assets held for sale").

The prices for transactions between segments are determined on a business-like, objective basis.



### 12.22.2 The Property Fund's geographic categories

The Property Fund distinguishes the following geographic categories:

- A. Czech Republic;
- B. Slovakia;
- C. Poland;
- D. The Netherlands.

The following segmentation criteria are used:

- 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 Property Fund invests in;
- The allocation of other assets (bank accounts, cash, receivables, etc.) is based on the geographic location of the debtor;
- The allocation of deferred tax liabilities is based on the geographic location of the company which generated the deferred tax liabilities;
- The allocation of the other liabilities is based on the geographic location of the creditor.

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

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

### 12.22.3 Overview of segment result (overview A)

Property (in € 1,000)	Gross rental income		Service charge income		Service charge expenses		Property operating expenses		Net rental & related income		Results on disposals of properties		Valuation results of properties		Total segment result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	<b>Czech Republic:</b>															
Drahobejlova	102	83	63	38	-/- 58	-/- 62	-/- 49	-/- 32	58	27	-/- 29	-	74	469	103	496
Palmovka	250	228	99	76	-/- 72	-/- 70	-/- 75	-/- 55	202	179	-/- 1	-	44	128	245	307
Karlin	298	326	114	111	-/- 94	-/- 102	-/- 107	-/- 75	211	260	-	-	61	-/- 106	272	154
GiTy	65	349	48	209	-/- 67	-/- 267	-/- 15	-/- 117	31	174	-/- 4,414	-	4,129	-/- 273	-/- 254	-/- 99
VUP	191	203	157	164	-/- 139	-/- 127	-/- 92	-/- 45	117	195	-/- 6	-/- 112	-/- 117	-/- 460	-/- 6	-/- 377
Newton House	242	200	116	88	-/- 97	-/- 89	-/- 91	-/- 69	170	130	-/- 14	-	-/- 18	248	138	378
<b>Total CZECH REPUBLIC</b>	<b>1,148</b>	<b>1,389</b>	<b>597</b>	<b>686</b>	<b>-/- 527</b>	<b>-/- 717</b>	<b>-/- 429</b>	<b>-/- 393</b>	<b>789</b>	<b>965</b>	<b>-/- 4,464</b>	<b>-/- 112</b>	<b>4,173</b>	<b>6</b>	<b>498</b>	<b>859</b>
<b>Slovakia:</b>																
Račianska	-	67	-	11	-	-/- 47	-	-/- 34	-	-/- 3	-	-/- 2,146	-	2,064	-	-/- 85
Záhradnícka	279	286	6	7	-/- 73	-/- 67	-/- 83	-/- 80	129	146	-	-	110	-/- 60	239	86
Pražská 2	403	409	10	9	-/- 159	-/- 136	-/- 93	-/- 106	161	176	-	-	-/- 112	28	49	204
Pražská 4	323	348	3	2	-/- 109	-/- 93	-/- 81	-/- 76	136	181	-	-	19	-/- 30	155	151
Krivá 18	366	376	4	4	-/- 112	-/- 109	-/- 90	-/- 86	168	185	-	-	63	-/- 70	231	115
Krivá 23	384	391	6	6	-/- 121	-/- 110	-/- 100	-/- 94	169	193	-	-	-/- 2	-/- 61	167	132
Gemerská	195	243	6	8	-/- 116	-/- 122	-/- 59	-/- 65	26	64	-	-	-/- 198	-/- 60	-/- 172	4
Letná	1,256	1,247	16	21	-/- 154	-/- 206	-/- 251	-/- 353	867	709	-	-	35	-/- 67	902	642
Šaca	-	155	-	12	-	-/- 87	-	-/- 63	-	17	-	216	-	-/- 379	-	-/- 146
Vural	443	440	84	79	-/- 222	-/- 210	-/- 132	-/- 131	173	178	-	-	100	252	273	430
Kosmalt	891	754	11	10	-/- 353	-/- 320	-/- 245	-/- 228	304	216	-	-	270	323	574	539
<b>Total SLOVAKIA</b>	<b>4,540</b>	<b>4,716</b>	<b>146</b>	<b>169</b>	<b>-/- 1,419</b>	<b>-/- 1,507</b>	<b>-/- 1,134</b>	<b>-/- 1,316</b>	<b>2,133</b>	<b>2,062</b>	<b>-</b>	<b>-/- 1,930</b>	<b>285</b>	<b>1,940</b>	<b>2,418</b>	<b>2,072</b>
<b>GRAND TOTAL</b>	<b>5,688</b>	<b>6,105</b>	<b>743</b>	<b>855</b>	<b>-/- 1,946</b>	<b>-/- 2,224</b>	<b>-/- 1,563</b>	<b>-/- 1,709</b>	<b>2,922</b>	<b>3,027</b>	<b>-/- 4,464</b>	<b>-/- 2,042</b>	<b>4,458</b>	<b>1,946</b>	<b>2,916</b>	<b>2,931</b>

#### 12.22.4 Reconciliation segment result with profit for the period

The reconciliation between the total segment results as calculated in section 12.22.3 with the profit for the period, mentioned in the consolidated income statement, is made below.

	<b>2015</b>	<b>2014</b>
	in € 1,000	in € 1,000
<b>Total segment result (overview A)</b>	2,916	2,931
Unallocated income	104	133
Unallocated expenses	-/- 2,319	-/- 2,359
<b>Profit before income tax</b>	701	705
Income tax expense	-/- 263	419
<b>Profit for the period</b>	<b>438</b>	<b>1,124</b>

#### 12.22.5 Major customers

The Property Fund has one customer (2014: one) with a gross rental income more than 10% (i.e. € 822,000 (2014: € 824,000)) of the Property Fund's total gross rental income. This customer is in the segment Letná (2014: Letná).

### 12.22.6 Overview of geographic assets and liabilities (overview B)

Assets	Czech Republic		Slovakia		Poland		The Netherlands		Subtotal		Unallocated		Total assets	
	31-12-15	31-12-14	31-12-15	31-12-14	31-12-15	31-12-14	31-12-15	31-12-14	31-12-15	31-12-14	31-12-15	31-12-14	31-12-15	31-12-14
In € 1,000														
Investment property	15,702	15,230	37,570	36,850	-	-	-	-	53,272	52,080	-	-	53,272	52,080
Other investments	76	89	-	-	-	-	-	-	76	89	-	-	76	89
Deferred tax assets	199	174	464	574	23	-	24	-	710	748	-	-	710	748
Trade and other receivables	154	240	285	610	41	-	5	4	485	854	-	-	485	854
Cash and cash equivalents	697	840	826	562	-	-	137	290	1,660	1,692	-	-	1,660	1,692
Assets held for sale	-	3,173	-	-	-	-	-	-	-	3,173	-	-	-	3,173
<b>Total geographic assets</b>	<b>16,828</b>	<b>19,746</b>	<b>39,145</b>	<b>38,596</b>	<b>64</b>	<b>-</b>	<b>166</b>	<b>294</b>	<b>56,203</b>	<b>58,636</b>	<b>-</b>	<b>-</b>	<b>56,203</b>	<b>58,636</b>
<b>Liabilities</b>														
Interest bearing loans & borrowings	8,520	10,403	11,249	11,940	-	-	2,395	2,339	22,164	24,682	-	-	22,164	24,682
Deferred tax liabilities	510	449	3,713	3,539	-	-	49	16	4,271	4,004	-	-	4,271	4,004
Trade and other payables	336	540	398	459	125	-	336	394	1,195	1,393	-	-	1,195	1,393
Income tax payable	-	-	4	3	-	-	-	-	4	3	-	-	4	3
<b>Total geographic liabilities</b>	<b>9,366</b>	<b>11,392</b>	<b>15,364</b>	<b>15,941</b>	<b>125</b>	<b>-</b>	<b>2,780</b>	<b>2,749</b>	<b>27,634</b>	<b>30,082</b>	<b>-</b>	<b>-</b>	<b>27,634</b>	<b>30,082</b>

## 12.23 ACQUISITION OF SUBSIDIARIES

During 2015 the Property Fund acquired one additional subsidiary, Palmer Capital Real Estate Poland Sp. z.o.o. on 8 September 2015 (formerly: Bovill Investments Sp. z.o.o.). As at date of acquisition this concerns a dormant company.

## 12.24 INVESTMENT PROPERTY

### 12.24.1 Analysis of investment properties

No.	Name of properties	Address	Fair value	Fair value	Interest	Interest
			31-12-2015	31-12-2014	31-12-2015	31-12-2014
			In € 1,000	In € 1,000	In %	In %
<b>In ownership of Palmer Capital RE Bohemia s.r.o.</b>						
1	Drahobejlova	Drahobejlova 27, Prague	1,786	1,662	100.0	100.0
2	Palmovka	Na Žertvách 34, Prague	3,223	3,086	100.0	100.0
3	Karlin	Prvního Pluku 621/8a, Prague	3,795	3,635	100.0	100.0
4	VUP	Šujanovo náměstí 3, Brno	2,204	2,253	100.0	100.0
5	Newton House	Politických Vězňů 10, Prague	4,694	4,594	100.0	100.0
<b>In ownership of Palmer Capital RE Slovakia s.r.o.</b>						
6	Záhradnicka	Záhradnícka 46, Bratislava	4,210	4,100	100.0	100.0
7	Pražská 2	Pražská 2, Košice	2,630	2,740	100.0	100.0
8	Pražská 4	Pražská 4, Košice	2,520	2,500	100.0	100.0
9	Krivá 18	Krivá 18, Košice	3,140	2,890	100.0	100.0
10	Krivá 23	Krivá 23, Košice	3,020	2,840	100.0	100.0
11	Gemerská	Gemerská 3, Košice	1,460	1,620	100.0	100.0
12	Letná	Letná 45, Košice	9,940	9,880	100.0	100.0
13	Vural	Alexandra Rudnaya 21, Žilina	4,310	4,210	100.0	100.0
14	Kosmalt	Kysucká 16, Košice	6,340	6,070	100.0	100.0
<b>Total fair value</b>			<b>53,272</b>	<b>52,080</b>		

### 12.24.2 Statement of changes in investment properties

	2015	2014
	In € 1,000	In € 1,000
Balance as at 1 January	52,080	57,068
Purchases and additions	511	365
Sales	-	-/- 2,024
Fair value adjustments	279	54
Exchange rate differences	402	-/- 210
Reclassification (to "Assets held for sale")	-	-/- 3,173
<b>Balance as at 31 December</b>	<b>53,272</b>	<b>52,080</b>

### 12.24.3 Valuation of investment properties

The investment properties, stated under section 12.24.1 “Analysis of investment properties”, were valued by an external, independent valuer as at 31 December of the reporting year. The valuations are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The market values of the investment properties are primarily derived using comparable recent market transactions at arm's length terms. All investment properties are valued at fair value.

### 12.24.4 Transactions (investment property) with related parties

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

### 12.24.5 Sensitivity analysis

The appraisal of the portfolio implies an average weighted Reversion Yield of 14.2% (31 December 2014: 14.5%). In case the yields used for the appraisals of investment properties on 31 December 2015 had been 50 basis points higher, the value of the investment properties would have decreased by 0.6% (31 December 2014: 4.0%). In this situation, the shareholders' equity would have been € 245,000 lower (31 December 2014: € 1,662,000 lower). In case the yields used for the appraisals of investment properties on 31 December 2015 had been 50 basis points lower, the value of the investment properties would have increased by 0.6% (31 December 2014: 5.7%). In this situation, the shareholders' equity would have been € 248,000 higher (31 December 2014: € 2,358,000 higher).

A sensitivity analysis with possible changes in Yield and Estimated Rental Value<sup>5</sup> (ERV) result in the following changes in portfolio value:

Change in ERV 2015	Change in Yield -/- 0.50%	Change in Yield -/- 0.25%	Change in Yield 0.00%	Change in Yield 0.25%	Change in Yield 0.50%
-/-5.0%	-/- 4.7%	-/- 4.9%	-/- 5.2%	-/- 5.5%	-/- 5.8%
-/-2.5%	-/- 2.0%	-/- 2.3%	-/- 2.6%	-/- 2.9%	-/- 3.2%
0.0%	0.6%	0.3%	0.0%	-/- 0.3%	-/- 0.6%
2.5%	3.2%	2.9%	2.6%	2.3%	2.0%
5.0%	5.8%	5.5%	5.2%	4.9%	4.6%

Change in ERV 2014	Change in Yield -/- 0.50%	Change in Yield -/- 0.25%	Change in Yield 0.00%	Change in Yield 0.25%	Change in Yield 0.50%
-/-5.0%	0.2%	-/- 2.6%	-/- 5.2%	-/- 6.3%	-/- 8.7%
-/-2.5%	3.0%	0.1%	-/- 2.6%	-/- 3.9%	-/- 6.4%
0.0%	5.7%	2.8%	0.0%	-/- 1.5%	-/- 4.0%
2.5%	8.5%	5.5%	2.6%	0.9%	-/- 1.7%
5.0%	11.3%	8.2%	5.2%	3.3%	0.6%

<sup>5</sup> Estimated Rental Value (ERV) is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property

## 12.25 OTHER INVESTMENTS

### 12.25.1 Analysis of other investments

	Principal of investment		Number of shares	Interest In %
	In 1,000	In € 1,000		
Yellow Properties, s.r.o. (5.00%)	CZK 1,691	65	1,590	5.0
Eastern European Property Fund Limited	GBP -	-	100	0.0

### 12.25.2 Statement of changes of other investments

	Yellow Properties, s.r.o. In € 1,000	EEPFL <sup>6</sup> In € 1,000	Total 2015 In € 1,000	In € 1,000
Balance as at 1 January	89	-	89	555
Exchange rate differences	2	-	2	-/- 4
Fair value adjustments	-/- 15	-	-/- 15	51
Sales / redemptions	-	-	-	-/- 513
<b>Balance as at 31 December</b>	<b>76</b>	<b>-</b>	<b>76</b>	<b>89</b>

The fair value adjustments to Yellow Properties, s.r.o. are negative as a result of the dividend received by the Property Fund from Yellow Properties, s.r.o. in the amount of € 32,000, which is recognized in profit or loss (see also section 12.53 “Financial income”).

<sup>6</sup> EEPFL: Eastern European Property Fund Limited.

## 12.26 ANALYSIS DEFERRED TAXES STATED IN THE STATEMENT OF FINANCIAL POSITION

	<b>Deferred tax assets</b> In € 1,000	<b>Deferred tax liabilities</b> In € 1,000	<b>Total 2015</b> In € 1,000
Investment property (concerning fair value adjustments)	-	1,263	-/- 1,263
Investment property (concerning tax depreciations)	-	2,930	-/- 2,930
Value for tax purposes of stated losses carry-forward	710	-	710
Equity component convertible bonds	-	24	-/- 24
Secured bank loans	-	19	-/- 19
Foreign currency translation differences <sup>7</sup>	-	25	-/- 25
Other investments (development property held for investment)	-	10	-/- 10
	<b>710</b>	<b>4,271</b>	<b>-/- 3,561</b>

	<b>Deferred tax assets</b> In € 1,000	<b>Deferred tax liabilities</b> In € 1,000	<b>Total 2014</b> In € 1,000
Investment property (concerning fair value adjustments)	-	1,114	-/- 1,114
Investment property (concerning tax depreciations)	-	2,831	-/- 2,831
Assets held for sale	174	-	174
Value for tax purposes of stated losses carry-forward	574	-	574
Equity component convertible bonds	-	17	-/- 17
Secured bank loans	-	30	-/- 30
Other investments (development property held for investment)	-	12	-/- 12
	<b>748</b>	<b>4,004</b>	<b>-/- 3,256</b>

## 12.27 DEFERRED TAX ASSETS

### 12.27.1 General

A deferred tax asset is included only to the extent that it is probable that taxable profits will be available in the future which can be used for realization of the asset item. The amount of the deferred tax assets is reduced to the extent that it is no longer probable that the associated tax benefit will be realized.

<sup>7</sup> With regard to net investments in group companies.



### 12.27.2 Analysis of deferred tax assets stated in the statement of financial position

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Assets held for sale (will never expire)	-	174
Value for tax purposes of stated losses carry-forward	630	574
Other (will never expire)	80	-
	<b>710</b>	<b>748</b>

	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Assets held for sale	-	-	-	174
Value for tax purposes of stated losses carry-forward	630	-	630	574
Provisions	-	35	35	-
Accruals	-	45	45	-
	<b>630</b>	<b>80</b>	<b>710</b>	<b>748</b>

An allocation of the deferred tax assets stated in the statement of financial position over the several countries the Property Fund is working in, is presented in section 12.22.6 "Overview of geographic assets and liabilities (overview B)".

### 12.27.3 Statement of changes in deferred tax assets stated in the statement of financial position

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	748	1,054
Adjustments previous period	19	-
Additions	307	588
Withdrawal	-/- 369	-/- 894
Exchange rate differences	5	-
<b>Balance as at 31 December</b>	<b>710</b>	<b>748</b>

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 losses.

### 12.27.4 Analysis of deferred tax assets not stated in the statement of financial position

	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Investment property	-	321	321	321
Assets held for sale	-	-	-	361
Value for tax purposes of stated losses carry-forward	665	-	665	269
	<b>665</b>	<b>321</b>	<b>986</b>	<b>951</b>

## 12.27.5 Statement of changes in deferred tax assets not stated in the statement of financial position

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	951	1,384
Adjustments previous period	-/- 26	35
Additions	425	164
Withdrawal	-/- 383	-/- 624
Exchange rate differences	19	-/- 8
<b>Balance as at 31 December</b>	<b>986</b>	<b>951</b>

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 losses.

## 12.28 TRADE AND OTHER RECEIVABLES

### 12.28.1 Analysis of trade and other receivables

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Non-current part of trade and other receivables	-	-
Current part of trade and other receivables	485	854
	<b>485</b>	<b>854</b>

Trade and other receivables are presented after deduction of impairment losses. No such losses were stated during the financial period.

### 12.28.2 Specification of trade and other receivables

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Trade receivables from lessees	212	429
Receivable from sold investment property	-	350
Prepayments and deferred expenses	238	55
Arrangement fees	2	2
Other receivables	33	18
	<b>485</b>	<b>854</b>

## 12.29 CASH AND CASH EQUIVALENTS

### 12.29.1 Analysis of cash and cash equivalents

	31-12-2015	31-12-2014
	In € 1,000	In € 1,000
Bank balances	1,657	1,688
Cash	3	4
	<b>1,660</b>	<b>1,692</b>

The cash and cash equivalents are entirely at the free disposal of the Property Fund, with the exception of an amount of CZK 9.5 million (€ 343,000) at Sberbank and € 400,000 at Tatra Banka (31 December 2014: CZK 9.5 million (€ 343,000) at Sberbank and € 400,000 at Tatra Banka). These amounts are retained as additional security for the secured bank loans.

## 12.30 ASSETS HELD FOR SALE

### 12.30.1 Analysis of assets held for sale

No.	Name of premises	Address	Fair value	Fair value	Interest	Interest
			31-12-2015	31-12-2014	31-12-2015	31-12-2014
			In € 1,000	In € 1,000	In %	In %
<b>In ownership of Palmer Capital RE Bohemia, s.r.o.</b>						
1	GiTy	Mariánské náměstí 617/1, Brno	N.a.	3,173	sold	100%

### 12.30.2 Statement of changes in assets held for sale

	2015	2014
	In € 1,000	In € 1,000
Balance as at 1 January	3,173	-
Sales	-/- 3,179	-
Fair value adjustments	-/- 44	-
Exchange rate differences	50	-
Reclassification (from "Investment properties")	-	3,173
<b>Balance as at 31 December</b>	<b>-</b>	<b>3,173</b>

### 12.30.3 Sales of assets held for sale

During March 2015 GiTy was sold for CZK 86,813,000 (€ 3,179,000).

## 12.31 SHAREHOLDERS' EQUITY

### 12.31.1 Comparative statement

	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011
<b>Shareholders' equity (in € 1,000)</b>	<b>28,569</b>	<b>28,554</b>	<b>26,814</b>	<b>26,471</b>	<b>23,670</b>
Number of ordinary shares in issue	1,411,713	1,411,713	1,296,819	1,285,725	1,180,943
Number of registered shares in issue	26,991	26,991	42,888	-	-
<b>Total number of shares in issue entitled to profit</b>	<b>1,438,704</b>	<b>1,438,704</b>	<b>1,339,707</b>	<b>1,285,725</b>	<b>1,180,943</b>
<b>Net Asset Value per ordinary and registered share (in €)</b>	<b>19.86</b>	<b>19.85</b>	<b>20.01</b>	<b>20.59</b>	<b>20.04</b>
Total distributions to shareholders per ordinary and registered share (in €)	0.40	-	-	-	-
<b>Net Asset Value before distributions to shareholders per ordinary and registered share (in €)</b>	<b>20.26</b>	<b>19.85</b>	<b>20.01</b>	<b>20.59</b>	<b>20.04</b>

### 12.31.2 Distribution to shareholders

At the Annual General Meeting (AGM) of the Property Fund on 13 May 2015 the AGM approved the proposal of the Managing Board for a distribution to the shareholders in the amount of € 0.30 per ordinary and registered share. The ex-dividend date was 1 June 2015. Payment date was 10<sup>t</sup> June 2015.

Based on the interim financial statements dated 30 June 2015 the Managing Board recommended an interim distribution to the shareholders in the amount of € 0.10 per ordinary and registered share. The ex-dividend date was 12 October 2015. Payment date was 22 October 2015.

### 12.31.3 "Closed-end" structure

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

### 12.31.4 Capital Management

All issued ordinary shares are part of the Property Fund's capital management responsibilities. The Property Fund's objectives when managing capital are to safeguard the Property 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 Property Fund reserves the right to declare dividends or make distributions if the Management so decides.

## 12.32 ISSUED CAPITAL

### 12.32.1 Analysis of issued capital

	31-12-2015	31-12-2015	31-12-2014	31-12-2014
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	1,411,713	7,059	1,411,713	7,059
Registered shares (at € 5.00 each)	26,991	135	26,991	135
Priority shares (at € 5.00 each)	1	-	1	-
<b>Issued capital</b>	<b>1,438,705</b>	<b>7,194</b>	<b>1,438,705</b>	<b>7,194</b>

### 12.32.2 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.

	2015	2015	2014	2014
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1,411,713	7,059	1,296,819	6,484
Issued for payment in cash	-	-	98,997	495
Conversion registered shares	-	-	15,897	80
<b>Balance in issue as at 31 December - fully paid</b>	<b>1,411,713</b>	<b>7,059</b>	<b>1,411,713</b>	<b>7,059</b>

### 12.32.3 Registered shares

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

	2015	2015	2014	2014
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	26,991	135	42,888	215
Redeemed during the financial period	-	-	-/- 15,897	-/- 80
<b>Balance in issue as at 31 December</b>	<b>26,991</b>	<b>135</b>	<b>26,991</b>	<b>135</b>

### 12.32.4 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 percent (7%) on an annual basis, calculated over the nominal value of the priority shares. No further distributions are made on the priority shares.

	2015	2015	2014	2014
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1	-	1	-
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
<b>Balance in issue as at 31 December</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>

### 12.32.5 Analysis of authorized share capital

	31-12-2015	31-12-2015	31-12-2014	31-12-2014
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	2,999,999	15,000	2,999,999	15,000
Priority shares (at € 5.00 each)	1	-	1	-
<b>Authorized share capital</b>	<b>3,000,000</b>	<b>15,000</b>	<b>3,000,000</b>	<b>15,000</b>

### 12.33 SHARE PREMIUM

The share premium comprises the amount paid in by the shareholders on ordinary and registered shares of the Property 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 recognized directly in the share premium reserve.

The paid-up share premium for tax purposes as at 31 December 2015 was € 16,786,000 (31 December 2014: € 17,361,000).

	2015	2014
	In € 1,000	In € 1,000
Balance as at 1 January	17,361	17,219
Distributions to shareholders	-/- 575	-
Received on issued ordinary and registered shares	-	142
<b>Balance as at 31 December</b>	<b>16,786</b>	<b>17,361</b>

### 12.34 REVALUATION RESERVE

The revaluation reserve comprises the cumulative unrealized positive net change in the fair value of the properties (investment properties as well as investment properties classified as “Assets held for sale”), less the related deferred tax liabilities. The deferred tax liabilities are deducted with due regard for the principles of valuation for deferred taxes (see section 12.21 “Income tax expense”). In case of sale of property the cumulative unrealized 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 recognized under retained earnings.

	2015	2014
	In € 1,000	In € 1,000
Balance as at 1 January	4,004	4,191
Addition to / reduction on (-/-) change in fair value during the financial period	153	-/- 187
<b>Balance as at 31 December</b>	<b>4,157</b>	<b>4,004</b>

### 12.35 RESERVE FOR CURRENCY TRANSLATION DIFFERENCES

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

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	2,135	2,205
Addition / reduction (-/-) in connection with translation net investments	171	-/- 88
Change in connection with decrease of net investments	-/- 61	18
<b>Balance as at 31 December</b>	<b>2,245</b>	<b>2,135</b>

### 12.36 EQUITY COMPONENT CONVERTIBLE BONDS

This reserve comprises the amount allocated to the equity component for the convertible bonds as issued by the Property Fund (see section 12.39.3 "Analysis of convertible bonds"), less the deferred tax liabilities.

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	49	-
Addition in connection with issued convertible bonds	42	49
<b>Balance as at 31 December</b>	<b>91</b>	<b>49</b>

### 12.37 RETAINED EARNINGS

It is proposed to the General Meeting of Shareholders to add the whole of the remaining profit for the 2015 financial period to the retained earnings.

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

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	-/- 2,189	-/- 3,500
Profit for the period	438	1,124
	-/- 1,751	-/- 2,376
Change in revaluation reserve	-/- 153	187
<b>Balance as at 31 December</b>	<b>-/- 1,904</b>	<b>-/- 2,189</b>

## 12.38 CALCULATION OF NET ASSET VALUE

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

	31-12-2015	31-12-2014
Shareholders' equity in accordance with IFRS (in € 1,000)	28,569	28,554
Deferred tax liabilities concerning fair value adjustments of investment property and development property held for investment (in € 1,000)	636	563
<b>Shareholders' equity in accordance with NAV (in € 1,000)</b>	<b>29,205</b>	<b>29,117</b>
<b>Number of shares in issue entitled to profit</b>	<b>1,438,704</b>	<b>1,438,704</b>
<b>Net Asset Value<sup>8</sup> per share (in €)</b>	<b>20.30</b>	<b>20.24</b>

## 12.39 INTEREST-BEARING LOANS AND BORROWINGS

### 12.39.1 Analysis of interest-bearing loans and borrowings

	31-12-2015 In € 1,000	31-12-2014 In € 1,000
<b>Long-term liabilities</b>		
Secured bank loans	18,556	21,137
Convertible bonds	2,395	1,005
Other long-term liabilities	59	41
	<b>21,010</b>	<b>22,183</b>
<b>Current liabilities</b>		
Current portion of secured bank loans	1,154	1,165
Current portion of other long-term liabilities	-	1,334
	<b>1,154</b>	<b>2,499</b>
<b>Total interest-bearing loans and borrowings</b>	<b>22,164</b>	<b>24,682</b>

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<sup>8</sup> EPRA



### 12.39.2 Statement of changes of secured bank loans

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	22,302	25,496
Loans advanced	-	10,696
Redemptions	-/- 2,847	-/- 13,771
Exchange rate differences	255	-/- 119
<b>Balance as at 31 December</b>	<b>19,710</b>	<b>22,302</b>

### 12.39.3 Analysis of convertible bonds

No.	Date of issue	Date of maturity	Nominal interest rate	Face value	Carrying amount	Face value	Carrying amount
				31-12-2015	31-12-2015	31-12-2014	31-12-2014
			In %	In € 1,000	In € 1,000	In € 1,000	In € 1,000
1	01-12-2014	01-12-2019	6.00	1,070	1,016	1,070	1,005
2	20-02-2015	20-02-2018	6.00	1,420	1,379	n.a.	n.a.
				<b>2,490</b>	<b>2,395</b>	<b>1,070</b>	<b>1,005</b>

### 12.39.4 Statement of changes of convertible bonds

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	1,005	-
Proceeds from issue	1,420	1,070
Amount classified as equity	-/- 56	-/- 66
Accreted interest	26	1
<b>Balance as at 31 December</b>	<b>2,395</b>	<b>1,005</b>

There were no transaction costs related to the issue of convertible bonds.

The first tranche of the convertible bonds are convertible into 107,000 ordinary shares of the Property Fund (conversion price: € 10.00 per share) as of 1 December 2015 at the option of the holder of the convertible bonds.

The second tranche of the convertible bonds are convertible into 137,882 ordinary shares of the Property Fund (conversion price: € 10.30 per share) as of 20 February 2016 at the option of the holder of the convertible bonds.

### 12.39.5 Valuation of convertible bonds

The valuation of convertible bonds, stated under section 12.39.3 "Analysis of convertible bonds", is recognised at amortized cost, using the effective interest method (see section 12.8.5 "Compound financial instruments"). The average weighted interest rate used is 7.5%, based on the estimated average interest rate to be paid on comparable non-convertible bonds.

### 12.39.6 Analysis of other long-term liabilities

	<b>31-12-2015</b> In € 1,000	<b>31-12-2014</b> In € 1,000
Unsecured bank loans	-	1,334
Long-term advance payments from tenants	59	41
	<b>59</b>	<b>1,375</b>

The unsecured bank loans refer to the SNS Bank loan agreement of 12 December 2008. During February 2015 the unsecured bank loans were fully redeemed.

### 12.39.7 Statement of changes of other long-term liabilities

	<b>Unsecured bank loans</b> In € 1,000	<b>Long-term advance payments from tenants</b> In € 1,000	<b>Total 2015</b> In € 1,000	<b>Total 2014</b> In € 1,000
Balance as at 1 January	1,334	41	1,375	1,603
Loans advanced	24	24	48	103
Redemptions	-/- 1,358	-/- 6	-/- 1,364	-/- 331
<b>Balance as at 31 December</b>	<b>-</b>	<b>59</b>	<b>59</b>	<b>1,375</b>

### 12.39.8 Pledges to banks and bank covenants

As of 31 December 2015 the following securities were provided to and bank covenants agreed with the two banks to secure their bank loans. As at 31 December 2015 the Debt Service Coverage Ratio (DSCR) on the Sberbank loan is 1.15 (31 December 2014: 1.13) and on the Tatra Banka loan is 1.73 (31 December 2014: 1.65).

	<b>Sberbank 31-12-2015</b>	<b>Tatra Banka 31-12-2015</b>
Carrying amount secured bank loans (in € 1,000)	8,520	11,190
Interest rate	3.38	3.36
Securities:		
• Carrying amount investment property (in € 1,000)	15,702	37,570
• Carrying amount trade and other receivables (in € 1,000)	17	148
• Carrying amount cash and cash equivalents (in € 1,000)	696	824
Bank covenants:		
• Debt Service Coverage Ratio (DSCR) (minimum)	1.10	1.25
• EBITDA / annual instalments of bank or other loans	110%	n.a.
• Minimum EBITDA as percentage of gross revenues	n.a.	38%
• Loan yield	n.a.	13%

Moreover the issued share capital of Palmer Capital RE Bohemia, s.r.o. is secured to Sberbank.

## 12.40 DEFERRED TAX LIABILITIES

### 12.40.1 General

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

### 12.40.2 Analysis of deferred tax liabilities stated in the statement of financial position

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Investment property	4,193	3,945
Foreign currency translation differences <sup>9</sup>	25	-
Equity component convertible bonds	24	16
Secured bank loans	19	31
Other investments	10	12
	<b>4,271</b>	<b>4,004</b>

### 12.40.3 Statement of changes of deferred tax liabilities stated in the statement of financial position

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	4,004	4,709
Adjustments previous period	25	-/- 179
Additions on account of temporary differences	489	437
Withdrawal on account of temporary differences	-/- 259	-/- 959
Exchange rate differences	12	-/- 4
<b>Balance as at 31 December</b>	<b>4,271</b>	<b>4,004</b>

## 12.41 TRADE AND OTHER PAYABLES

### 12.41.1 Analysis of trade and other payables

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Non-current part of trade and other payables	-	-
Current part of trade and other payables	1,195	1,393
	<b>1,195</b>	<b>1,393</b>

<sup>9</sup> With regard to net investments in group companies

### 12.41.2 Specification of trade and other payables

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Trade payables	326	501
Accruals and deferred income	580	277 <sup>10</sup>
Deposits received	176	392
Interest payables	70	68
Value Added Tax and other taxes	34	82
Administrative expenses	8	71
Other liabilities	1	2
	<b>1,195</b>	<b>1,393</b>

The increase of the “Accruals and deferred income” relates mainly to “consultancy fees” associated with the “capital raise” which will take place during 2016.

### 12.41.3 Specification of administrative expenses payable

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Administrative expenses (before waiver)	122	334
Provisional waiver	-	-/- 114
	122	220
Unconditional waiver	-/- 114	-/- 149
	<b>8</b>	<b>71</b>

## 12.42 INCOME TAX PAYABLE

### 12.42.1 Analysis of income tax payable

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Income tax current year	4	3

<sup>10</sup> EUR 270,000 reclassified from “Trade and other payables” and EUR 7,000 reclassified from “Other liabilities and deferred income”

## **12.43 FINANCIAL INSTRUMENTS**

### **12.43.1 General**

In the context of normal operations the Property Fund incurs credit, interest and currency risks. These risks are not hedged by the Property Fund. The net investment in foreign subsidiaries is also not hedged by the Property Fund. At the statement of financial position's date there were no unsettled derivative financial instruments.

### **12.43.2 Fair value**

The book value of the Property Fund's financial assets and financial liabilities, not measured at fair value, is a reasonable approach for its fair value, as all financial assets( classified as "loans and receivables"), and all financial liabilities (classified as "financial liabilities measured at amortized cost") are priced at market rates at statement of financial position's date or will be reprised within 3 months after statement of financial position's date (see also section 12.62.4 "Interest rate risk").

## **12.44 LEASE AGREEMENTS**

### **12.44.1 Lease agreements in which the Property Fund is lessee**

The Property Fund has not entered as lessee into operating or finance lease agreements.

### **12.44.2 Lease agreements in which the Property Fund is lessor**

The Property Fund has not entered as lessor into operating or finance lease agreements other than the leases indicated in section 12.47.2 "Non-cancellable operating lease agreements".

## **12.45 NON-CONTINGENT LIABILITIES**

As at 31 December 2015 the Property Fund was not subject to contractual obligations concerning investments, repairs, maintenance or other non-contingent liabilities that will be settled in the following financial period.

## 12.46 CONTINGENT LIABILITIES

As at 31 December 2015 the Property Fund has the following contingent liabilities:

- Palmer Capital RE Bohemia, s.r.o. has a contingent liability for the amount of CZK 6,597,000 (€ 244,000) towards the buyer of the investment property Štefánikova with regard to rent received in advance by Palmer 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;
- Palmer Capital Real Estate Poland Sp. z.o.o. has a contingent liability (subject to funding) regarding the acquisition of an retail investment portfolio of 11 investment properties located in Poland for an amount of € 27,400,000;
- Palmer Capital Emerging Europe Property Fund N.V. has a contingent liability towards SNS Securities N.V. regarding a fixed success fee for the amount of € 375,000, related to a “capital raise”, which is planned for 2016. The fixed success fee is due if the “capital raise” will be successful (defined as raising an amount of more than € 12,000,000). The total amount of the retainer fee will be deducted from the total amount of the fixed success fee.

As at 31 December 2015 the Property Fund was not subject to any further contingent liabilities, including any obligations that result from security transactions related to (exchange) rate risk in connection with investments.

## 12.47 GROSS RENTAL INCOME

### 12.47.1 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 and Slovak central banks. New leases for a determined time are normally signed for a term of five years. All these lease contracts normally include at least a three-month deposit.

Weighted to the fair value, the weighted average percentage of the vacant space of the investment properties in the portfolio at the end of 2015 was 22.0% (2014: 25.0%).

### 12.47.2 Non-cancellable leases

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

	31-12-2015	31-12-2014
	In € 1,000	In € 1,000
< 1 year	3,460	4,200
1 - 5 years	2,701	2,656
> 5 years	210	163
	<b>6,371</b>	<b>7,019</b>

## 12.48 REBILLED AND NON-REBILLED SERVICE CHARGES AND PROPERTY OPERATING EXPENSES

### 12.48.1 General

In connection with the fact that the Property Fund invoices the service charges independently (or as principal) to the lessees on the basis of the leases entered into, such reimbursed service charges are shown separately in the income statement. The work associated with the service charges is carried out either by the Property Fund, or by

third parties on a contract basis. Contracts for the performance of service work are normally entered into for a maximum period of six months.

#### 12.48.2 Analysis of property operating expenses

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Property management	463	493
Asset management	454	448
Maintenance expenses in respect of investment properties	329	310
Taxes on investment properties	181	223
Commission fees	95	140
Insurance premiums	23	27
Other direct operating expenses	18	68
	<b>1,563</b>	<b>1,709</b>

#### 12.48.3 Allocation of service charges and property operating expenses

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

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
For investment properties let	2,964	3,107
For investment properties not let	545	825
	<b>3,509</b>	<b>3,932</b>

### 12.49 VALUATION RESULTS OF PROPERTIES

#### 12.49.1 Analysis of valuation results of properties

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Investment properties	329	1,946
Properties held for sale	4,129	-
	<b>4,458</b>	<b>1,946</b>

## 12.50 RESULTS ON DISPOSALS OF PROPERTIES

### 12.50.1 Analysis of results on disposals of properties

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
GiTy, Brno	-/- 4,414	-
Račianska, Bratislava	-	-/- 2,146
Šaca, Košice	-	216
Part of Drahobejlova, Prague	-/- 29	-
Part of Newton House, Prague	-/- 14	-
Part of VUP, Brno	-/- 6	-/- 112
Part of Palmovka, Prague	-/- 1	-
	<b>-/- 4,464</b>	<b>-/- 2,042</b>

The realized results 2015 on disposals of part of Drahobejlova, Newton House, VUP and Palmovka concerns costs of plans for restructuring the investment properties. These costs were booked in previous years as investments to investment properties.

### 12.50.2 Specification of results on disposals of properties

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Value adjustments booked in current year	-/- 94	-/- 197
Value adjustments booked in previous year	-/- 4,129	-/- 1,695
	<b>-/- 4,223</b>	<b>-/- 1,892</b>
Transfer tax	-/- 156	-/- 34
Consultancy fees and legal fees	-/- 85	-/- 65
Costs of splitting VUP	-	-/- 49
Other costs on sale of investment property	-	-/- 2
	<b>-/- 241</b>	<b>-/- 150</b>
	<b>-/- 4,464</b>	<b>-/- 2,042</b>

## 12.51 NET RESULTS ON PROPERTIES

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Valuation gains	746	1,447
Valuation losses	-/- 752	-/- 1,543
	<b>-/- 6</b>	<b>-/- 96</b>



## 12.52 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 Property Fund's own accounting policies.

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

## 12.53 FINANCIAL INCOME

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Released from "Reserve for currency translation differences"	61	-
Dividend from "Other investments"	32 <sup>11</sup>	-
Interest income	4	60
Other exchange and currency translation results	2	-
Valuation gains on "Other investments"	-	51
	<b>99</b>	<b>111</b>

## 12.54 OTHER OPERATING INCOME

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Provisions and fees related to leases	-	13
Penalty interest and fees	3	9
Other	2	-
	<b>5</b>	<b>22</b>

## 12.55 ADMINISTRATIVE EXPENSES

### 12.55.1 Management fee

This is the total fee received by the Managing Board (Palmer Capital Fondsenbeheer B.V.) for the management it performs.

The Management fee is calculated by percentages on the value of the Property Fund's total assets at month-end. These percentages are:

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

<sup>11</sup> Concerns dividend from Yellow Properties s.r.o. (see also section 12.25.2 "Statement of changes of other investments").

### 12.55.2 Specification Management fee

	2015	2014
	In € 1,000	In € 1,000
Management fee	854	914
Provisional waiver Fund Management fee (Palmer Capital Fondsenbeheer B.V.)	-	-/- 114
	854	800
Asset Management fee (Palmer Capital Czech Republic, s.r.o.)	-/- 454 <sup>12</sup>	-/- 448
Fund Management fee (Palmer Capital Fondsenbeheer B.V.)	<b>400</b>	<b>352</b>

The Management salary remuneration is on a fixed base and totals € 189.568 for 2015 (2014: € 251.985). The average number of beneficiaries at Palmer Capital Fondsenbeheer B.V. during 2015 was 3 (2014: 3).

### 12.55.3 Performance-related remuneration

The Managing Board receives performance-related remuneration, which is dependent on the Property Fund's total annual return. The total return is defined as the difference between the Net Asset Value per ordinary share at the start of the relevant financial period and at the end of the relevant financial period, increased with the dividends distributed during that financial period; expressed as a percentage of the Net Asset Value of the ordinary share at the start of the financial period. The total performance-related remuneration is calculated on the total average number of outstanding ordinary shares in the relevant financial period multiplied by the Net Asset Value per ordinary share at the start of the relevant financial period. The level of the performance-related remuneration is composed as follows:

- A. In the case of a total return of up to 12% the performance-related remuneration is 0%;
- B. In the case of a total return of 12% to 15% the performance-related remuneration is 20% of the total return less 12%;
- C. 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 under B above will be awarded.

The performance-related remuneration is charged annually in arrears. This performance-related remuneration 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 a preceding period for which the remuneration was deducted.

For the financial period 2015 the Managing Board received no performance-related remuneration (2014: no).

### 12.55.4 Agreement with Palmer Capital Fondsenbeheer B.V.

The Property Fund has entered into an agreement dated 22 December 2005 with its Managing Board, Palmer Capital Fondsenbeheer B.V. (Amsterdam, the Netherlands) for its appointment as Management Company of the Property Fund under the Articles of Association subject to the following terms and conditions:

1. Palmer Capital Fondsenbeheer B.V. will perform its tasks in accordance with the Articles of Association and that which is provided in this regard in the Property Fund's prospectus dated 1 June 2007, as well as the addendum to the Property Fund's prospectus dated 19<sup>th</sup> June 2014;
2. The Management of Palmer Capital Fondsenbeheer B.V. will consist of natural persons approved by AFM with sufficient competence to manage a company such as the Property Fund;
3. The appointment is for an indefinite period. Termination will be possible in accordance with the relevant provisions of the Property Fund's Articles of Association. The applicable Articles of Association can be viewed on the website [www.palmercapital.nl](http://www.palmercapital.nl);
4. For its management of the Property Fund, Palmer Capital Fondsenbeheer B.V. will be entitled to a fee, as well as any share in profits, as indicated in the Property Fund's prospectus dated 1 June 2007, as well as the addendum to the Property Fund's prospectus dated 19 June 2014.

<sup>12</sup> See also section 12.48.2 "Analysis of property operating expenses".

## 12.56 OTHER OPERATING EXPENSES

### 12.56.1 Specification of other operating expenses

	2015	2014
	In € 1,000	In € 1,000
Consultancy fees	224	342
Non-refundable Value Added Tax	136	159
Accounting expenses	155	136
Due Diligence	117	-
Audit fees	102	92
Supervisory Board fees	28	41
Marketing expenses	57	34
Custody fees	38	25
Listing, Paying and Fund Agent fees	23	23
Change in provision irrecoverable debtors	27	19
Costs of valuing premises	14	16
Supervisors' expenses	20	12
Insurance AIFMD	30	10
Wages and salaries statutory directors	6	6
Other general operating expenses	21	17
	998	932
Adjustment non-refundable Value Added Tax previous years	-/- 58	-
	<b>940</b>	<b>932</b>

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

- The "Consultancy fees", including legal fees, relates mainly to fees associated with the "capital raise" which will take place during 2016 and consultancy fees regarding the tax structuring of the planned acquisition of the Polish investment portfolio;
- The "Accounting expenses" include the expenses related to bookkeeping, determination of monthly Net Asset Value (NAV), preparation of (semi)-annual report, fees associated with the "capital raise" which will take place during 2016 and other activities on account of administrative requirements for the Property Fund and its local companies;
- The "Due diligence" relates to technical and legal due diligence regarding the planned acquisition of the Polish investment portfolio;
- The "Audit fees" for the annual report 2015 of the Property Fund are estimated at € 38,000 (2014: € 44,000). In 2014 audit fees related to previous years are booked to an amount of € nil (2014: € 1,000). Besides auditing, KPMG provided audit related services regarding the "capital raise" and research of the prospectus;
- The "Custody fees" relates to the operational activities regarding AIFMD Depository;
- The "Other general expenses" include, among others, costs of press releases, Euronext Fund Services (EFS) and bank costs.

The "Supervisors' expenses" include costs related to the supervision of the Dutch Authority for the Financial Markets, (Stichting Autoriteit Financiële Markten, the AFM) and "De Nederlandsche Bank" (DNB).

### 12.56.2 Analysis of Supervisory Board fees

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
H.H. Kloos RBA (chairman since 19 June 2014)	14	7
B. Vos M.Sc.	14	14
Prof. Dr. J.L. Bouma (chairman to 19 June 2014)	-	7
	<b>28</b>	<b>28</b>
Prof. Dr. J.L. Bouma (previous years)	-	13
	<b>28</b>	<b>41</b>

The Property 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 Property Fund's shares.

### 12.56.3 Transaction costs

In accordance with the EU-IFRS principles of valuation the Property Fund includes the transaction costs incurred on purchase of investments in the purchase price of the investment, and recognizes the transaction costs incurred on sale of investment property and other investments under realized changes in the value of investments.

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

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Transaction costs on purchase of investments	-	-
Transaction costs on sale of investments	85	67
	<b>85</b>	<b>67</b>

### 12.56.4 Costs of lending financial instruments

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

### 12.56.5 Remuneration for orders on behalf of the Property Fund

The Managing Board, the Directors of the Managing Board, the Property Fund or the custodian of the Property Fund, parties affiliated with these parties, or third parties did not receive any remuneration, in any way, received nor promised for performing assignments for the Property Fund.

### 12.56.6 Outsourcing expenses

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

- The management of investment properties, the (performing of) maintenance of the investment properties, tenant management, servicing the administration of subsidiaries, as well as work from other (administrative) obligations of subsidiaries to:
  - Knight Frank Spol, s.r.o., residing in Prague (Czech Republic);
  - Zbereko Spol, s.r.o., residing in Košice (Slovakia);
  - Palmer Capital Czech Republic, s.r.o., residing in Prague (Czech Republic);
 The related expenses are included in the section “Property management”, as indicated in section 12.48.2 “Analysis of property operating expenses”.
- The accounting of:
  - Palmer Capital RE Slovakia s.r.o. to Agentúra LUCAS s.r.o.;
  - Palmer Capital RE Bohemia s.r.o. to FSG Svoboda Šteinfeld s. r. o.;
  - Palmer Capital Real Estate Poland Sp. z.o.o. to Green Real Accounting Sp. z.o.o.;
  - Palmer Capital Emerging Europe Property Fund N.V. to KroeseWevers Accountants B.V.
 The related expenses are included in the section “Accounting expenses”, as indicated in section 12.56.1 “Specification other operating expenses”.

### 12.56.7 Comparison of actual costs with prospectus

		2015		2014	
		Actual	Prospectus	Actual	Prospectus
Basis of calculation		In %	In %	In %	In %
Administrative expenses	Value of assets at month-end	0.059	0.125	0.048	0.125
Direct operating expenses	Average value of the assets	2.746	0.75 - 1.00	2.803	0.75 - 1.00
Investment committee	Average shareholders' equity	-	-	-	-
General expenses	Average shareholders' equity	2.187	0.380	2.343	0.380
Auditing & accounting exp.	Average shareholders' equity	0.876	0.210	0.811	0.210
Costs of valuing premises	Average shareholders' equity	0.047	0.080	0.058	0.080
		<b>5.915</b>	<b>1.795</b>	<b>6.063</b>	<b>1.795</b>
		In €	In €	In €	In €
Supervisory Board fees	Per member (average)	14,000	12,000	14,000	12,000

For comparison of actual expenses with budgeted expenses as per the Property Fund’s prospectus the prospectus dated 1 June 2007 was used, as well as the addendum to the Property Fund’s prospectus dated 19 June 2014.

The calculation of the average shareholders’ equity corresponds with the calculation of the “Ongoing Charges Figure” as defined under section 12.59 “Ongoing Charges Figure”.

As a result of the decrease of the average shareholders’ equity as well as the decrease of the average value of the assets in the previous years, most actual costs exceed the estimated costs in the prospectus.

In the above table “General expenses” refers to the expenses of third parties, including consultancy fees, costs of press releases and shareholders’ meetings, marketing expenses, costs of Euronext Fund Services (EFS), Listing, Paying and Fund Agent fees, portfolio fees and placement fees, supervisors’ expenses, as well as other general operating expenses, including transaction costs (as far included in the income statement).

## 12.57 PERSONNEL COSTS

The Property Fund does not employ any personnel, with the exception of statutory Directors of the Property Fund's group companies. The statutory Directors receive a wage which specified in the "Other operating expenses" under section 12.56.1.

## 12.58 FINANCIAL EXPENSES

	2015	2014
	In € 1,000	In € 1,000
Interest expense on loans taken up	791	1,013
Other exchange and currency translation results	-	14
Fine interest on loans taken up	9	24
Released from "Reserve for currency translation differences"	-	18
Interest expense on convertible bonds	164	6
Valuation losses on "Other investments"	15 <sup>13</sup>	-
	<b>979</b>	<b>1,075</b>

## 12.59 ONGOING CHARGES FIGURE

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

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

	2015	2014	2013	2012	2011
	In %	In %	In %	In %	In %
Ongoing Charges Figure	9.91	10.65	10.24	13.23	13.83

In 2015 the Ongoing Charges Figure decreased as a result of an increase of the average shareholders' equity by about 4% and a decrease of the total expenses (including "Operating expenses") by about 3%.

The total expenses also include one-off costs related to the capital raise and due diligence for the Polish retail portfolio acquisition. Without these one-off costs the OCF would be 8.84% (31 December 2014: 9.31%).

<sup>13</sup> Concerns Yellow Properties s.r.o. (see also section 12.25.2 "Statement of changes of other investments").

## 12.60 TAX ON PROFITS

### 12.60.1 Tax position

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

### 12.60.2 Tax on profits stated in the income statement

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
<b>Tax due on profits</b>		
Current year	-/- 7	-/- 3
Adjustments in respect of previous years	-	12
	-/- 7	9
<b>Deferred tax on profits</b>		
Origination and reversal of temporary differences	-/- 275	233
Adjustments in respect of previous years	19	177
	-/- 256	410
<b>Total tax on profits stated in the income statement</b>	<b>-/- 263</b>	<b>419</b>

### 12.60.3 Reconciliation with the effective tax rate

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
	In %	In € 1,000	In %	In € 1,000
<b>Profit before tax</b>		<b>701</b>		<b>705</b>
Tax using the company's domestic tax rate	22.3	-/- 156	23.5	-/- 166
Effect of tax rates in foreign jurisdictions	-/- 1.0	7	-/- 2.1	15
<i>Tax effect of:</i>				
Non-deductible expenses	10.4	-/- 73	0.6	-/- 4
Tax exempt revenues	-/- 3.7	26	-/- 21.1	149
Current year losses for which no deferred tax asset is recognized	66.9	-/- 469	22.6	-/- 159
Recognition of tax effect in respect of previously unrecognized deferred tax assets	-/- 54.6	383	-/- 63.7	449
Unused fiscal losses in respect of previous years for which deferred tax asset was recognized	0.0	-	7.6	-/- 54
Adjustments in respect of previous years	-/- 2.7	19	-/- 26.8	189
	<b>37.6</b>	<b>-/- 263</b>	<b>-/- 59.4</b>	<b>419</b>

### 12.60.4 Deferred tax recognized directly in shareholders' equity

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Related to foreign currency translation differences	-/- 25	-
Related to equity component convertible bonds	-/- 14	-/- 17
	<b>-/- 39</b>	<b>-/- 17</b>

### 12.60.5 Applicable local tax rates

	2016	2015	2014	2013	2012
	In %	In %	In %	In %	In %
The Netherlands:					
Up to € 200,000	20.0	20.0	20.0	20.0	20.0
As of € 200,000	25.0	25.0	25.0	25.0	25.0
Czech Republic	19.0	19.0	19.0	19.0	19.0
Slovakia	22.0	22.0	22.0	23.0	19.0
Poland	19.0	19.0	19.0	19.0	19.0

### 12.61 EARNINGS PER (ORDINARY AND REGISTERED) SHARE

#### 12.61.1 Calculation of basic earnings per (ordinary and registered) share

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

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

	2015	2014
	In € 1,000	In € 1,000
Profit for the financial period	438	1,124

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

	2015	2014
	pieces	pieces
Issued shares as at 1 January	1,438,704	1,339,707
Effect on issued shares during the financial period	-	30,224
	<b>1,438,704</b>	<b>1,369,931</b>



#### 12.61.4 Calculation of diluted earnings per (ordinary and registered) share

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

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

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

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Profit for the financial period	438	1,124
Interest expense on convertible bonds (net of tax)	164	5
Deferred taxes convertible bonds	-/- 6	-
	<b>596</b>	<b>1,129</b>

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

	<b>2015</b>	<b>2014</b>
	pieces	pieces
Weighted average number of outstanding (ordinary and registered) shares during the period (basic)	1,438,704	1,369,931
Effect on conversion of convertible bonds	225,601	8,794
	<b>1,664,305</b>	<b>1,378,725</b>

The diluted earnings per (ordinary and registered) share are calculated in accordance with the calculation of basic earnings per (ordinary and registered) share.

## **12.62 RISK MANAGEMENT**

### **12.62.1 General**

According to its investment policy set out in the prospectus the Property Fund may hold investments in direct property in Middle Europe. The Property Fund's investment portfolio currently consists primarily of property in the Czech Republic and Slovakia. These properties in principle are held for an indefinite period.

The Property Fund's investment activities result in exposure to various risks.

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

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

### **12.62.2 Market risk**

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 Property Fund cannot resist macro-economic factors that determine property value. However, through good investment property management the Property Fund will seek to maximise the attraction of the properties in its portfolio to prospective purchasers. The Property 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 and Slovak economy. The market risk is managed on a day-to-day basis. See also the "Sensitivity analysis" of the investment properties (section 12.24.5).

### **12.62.3 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 Property 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 Property Fund has the option to use financial instruments to hedge the currency risk.

The Property Fund invests in some property in currencies other than the functional currency (the Euro) used in these financial statements. At present, the only currency involved is the Czech Koruna (CZK): Consequently the Property 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.

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

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

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In %	In %
Czech Koruna (CZK)	41.7	44.0
Euro (EUR)	55.6	56.0
Polish Zloty (PLN)	2.7	N.a.
	<b>100.0</b>	<b>100.0</b>

The following table sets out the Property 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.

	<b>Monetary assets</b>	<b>Monetary liabilities</b>	<b>Net exposure</b>
	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2015</b>
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	760	8,719	-/- 7,959
Euro (EUR)	1,128	14,261	-/- 13,133
Polish Zloty (PLN)	19	144	-/- 125
	<b>1,907</b>	<b>23,124</b>	<b>-/- 21,217</b>

	<b>Monetary assets</b>	<b>Monetary liabilities</b>	<b>Net exposure</b>
	<b>31-12-2014</b>	<b>31-12-2014</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	1,056	10,537	-/- 9,481
Euro (EUR)	1,435	15,105	-/- 13,670
	<b>2,491</b>	<b>25,642</b>	<b>-/- 23,151</b>

In case the Euro had weakened by 5% in relation to all 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:

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Czech Koruna (CZK)	398	474
Polish Zloty (PLN)	6	N.a.

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

#### 12.62.4 Interest rate risk

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

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

	Per 31-12-2015						
	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	-	-	-	-	-	76	76
Trade and other receivables	-	-	-	-	-	485	485
Cash and cash equivalents	1,657	-	-	-	-	3	1,660
<b>Financial assets</b>	<b>1,657</b>	-	-	-	-	<b>564</b>	<b>2,221</b>
Interest-bearing loans and borrowings	-	288	11,268	10,549	-	59	22,164
Trade and other payables	-	-	-	-	-	1,195	1,195
<b>Financial liabilities</b>	-	<b>288</b>	<b>11,268</b>	<b>10,549</b>	-	<b>1,254</b>	<b>23,359</b>
<b>Total interest sensitivity gap</b>	<b>1,657</b>	<b>-/- 288</b>	<b>-/- 11,268</b>	<b>-/- 10,549</b>	-	-	<b>-/- 20,448</b>

	Per 31-12-2014						
	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	-	-	-	-	-	89	89
Trade and other receivables	-	-	-	-	-	854	854
Cash and cash equivalents	1,688	-	-	-	-	4	1,692
<b>Financial assets</b>	<b>1,688</b>	-	-	-	-	<b>947</b>	<b>2,635</b>
Interest-bearing loans and borrowings	1,334	-	15,320	7,987	-	41	24,682
Trade and other payables	476	-	2	1	-	914	1,393
<b>Financial liabilities</b>	<b>1,810</b>	-	<b>15,322</b>	<b>7,988</b>	-	<b>955</b>	<b>26,075</b>
<b>Total interest sensitivity gap</b>	<b>-/- 122</b>	-	<b>-/- 15,322</b>	<b>-/- 7,988</b>	-	-	<b>-/- 23,432</b>

An increase of 100 basis points in interest rates as at the reporting date would not have increased or decreased the net assets attributable to holders of redeemable ordinary shares, while the financial instruments are stated at amortized cost or the financial instruments are non-interest-bearing and therefore the change in the interest rate does not have an impact. A decrease of 100 basis points would have an equal effect (see also section 12.43.2 "Fair value").

In case the interest rates during the financial period would have been 100 basis points higher, the profit for the period (profit before tax) would have been decreased by EUR 204,000 (2014: EUR 234,000).

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

	31-12-2015	31-12-2014
	In %	In %
Weighted average interest rate of interest-bearing loans and borrowings	3.64	3.48

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

For the sensitivity analysis of the investment property, see section 12.9.2 "Sensitivity analysis".

#### 12.62.6 Concentration risk

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

#### 12.62.7 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 covenants with the banks it is possible that the Property Fund will need to sell property to improve LTV.

#### 12.62.8 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 Property Fund through focussing the Property Fund's investments on flexible assets in economically stable regional centres, and managing these assets through local professional teams closely attuned to developments in local market conditions.

#### 12.62.9 Counterpart risk (credit risk)

The credit risk can be defined as the risk of a counterparty being unable to fulfil its obligation to the Property Fund associated with monetary assets. The Property 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 Property Fund does business with various parties; the most important are banks, tenants and the local administrators of the properties. The Property Fund will seek to reduce credit risk through regular contact with counterparties and continuous risk assessment of these parties.

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

	<b>31-12-2015</b>	<b>31-12-2015</b>	<b>31-12-2014</b>	<b>31-12-2014</b>
	In € 1,000	In %	In € 1,000	In %
Trade and other receivables	247	0.9	799	2.8
Cash and cash equivalents	1,660	5.8	1,692	5.9
	<b>1,907</b>	<b>6.7</b>	<b>2,491</b>	<b>8.7</b>

Beside the above mentioned items, there were no significant concentrations of credit risk to counterparties as at 31 December 2015 or 31 December 2014. No individual financial investment exceeded 10% of the net assets attributable to the holders of redeemable ordinary shares either as at 31 December 2015 or 31 December 2014.

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

	<b>Per 31-12-2015</b>					
	<b>Not due</b>	<b>Less than 1 month</b>	<b>1 until 3 months</b>	<b>3 months until 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
<b>Gross monetary assets</b>						
Trade and other receivables	106	48	23	18	281	476
Cash and cash equivalents	1,660	-	-	-	-	1,660
	<b>1,766</b>	<b>48</b>	<b>23</b>	<b>18</b>	<b>281</b>	<b>2,136</b>
<b>Impairment of monetary assets</b>						
Trade and other receivables	-	-	-	8	221	229
Cash and cash equivalents	-	-	-	-	-	-
	-	-	-	<b>8</b>	<b>221</b>	<b>229</b>
<b>Net monetary assets</b>						
Trade and other receivables	106	48	23	10	60	247
Cash and cash equivalents	1,660	-	-	-	-	1,660
	<b>1,766</b>	<b>48</b>	<b>23</b>	<b>10</b>	<b>60</b>	<b>1,907</b>

Per 31-12-2014						
	Not due	Less than 1 month	1 until 3 months	3 months until 1 year	More than 1 year	Total
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
<b>Gross monetary assets</b>						
Trade and other receivables	1	312	12	478	246	1,049
Cash and cash equivalents	1,692	-	-	-	-	1,692
	<b>1,693</b>	<b>312</b>	<b>12</b>	<b>478</b>	<b>246</b>	<b>2,741</b>
<b>Impairment of monetary assets</b>						
Trade and other receivables	-	-	-	18	232	250
Cash and cash equivalents	-	-	-	-	-	-
	-	-	-	<b>18</b>	<b>232</b>	<b>250</b>
<b>Net monetary assets</b>						
Trade and other receivables	1	312	12	460	14	799
Cash and cash equivalents	1,692	-	-	-	-	1,692
	<b>1,693</b>	<b>312</b>	<b>12</b>	<b>460</b>	<b>14</b>	<b>2,491</b>

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

Per 31-12-2015			
	Guarantee deposits from tenants	Other pledge	Total
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	79	-	79
Cash and cash equivalents	-	-	-
<b>Financial assets</b>	<b>79</b>	<b>-</b>	<b>79</b>

Per 31-12-2014			
	Guarantee deposits from tenants	Other pledge	Total
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	214	-	214
Cash and cash equivalents	-	-	-
<b>Financial assets</b>	<b>214</b>	<b>-</b>	<b>214</b>

#### 12.62.10 Rent risk

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

### 12.62.11 Debtor risk

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

### 12.62.12 Vacancy risk

The occupancy of properties may decrease by lease termination or bankruptcy of tenants. This risk is most effectively managed by active local asset management and by a regular programme of capital investment at asset level. See section 12.47.2 for information about non-cancellable leases.

### 12.62.13 Risks regarding regulations

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

### 12.62.14 Liquidity risk

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

The Property 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 Property Fund. The Property Fund will continuously monitor and manage liquidity to meet its obligations.

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

	Per 31-12-2015						
	Less than 1 month In € 1,000	1 month to 3 months In € 1,000	3 months to 1 year In € 1,000	1 year to 5 years In € 1,000	More than 5 years In € 1,000	No stated maturity In € 1,000	Total In € 1,000
Interest-bearing loans & borrowings	68	423	1,458	22,545	-	-	24,494
Trade and other payables	907	107	5	-	-	-	1,019
<b>Monetary liabilities</b>	<b>975</b>	<b>530</b>	<b>1,463</b>	<b>22,545</b>	<b>-</b>	<b>-</b>	<b>25,513</b>

	Per 31-12-2014						
	Less than 1 month In € 1,000	1 month to 3 months In € 1,000	3 months to 1 year In € 1,000	1 year to 5 years In € 1,000	More than 5 years In € 1,000	No stated maturity In € 1,000	Total In € 1,000
Interest-bearing loans & borrowings	72	434	2,794	23,805	-	-	27,105
Trade and other payables	999	-	2	-	-	-	1,001
<b>Monetary liabilities</b>	<b>1,071</b>	<b>434</b>	<b>2,796</b>	<b>23,805</b>	<b>-</b>	<b>-</b>	<b>28,106</b>

The main components of the financial liabilities are the interest-bearing loans and borrowings. At the end of the reporting period the weighted remaining maturity of the interest-bearing loans and borrowings was 3.54 years (31 December 2014: 4.39 years).



At the end of 2015 the Property Fund has no recordable credit facilities (end of 2014: no).

#### 12.62.15 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 2015 no material operational risks materialised.

#### 12.62.16 Tax risk

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

#### 12.62.17 Outsourcing risk

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

#### 12.62.18 Legal risk

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

#### 12.62.19 Integrity risk

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

#### 12.62.20 Offsetting financial assets and financial liabilities

The following table sets out the offsetting of the Property Fund's financial assets and financial liabilities. The amounts are based on the carrying amount of the assets and liabilities.

	Per 31-12-2015				
	Gross amounts before offsetting In € 1,000	Gross amounts set off In € 1,000	Net amounts presented in SFP In € 1,000	Other amounts in scope but not set off in SFP In € 1,000	Net amounts In € 1,000
Other investments	76		76	-	76
Trade and other receivables	714	229	485	-	485
Cash and cash equivalents	1,660		1,660	-	1,660
Financial assets	<b>2,450</b>	<b>229</b>	<b>2,221</b>	-	<b>2,221</b>
Interest-bearing loans and borrowings	22,164	-	22,164	-	22,164
Trade and other payables	1,195	-	1,195	-	1,195
Financial liabilities	<b>23,359</b>	-	<b>23,359</b>	-	<b>23,359</b>

	Per 31-12-2014				
	Gross amounts before offsetting	Gross amounts set off	Net amounts presented in SFP	Other amounts in scope but not set off in SFP	Net amounts
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	89	-	89	-	89
Trade and other receivables	1,104	250	854	-	854
Cash and cash equivalents	1,692	-	1,692	-	1,692
<b>Financial assets</b>	<b>2,885</b>	<b>250</b>	<b>2,635</b>	<b>-</b>	<b>2,635</b>
Interest-bearing loans and borrowings	24,682	-	24,682	-	24,682
Trade and other payables	1,393	-	1,393	-	1,393
<b>Financial liabilities</b>	<b>26,075</b>	<b>-</b>	<b>26,075</b>	<b>-</b>	<b>26,075</b>

## 12.63 RELATED PARTIES

### 12.63.1 Identity of related parties

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

- A. Managers in key positions;
- B. Major investors (more than 20% voting rights);
- C. All organisational entities within the group designated as Palmer Capital;
- D. Investment trusts, investment funds and other investment companies which are managed by an entity belonging to Palmer Capital;
- E. Investments undertaken by Palmer Capital, in which Palmer Capital has significant influence (more than 20% of voting rights).

### 12.63.2 Transactions with and / or interests of managers in key positions (A)

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

- A. The Managing Board of Palmer Capital Fondsenbeheer B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Property Fund (and / or its subsidiaries) to Palmer Capital Czech Republic, s.r.o. for the amount of € 454,000;
- B. The Managing Board of Palmer Capital Fondsenbeheer B.V. decided to waive unconditionally the claim above € 800,000 regarding the provisional "cap" of the total Management fee 2014 at € 800,000 (for the amount of € 114,000).

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 16.4 "Personal interests".

The remuneration for the Managing Board is described in section 12.55 "Administrative expenses".

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 12.56 "Other operating expenses".

### 12.63.3 Transactions with and /or interests of major investors (B)

The Property Fund reports one major investor, namely Stichting Prioriteit MERE (the “Foundation”), which holds all priority shares in the Property Fund’s capital. No transactions occurred between the Foundation and the Property Fund during the financial period.

### 12.63.4 Transactions with other related parties (C-D-E)

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

- A. Palmer Capital RE Bohemia s.r.o. paid Asset Management fees to Palmer Capital Czech Republic, s.r.o. in the amount of € 84,000 (2014: € 80,000). The Managing Board of Palmer Capital Fondsenbeheer B.V. has decided to reduce its own Management fee by the same amount;
- B. Palmer Capital RE Slovakia s.r.o. paid Asset Management fees to Palmer Capital Czech Republic s.r.o. in the amount of € 370,000 (2014: € 368,000). The Managing Board of Palmer Capital Fondsenbeheer B.V. has decided to reduce its own management fee by the same amount;
- C. Palmer Capital RE Bohemia, s.r.o. paid fees for advisory services to Palmer Capital Czech Republic s.r.o. for the amount of € 24,000 (2014: € 14,000);
- D. Palmer Capital RE Slovakia s.r.o. paid fees for advisory services to Palmer Capital Czech Republic s.r.o. for the amount of € 3,000 (2014: € 32,000);
- E. Palmer Capital related parties rented office space in the Property Fund owned properties: 268 m<sup>2</sup> (2014: 268 m<sup>2</sup>);
- F. Palmer Capital RE Bohemia s.r.o. and Palmer Capital RE Slovakia s.r.o. paid short term wages and salaries for its statutory Directors in the amount of € 6,000 (2014: € 6,000).

### 12.63.5 Investments in other related parties (C-D-E)

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

- Middle Europe Opportunity Fund II N.V. (MEOF II) directly holds investments in companies in which the Property Fund also holds investments. The following table shows the percentages the Palmer Capital managed companies hold of the outstanding shares in the companies as at 31 December 2015:

Company	MEOF II	Property 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 in Prague 9 adjoining the Property Fund’s Drahojeblova asset. Practical completion of the development, which comprised 84 apartments and 4 retail units, took place in October 2014. As at statement of financial position’s date all units have been sold, the bank funding has been fully repaid and the Property Fund will receive a positive cash return on its investment during 2016.

### 12.63.6 Agreements with related parties

The Property Fund has not entered into any agreements with parties affiliated with the Managing Board of the Property Fund, other than as described in section 12.55.4 “Agreement with Palmer Capital Fondsenbeheer B.V.”.

## 12.64 EVENTS AFTER STATEMENT OF FINANCIAL POSITION’S DATE

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

## **12.65 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.

### **12.65.1**

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.

In section 12.24.3 “Valuation of investment properties” the critical assessments by the Managing Board in applying the Property Fund’s principles of the valuation of the investment properties are stated.

**COMPANY FINANCIAL STATEMENTS 2015**

## 13 COMPANY BALANCE SHEET

	Notes	31-12-2015 In € 1,000	31-12-2014 In € 1,000
<b>Investments</b>			
Investments in group companies	15.6	13,043	12,262
Receivables from group companies	15.7	17,436	18,004
Other financial investments	15.8	-	-
<b>Total investments</b>		<b>30,479</b>	<b>30,266</b>
<b>Receivables</b>			
Other receivables	15.9	765	743
Deferred expenses	15.10	5	4
<b>Total receivables</b>		<b>770</b>	<b>747</b>
<b>Other assets</b>			
Deferred tax assets	15.11	24	-
Cash and cash equivalents	15.12	137	290
<b>Total other assets</b>		<b>161</b>	<b>290</b>
<b>Total assets</b>		<b>31,410</b>	<b>31,303</b>
<b>Shareholders' equity</b>			
Issued capital	12.31		
	12.32	7,194	7,194
Share premium	12.33	16,786	17,361
Revaluation reserve	12.34	4,157	4,004
Reserve for currency translation differences	12.35	2,245	2,135
Equity component convertible bonds	12.36	91	49
Retained earnings	12.37	-/- 1,904	-/- 2,189
<b>Total shareholders' equity</b>		<b>28,569</b>	<b>28,554</b>
<b>Provisions</b>			
Deferred tax liabilities		49	16
Other provisions		61	-
<b>Total provisions</b>		<b>110</b>	<b>16</b>
<b>Long-term liabilities</b>			
Convertible bonds	12.39	2,395	1,005
<b>Current liabilities</b>			
Debts to credit institutions	15.19	-	1,334
Other liabilities	15.20	116	219
Accruals and deferred income	15.21	220	175
<b>Total current liabilities</b>		<b>336</b>	<b>1,728</b>
<b>Total equity and liabilities</b>		<b>31,410</b>	<b>31,303</b>

## 14 COMPANY PROFIT AND LOSS ACCOUNT

	<b>Notes</b>	<b>2015</b> In € 1,000	<b>2014</b> In € 1,000
Share in result of group companies (after tax)		757	1,300
Other result (after tax)		-/- 319	-/- 176
<b>Result for the financial period</b>		<b>438</b>	<b>1,124</b>

## **15 NOTES TO THE COMPANY FINANCIAL STATEMENTS**

### **15.1 COMPANY FINANCIAL STATEMENTS**

The company financial statements for 2015 are part of the Property Fund's financial statements for 2015. With regard to the Property Fund's company profit and loss account use has been made of the exemption pursuant to Book 2, article 2:402 of the Dutch Civil Code.

### **15.2 CHANGE TO PRESENTATION OF THE COMPANY BALANCE SHEET**

To bring the presentation of the company balance sheet into accordance with Dutch regulations, the names of some items have changed. The presentation of the comparable figures has also changed.

### **15.3 PRINCIPLES OF VALUATION OF ASSETS AND LIABILITIES AND DETERMINATION OF RESULTS**

#### **15.3.1 General**

For the purpose of determining the principles of valuation of assets and liabilities and the determination of results for its company financial statements, the Property 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 Property Fund's company financial statements are identical to those that have been applied for the consolidated EU-IFRS financial statements. In this context equity participations, on which significant influence is exercised, are valued on the basis of the equity method. These consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board ("IASB") and accepted by the European Union (hereinafter referred to as "EU-IFRS"). Reference is made to sections 12.4 to 12.21 inclusive for a description of these principles.

#### **15.3.2 Investments in group companies**

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

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

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

#### **15.3.3 Receivables from group companies**

Receivables from group companies are stated at amortized cost. In the case of the Property Fund this is identical to the acquisition price. The acquisition price in foreign currency is determined on the basis of the exchange rate at the transaction date. As at balance sheet date the receivables from group companies are translated into Euros



at the exchange rate as at the balance sheet date. Where losses are to be expected on the receivables, a reduction in value is applied in this respect.

#### **15.3.4 Result from investments in group companies**

The share of the result of companies in which equity participations are held comprises the Property 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 Property 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 Property Fund and its affiliates and between the affiliates themselves, has not been recognized in so far as they can be regarded as unrealized. If the equity participation has been acquired in the course of the financial period, the Property Fund accounts for the results of the equity participations with effect from the date of acquisition.

#### **15.4 SIZE AND COMPOSITION OF THE CONSOLIDATED AND COMPANY EQUITY**

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

#### **15.5 RECONCILIATION STATEMENT WITH THE CONSOLIDATED INCOME STATEMENT**

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

## 15.6 INVESTMENTS IN GROUP COMPANIES

### 15.6.1 Analysis of investments in group companies

The companies indicated below have all been included in the consolidated financial statements and in investments in group companies:

No.	Company	Registered office	Country of incorporation	Of shareholders' equity		interest	
				31-12-2015	31-12-2014	31-12-2015	31-12-2014
				In %	In %	In %	In %
A	Palmer Capital RE Bohemia s.r.o.	Prague	Czech Republic	25.1	28.3	100.0	100.0
B	Palmer Capital RE Slovakia s.r.o.	Bratislava	Slovakia	81.5	77.7	100.0	100.0
C	Palmer Capital Real Estate Poland Sp. z.o.o.	Warsaw	Poland	0.0	n.a.	100.0	n.a.
				<b>106.6</b>	<b>106.0</b>		

The above numbering corresponds with the table in section 12.5.2 "Consolidated subsidiaries".

The percentages mentioned in the column "In % of shareholders' equity" are calculated as the sum of the amounts of the investment in the group company and the receivables from the group company (after provision) with regard to the Property Fund's shareholders' equity.

The analysis of investments in group companies is as follows:

	31-12-2015	31-12-2014
	In € 1,000	In € 1,000
Palmer Capital RE Bohemia, s.r.o.	693	964
Palmer Capital RE Slovakia, s.r.o.	12,350	11,298
Palmer Capital Real Estate Poland Sp. z.o.o.	-	N.a.
<b>Total</b>	<b>13,043</b>	<b>12,262</b>

### 15.6.2 Statement of changes in investments in group companies

	2015	2014
	In € 1,000	In € 1,000
Balance as at 1 January	12,262	10,970
Acquisitions	1	-
Share in result of group companies	757	1,300
Exchange rate differences	23	-/ - 8
<b>Balance as at 31 December</b>	<b>13,043</b>	<b>12,262</b>

The amount of the "Acquisitions" relates to the acquisition of the dormant company Palmer Capital Real Estate Poland Sp. z.o.o. (formerly: Bovill Investments Sp. z.o.o.).

### 15.6.3 Security

The issued share capital of Palmer Capital RE Bohemia s.r.o. is secured to Sberbank.

## 15.7 RECEIVABLES FROM GROUP COMPANIES

### 15.7.1 Analysis of receivables from group companies

	2015 before provision In € 1,000	Provision In € 1,000	2015 after provision In € 1,000	2014 after provision In € 1,000
Loan to Palmer Capital RE Bohemia s.r.o.	6,489	-	6,489	7,114
Loan to Palmer Capital RE Slovakia s.r.o.	10,947	-	10,947	10,890
Loan to Palmer Capital Real Estate Poland Sp. z.o.o.	36	-/- 36	-	N.a.
<b>Total</b>	<b>17,472</b>	<b>-/- 36</b>	<b>17,436</b>	<b>18,004</b>

As at 31 December 2015 the weighted average interest rate on all receivables from group companies is 4.4% per annum (31 December 2014: 4.6% per annum).

### 15.7.2 Statement of changes in receivables from group companies

	2015 In € 1,000	2014 In € 1,000
Balance as at 1 January	18,004	16,425
Loans advanced	779	2,781
Redemption on loans advanced	-/- 1,484	-/- 1,122
Fair value adjustments (provision)	-/- 36	-
Exchange rate differences	173	-/- 80
<b>Balance as at 31 December</b>	<b>17,436</b>	<b>18,004</b>

## 15.8 OTHER FINANCIAL INVESTMENTS

### 15.8.1 Analysis of other financial investments

	Principal of investment		Number of shares	Interest In %
	In 1,000	In € 1,000		
Eastern European Property Fund Limited	GBP -	-	100	0.0

### 15.8.2 Statement of changes of other financial investments

	2015 In € 1,000	2014 In € 1,000
Balance as at 1 January	-	517
Redemption on loans advanced	-	-/- 513
Exchange rate differences	-	-/- 4
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>

## 15.9 OTHER RECEIVABLES

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Interest on receivables from group companies	765	743

## 15.10 DEFERRED EXPENSES

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Short-term advance payments	5	4

## 15.11 DEFERRED TAX ASSETS

### 15.11.1 General

A deferred tax asset is included only to the extent that it is probable that taxable profits will be available in the future which can be used for realization of the asset item. The amount of the deferred tax assets is reduced to the extent that it is no longer probable that the associated tax benefit will be realized.

### 15.11.2 Analysis deferred tax assets stated in the balance sheet

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Value for tax purposes of stated losses carry-forward (will expire)	24	-

### 15.11.3 Changes in deferred tax assets stated in the balance sheet

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	-	-
Adjustments previous period	16	-
Additions	8	-
<b>Balance as at 31 December</b>	<b>24</b>	<b>-</b>

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

### 15.11.4 Analysis deferred tax assets not stated in the balance sheet

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Value for tax purposes of not stated losses carry-forward (will expire)	243	234

#### 15.11.5 Statement of changes in deferred tax assets not stated in the balance sheet

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	234	170
Adjustments previous period	-/- 21	-
Additions	38	64
Withdrawal	-/- 8	-
<b>Balance as at 31 December</b>	<b>243</b>	<b>234</b>

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

#### 15.12 CASH AND CASH EQUIVALENTS

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

## 15.13 SHAREHOLDERS' EQUITY

### 15.13.1 Statement of changes in shareholders' equity

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve for currency translation differences In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Total Shareholders' equity In € 1,000
Balance as at 1 January 2015	7,194	17,361	4,004	2,135	49	-/- 2,189	28,554
Result for the financial period	-	-	-	-	-	438	438
Change in revaluation reserve	-	-	153	-	-	-/- 153	-
Change in reserve for currency translation differences	-	-	-	110	-	-	110
Change in equity component convertible bonds	-	-	-	-	42	-	42
Distributions to shareholders	-	-/- 575	-	-	-	-	-/- 575
<b>Balance as at 31 December 2015</b>	<b>7,194</b>	<b>16,786</b>	<b>4,157</b>	<b>2,245</b>	<b>91</b>	<b>-/- 1,904</b>	<b>28,569</b>
Balance as at 1 January 2014	6,699	17,219	4,191	2,205	-	-/- 3,500	26,814
Result for the financial period	-	-	-	-	-	1,124	1,124
Change in revaluation reserve	-	-	-/- 187	-	-	187	-
Change in reserve for currency translation differences	-	-	-	-/- 70	-	-	-/- 70
Change in equity component convertible bonds	-	-	-	-	49	-	49
Own ordinary shares issued	495	142	-	-	-	-	637
<b>Balance as at 31 December 2014</b>	<b>7,194</b>	<b>17,361</b>	<b>4,004</b>	<b>2,135</b>	<b>49</b>	<b>-/- 2,189</b>	<b>28,554</b>

### 15.13.2 Equity components

For further analysis and statements of changes of the several equity components see the sections 12.32 to 12.37.

## 15.14 EQUITY COMPONENT CONVERTIBLE BOND

The reserve for convertible bonds comprises the amount allocated to the equity component for the convertible bonds as issued by the Property Fund (see section 12.39.3 "Analysis of convertible bonds"), less the deferred tax liabilities.

	2015 In € 1,000	2014 In € 1,000
Balance as at 1 January	49	-
Addition in connection with issued convertible bonds	42	49
<b>Balance as at 31 December</b>	<b>91</b>	<b>49</b>

## 15.15 RETAINED EARNINGS

It is proposed to the General Meeting of Shareholders to add the whole of the remaining profit for 2015 financial period to the retained earnings.

This proposal has already been recognized in the company balance sheet.

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	-/- 2,189	-/- 3,500
Profit for the period	438	1,124
	<b>-/- 1,751</b>	<b>-/- 2,376</b>
Change in revaluation reserve	-/- 153	187
<b>Balance as at 31 December</b>	<b>-/- 1,904</b>	<b>-/- 2,189</b>

## 15.16 CONVERTIBLE BONDS

For the analysis, statement of changes and valuation of the convertible bonds see section 12.39.2 to 12.39.5.

## 15.17 DEFERRED TAX LIABILITIES

### 15.17.1 General

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

### 15.17.2 Analysis of deferred tax liabilities stated in the balance sheet

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Foreign currency translation differences	25	-
Equity component convertible bonds	24	16
	<b>49</b>	<b>16</b>

### 15.17.3 Statement of changes in deferred tax liabilities

	<b>2015</b>	<b>2014</b>
	In € 1,000	In € 1,000
Balance as at 1 January	16	-
Adjustments previous period	25	-
Additions on account of temporary differences	14	17
Withdrawal on account of temporary differences	-/- 7	-/- 1
<b>Balance as at 31 December</b>	<b>48</b>	<b>16</b>

## 15.18 OTHER PROVISIONS

### 15.18.1 Analysis of other provisions

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In EUR 1,000	In EUR 1,000
Provision group companies	61	N.a.

## 15.18.2 Statement of changes in other provisions

	2015 In € 1,000	2014 In € 1,000
Balance as at 1 January	-	-
Additions	61	-
<b>Balance as at 31 December</b>	<b>61</b>	<b>-</b>

## 15.19 DEBTS TO CREDIT INSTITUTIONS

### 15.19.1 General

This includes the debts to credit institutions resulting from the repurchase from the liquidity provider (SNS Bank N.V.) of the Property Fund's ordinary shares.

During February 2015 the debts to credit institutions were fully redeemed.

### 15.19.2 Analysis of debts to credit institutions

	31-12-2015 In € 1,000	31-12-2014 In € 1,000
Long term liabilities	-	-
Current liabilities	-	1,334
	<b>-</b>	<b>1,334</b>

### 15.19.3 Statement of changes of debts to credit institutions

	2015 In € 1,000	2014 In € 1,000
Balance as at 1 January	1,334	1,562
Loans advanced	24	103
Redemptions	-/- 1,358	-/- 331
<b>Balance as at 31 December</b>	<b>-</b>	<b>1,334</b>

## 15.20 OTHER LIABILITIES

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

	31-12-2015 In € 1,000	31-12-2014 In € 1,000
Trade payables	116	219



## 15.21 ACCRUALS AND DEFERRED INCOME

### 15.21.1 Specification other liabilities, accruals and deferred income

This relates to other accruals and deferred income with a term shorter than one year. The specification is as follows:

	<b>31-12-2015</b>	<b>31-12-2014</b>
	In € 1,000	In € 1,000
Administrative expenses	176	75
Interest payables	36	29
Investment management fees	8	71
	<b>220</b>	<b>175</b>

## 15.22 NON-CONTINGENT LIABILITIES

As at 31 December 2015 the Property Fund was not subject to any contractual obligation concerning investments, repairs, maintenance or other non-contingent liabilities that needed to be settled in the following financial period.

## 15.23 CONTINGENT LIABILITIES

As at 31 December 2015 the Property Fund has the following contingent liabilities:

- Palmer Capital Emerging European Property Fund N.V. has a potential liability towards SNS Securities N.V. regarding a fixed success fee for the amount of € 375,000, related to a “capital raise”, which is planned for 2016. The fixed success fee is due if the “capital raise” will be successful (defined as more than € 12,000,000 being raised). The total amount of the retainer fee will be deducted from the total amount of the fixed success fee.

As at 31 December 2015 the Property 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.

## 15.24 PERSONNEL COSTS

The Property Fund does not employ any personnel (2014: nil).

## 15.25 REMUNERATION FOR THE MANAGING BOARD AND SUPERVISORY BOARD

For the remuneration of the Managing Board and Supervisory Board see section 12.56.2 “Analysis of Supervisory Board fees”.

## 15.26 RELATED PARTIES

### 15.26.1 Identity of related parties

With regard to the Property Fund the following categories of related party were distinguished during the 2015 financial period:

- A. Managers in key positions;
- B. Major investors;
- C. All organisational entities within the group designated as Palmer Capital (PC);
- D. Investment trusts, investment funds and other investment companies, which are managed by an entity belonging to Palmer Capital;
- E. Investments undertaken by Palmer Capital, in which Palmer Capital has significant influence (more than 20% of voting rights).

### 15.26.2 Transactions with and / or interests of managers in key positions (A)

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

- A. The Managing Board of Palmer Capital Fondsenbeheer B.V. decided to waive unconditionally the claim above € 800,000 regarding the provisional “cap” of the total Management fee 2014 at € 800,000 (for the amount of € 114,000);
- B. The Managing Board of Palmer Capital Fondsenbeheer B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Property Fund (and / or its subsidiaries) to Palmer Capital Czech Republic s.r.o. in the amount of € 454,000.

During the financial period no other transactions occurred with members of the Managing Board and / or members of the Supervisory Board. In addition, neither the Managing Board nor the Supervisory Board held interests in the Property Fund or investments of the Property Fund.

The remuneration for the Managing Board is described in section 12.55 “Administrative expenses”.

The remuneration for the Supervisory Board is described in section 12.56 “Other operating expenses”.

### 15.26.3 Transactions with and / or interests of major investors (B)

Pursuant to the decree on Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) the Property Fund reports one major investor, namely Stichting Prioriteit MERE (the “Foundation”), which holds all priority shares in the Property Fund’s capital. No transactions occurred between the Foundation and the Property Fund during the financial period.

### 15.26.4 Transactions with other related parties (C-D-E)

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

- A. Providing loans to group companies, as described in section 15.7 “Receivables from group companies”.

### 15.26.5 Investments in other related parties (C-D-E)

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

## 15.27 TAXES

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

*Deventer, 28 April 2016*

*The Managing Board:*

*Palmer Capital Fondsenbeheer B.V.  
On behalf of,*

*G.St.J. Barker LLB FRICS  
Managing Director*

*P.H.J. Mars M.Sc.  
Managing Director*

*The Supervisory Board:*

*H.H. Kloos RBA  
Chairman*

*B. Vos M.Sc.*

## **16 OTHER INFORMATION**

### **16.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION**

In accordance with Article 28 of the Articles of Association dated 26<sup>th</sup> of June 2012, profits are determined and distributed as follows:

- 28.1 From the profit earned in a financial period in so far as possible a dividend is first distributed on the priority share, the amount of which dividend is equal to seven per cent (7%) on an annual basis, calculated on the nominal value of the priority share. No further distributions are made on the priority share.
- 28.2 The priority shareholder determines annually what part of the profit remaining after application of article 28.1 above is added to the reserves.
- 28.3 It is the prerogative of the general meeting of shareholders to appropriate the profit remaining after application of articles 28.1 and 28.2 above.
- 28.4 Distribution of profit occurs after adoption of the financial statements evidencing that this is permitted.
- 28.5 The priority shareholder may resolve to make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a company reserve.
- 28.6 Distributions on shares may only take place up to a maximum of the amount of the distributable shareholders' equity.
- 28.7 Unless the body that decides on distribution determines another time, distributions on shares are payable immediately after declaration.
- 28.8 In calculating the amount of any distribution on shares the shares held by the company in its own capital are not included.

### **16.2 PROPOSAL FOR THE COMPANY RESULT APPROPRIATION**

The company profits for the 2015 financial period amounts to € 438,000. Recognising the mandatory net addition of € 153,000 to the "Revaluation reserve" the remaining profit for the 2015 financial period was € 285,000. It is proposed to the General Meeting of Shareholders to add the whole of the remaining profit for 2015 financial period to the retained earnings.

This proposal has already been recognized in the company balance sheet.

### **16.3 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION**

On 24 January 2006 Palmer Capital Fondsenbeheer B.V. obtained a permit from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the "AFM") under the Dutch Act on the Supervision of Investment Institutions (Wet toezicht Beleggingsinstellingen, the "Wtb"), which was superseded by the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the "Wft") as per 1 January 2007 to act as a Management company of the Property Fund.

On 22 July 2013, the Alternative Investment Fund Managers Directive (AIFMD) came into force. Since Palmer Capital Fondsenbeheer B.V. already held a Wft-permit on 21 July 2013, by law this permit became an AIFMD-permit automatically after the transition period of one year on 22 July 2014.

## 16.4 PERSONAL INTERESTS

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Property Fund, except for B. Vos M.Sc. who had 2,000 ordinary shares (31 December 2014: 2,000) in private possession and 2,074 ordinary shares (31 December 2014: 2,074) in possession through Bas Vos B.V.

As at 31 December 2015 Palmer Capital Investments GmbH (PCI) held 26,991 registered shares (31 December 2014: 26,991) in the Property Fund. As of January 2016 G.St.J. Barker LLB FRICS became ultimate beneficial owner (UBO) of PCI.

## 16.5 SPECIAL CONTROLLING RIGHTS

Special rights in respect of control of the company have been granted to the holders of priority shares. The priority shares are bearer shares. As provided by the Articles of Association the priority shares entitle the Foundation:

- To determine the number of members of the Managing Board and Supervisory Board;
- To make binding nominations for appointment of the members of the Managing Board and the members of the Supervisory Board;
- To make the proposal to the General Meeting of Shareholders to suspend or dismiss a Managing Board member and / or a Supervisory Board member;
- To make the proposal to the Supervisory Board for the remuneration of the members of the Supervisory Board;
- To determine which part of the profits remaining after priority dividend (see also section 16.1) shall be reserved;
- To make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a company reserve;
- To make the proposal to the General Meeting of Shareholders to amend the Articles of Association of the Property Fund;
- To make the proposal to the General Meeting of Shareholders for statutory merger or statutory demerger of the Property Fund;
- To make the proposal to the General Meeting of Shareholders for dissolution of the Property Fund.

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

- Reduction of the issued share capital.

## 16.6 EVENTS AFTER BALANCE SHEET DATE

No other material events have occurred after balance sheet date.

## 16.7 INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Palmer Capital Emerging Europe Property Fund N.V.

### Report on the audit of the annual financial statements 2015

#### Opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Palmer Capital Emerging Europe Property Fund N.V. as at December 31, 2015, and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act ('Wet op het financieel toezicht').
- the company financial statements give a true and fair view of the financial position of Palmer Capital Emerging Europe Property Fund N.V. as at December 31, 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

#### What we have audited

We have audited the financial statements 2015 of Palmer Capital Emerging Europe Property Fund N.V. (the company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2015;
- the following consolidated statements for 2015: the income statement, the statements of comprehensive income, changes in shareholders' equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at December 31, 2015;
- the company profit and loss account for 2015; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

#### Basis for our opinion

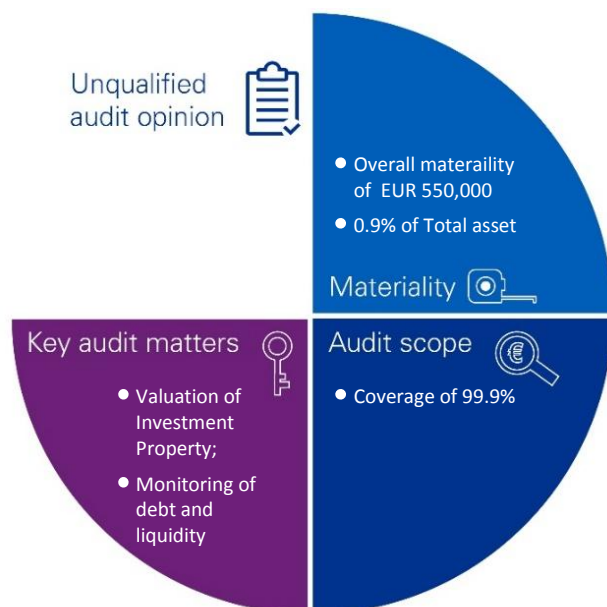
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Palmer Capital Emerging Europe Property Fund N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Audit approach

### Summary



### Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 550,000 (2014: EUR 530,000). The materiality is determined with reference to total assets (2015: 0.9%; 2014: 0.9%). This corresponds to 2.0% of Net Asset Value (2014: 2.0%). We consider the total assets as the most appropriate benchmark for this investment fund as it represents the invested amount for investors and it is considered most relevant to users of the financial statements considering the nature and size of the business activities. Value changes are an important part of the total revenue and therefore of the result of an investment fund. Due to the dependency on the value changes, both the total revenues as the profit before tax are inherently volatile and therefore less suitable as benchmark for determining materiality.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of EUR 27,500 (5% of materiality), 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

Palmer Capital Emerging Europe Property Fund N.V. is head of a group of entities that operates in four different European countries: the Netherlands, Slovakia, Czech Republic and Poland. The financial information of this group is included in the financial statements of Palmer Capital Emerging Europe Property Fund N.V.

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.

Our group audit focused on all group entities since they are all considered individually significant. We have performed audit procedures ourselves for the Dutch holding company and the valuation of the investment property of the entire group and have used the work of other KPMG auditors for auditing the two foreign group entities Palmer Capital RE Bohemia s.r.o. and Palmer Capital RE Slovakia s.r.o. Palmer Capital Real Estate Poland Sp. z.o.o. (formerly: Bovill Investments Sp. z.o.o.) was acquired at 8 September 2015 and is a dormant entity without activities during the financial period. Therefore it was not included in the scope of the group audit.




The Group audit team sent detailed instructions to the component auditors, covering the significant areas that should be covered (which included the relevant risk of material misstatement) and set out the information required to be reported back to the Group audit team. The Group audit team reviewed the audit files of the component auditors of Palmer Capital RE Bohemia s.r.o. and Palmer Capital RE Slovakia s.r.o. and had discussions with the component auditors, local management and the external appraiser.

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 financial statements.

**Our key audit matters**

Key audit matters are those matters that, in our professional judgment, 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.

<b>Valuation of investment property</b>	
<p><b>Description</b></p> <p>The investment property amounts EUR 53.3 million per December 31, 2015 (95% of total assets). Investment properties are measured at fair value which requires management to make estimates and assumptions and therefore inherently have a certain degree of subjectivity. The fair value is, as explained in section 12.9 of the notes to the consolidated balance sheet of Palmer Emerging Europe Property Fund N.V., determined on the basis of a valuation by an independent external valuer. For the valuation an estimate of expected future cash flows and risks is made. Since the valuation of the investment property is complex and depends heavily on estimates and assumptions (including market rent, vacancy, rent-free periods, returns and status of maintenance) we consider the valuation of the investment as a key audit matter for our audit.</p>	
<p><b>Our response</b></p> <p>Our audit procedures included, amongst others, considerations of the quality and the objectivity of the valuation process and the independence and expertise of the external valuator. We furthermore assessed the accuracy of the property related data (including market rent, vacancy, rent-free periods, returns and status of maintenance) delivered to the external valuator for input for the valuations on the basis of, amongst others, reference transactions. We have used our KPMG valuation specialists to assist us in analysing the valuations and the correct application of the valuation methodology and challenging the underlying assumptions with relevant market data. Finally we focused on the adequacy of the disclosures on the valuation of the property as included in note 12.9 and 12.24 of the disclosures to the financial statements.</p>	
<p><b>Our observation</b></p> <p>We observed that the valuation of the investment property performed by management board resulted in an acceptable valuation of the investment property in the financial statements. The disclosures in the financial statements on the investment property are in accordance with the requirements of IAS 40 Investment Property and IFRS 13 Fair Value Measurement.</p>	



## Monitoring of debt and liquidity

### Description

The successful refinancing of the portfolios and the future compliance to debt covenants are of significant impact on the company's ability to continue as a going concern and therefore important for the Management Board to control. The assessment of future compliance to debt covenants is by nature judgmental as it is based on assumptions on future market and/or economic conditions. Given the potential significant impact on the assumption of the going concern principle applied in the financial statements, the refinancing of the portfolios and future compliance to debt covenants are important to our audit.



### Our response

Our audit procedures included, among others, examining loan documentation specifically for loan covenants, examining the issuance of the bond loans dated 1 December 2014 and 20 February 2015 and examining the sale agreements of investment properties. Furthermore we evaluated the assumptions and methodologies used by the management to prepare covenant and liquidity forecasts.

We also evaluated the adequacy of the disclosure regarding the (re)financing of the company as disclosed in note 12.39 of the financial statements.



### Our observation

Our assessment is that the application of the going concern assumption made by the Management Board, as described in the accounting policies, is reasonable. The debt positions and related conditions and covenants have been adequately disclosed in the financial statements in accordance with the requirements IFRS 7 Financial Instruments Disclosures.



## Responsibilities of Management Board and Supervisory Board for the financial statements

Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS, with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act ('Wet op het financieel toezicht') and for the preparation of the Management Board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, Management Board is responsible for such internal control as Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, Management Board should prepare the financial statements using the going concern basis of accounting unless Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management Board 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 financial statements

Our objective is to plan and perform the audit 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 have detected all errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) [www.nba.nl/standardtexts-auditorsreport](http://www.nba.nl/standardtexts-auditorsreport).

## **Report on other legal and regulatory requirements**

### **Report on the Management Board report and the other information**

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the Management Board report to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the Management Board report, to the extent we can assess, is consistent with the financial statements.

### **Engagement**

We were appointed in 2003 for the first time as auditor of Palmer Capital Emerging Europe Property Fund N.V. and operated as auditor since then. On 13 November 2015, we have been reappointed by the Management Board to audit the financial statements 2015.

Utrecht, 28 April 2016

KPMG Accountants N.V.

G.J. Hoeve RA