ARCONA PROPERTY FUND N.V.

ANNUAL REPORT 2019

ARCONA CAPITAL

PALMOVKA IN PRAGUE

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APF KEY FIGURES

KEY FINANCIAL METRICS

REVENUES AND EARNINGS (in € 1,000)

	2019	2018	Change (%)
Gross rental income	11,059	10,798	2.4
Net rental income	5,220	4,819	8.3
Direct investment result	1,302	1,139	14.3
Indirect investment result	-/- 905	-/- 1,336	32.2
Total investment result	**93**	**-/- 197**	**147.2**
Earnings per share	0.03	-/- 0.06	150.0
Adjusted EPRA Earnings per share	0.18	0.35	-/- 48.6
Dividend per share	0.10	0.35	-/-71.4
EPRA cost ratio (excl. direct vacancy costs)	11.13	10.85	2.6

BALANCE SHEET (in € 1,000)

	31-12 2019	31-12-2018	Change (%)
Investment property	83,815	89,032	-/- 5.8
Assets held for sale	18,785	0	n/a
Equity	48,323	40,911	17.4
IFRS equity per share (see 15.13.1)	12.77	12.93	-/- 1.2
EPRA NAV per share	13.50	14.32	-/- 5.7
EPRA NNNAV per share	13.14	13.65	-/- 3.7
Net LTV	50.0	50.5	-/- 1.0
Number of ordinary shares outstanding	3,758,683	3,165,149	18.8
Weighted avg. number of shares outstanding[1]	3,249,842	3,165,149	2.7

KEY PORTFOLIO METRICS

	31-12-2019				31-12-2018
	Offices	Land	Other	Total	
Number of properties	24	2	1	**27**	24
Market value (in € m)	89.0	3.9	8.2	**101.1**	89.0
Annual net rental income (in € m)	5,233	-/- 8	-/- 5	**5,220**	4,819
Lettable area (1,00 sqm)	111,906	n/a	n/a	**111,906**	103,849
Weighted average vacancy (in %) [2]	84.3	n/a	n/a	**83.3**	79.9
Weighted remaining maturity of loans and borrowings (years)	n/a	n/a	n/a	**3.11**	1.73

[1] See 15.36.6
[2] See 15.23.3

BALANCE SHEET STATEMENT (in € 1,000)

	2019	2018	2017	2016	2015	2014
Investment properties	80,992	89,032	89,798	74,806	53,272	52,080
Other non-current assets	929	680	523	1,548	1,523	837
Current assets	25,577	2,945	7,660	7,598	1,408	5,719
Total assets	**107,498**	**92,657**	**97,981**	**83,952**	**56,203**	**58,636**
Shareholders' equity	48,000	40,911	42,036	36,452	28,569	28,554
Deferred tax liabilities	4,684	4,606	4,295	4,177	4,271	4,004
Other non-current liabilities	33,448	26,519	43,942	25,195	21,010	22,183
Current liabilities	21,366	20,621	7,708	18,128	2,353	3,895
Total equity and liabilities	**107,498**	**92,657**	**97,981**	**83,952**	**56,203**	**58,636**
Loan-to-Value (in %)	50.0	50.5	52.7	49.3	41.0	46.6

PROFIT AND LOSS STATEMENT (in € 1,000)

	2019	2018	2017	2016	2015	2014
Direct result before tax	1,422	1,482	3,161 [3]	-/- 325	707	801
Indirect result before tax	-/- 905	-/- 1,336	3,250	-/- 208	-/- 6	-/- 96
Total result before tax	**517**	**146**	**6,411**	**-/- 533**	**701**	**705**
Income tax expense	424	352	842	-/- 241	263	-/- 419
Total result after tax	**93**	**-/- 197**	**5,569**	**-/- 292**	**438**	**1,124**
Occupancy (in %)	84.3	86.9	84.0	80.7	78.0	75.0
Rentable area (in m^2)	111,906	103,849	104,186	100,673	80,754	91,727

ISSUED CAPITAL

	2019	2018	2017	2016	2015	2014
Ultimo outstanding shares	3,758,683	3,165,149	3,165,149	3,165,149	1,438,704	1,438,704
Basic earnings p.share (in €)	0.03	-/- 0.06	1.76	-/- 0.14	0.25	0.64
EPRA Earnings (in €)	-/- 0.01	0.38	0.37	n.a.	n.a.	n.a.

DATA PER SHARE

	2019	2018	2017	2016	2015	2014
(Interim-) dividend	0.10	0.35	0.24	n.a.	0.35	0.30
NAV conform EPRA [4]	-	-	-	11.69	20.30	20.24
NNNAV conform EPRA	13.14	13.65	14.05	-	-	-
Avg. monthly turnover (in €)	198,217	260,359	231,240	102,192	387,413	163,926
Highest price	5.91	7.95	7.40	8.15	9.51	7.05
Lowest price	7.48	6.79	5.20	5.00	6.84	5.87
Ultimo price	6.00	7.10	7.40	5.40	8.35	6.96

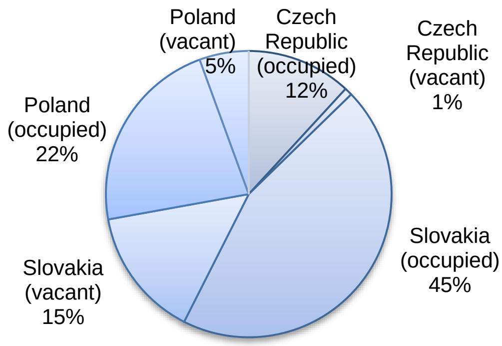
[3] Including € 1.88 million results on disposals of properties
[4] As of 2017 the EPRA NAV calculation method changed, see chapter 7

APF REAL ESTATE PORTFOLIO AT A GLANCE

PORTFOLIO BREAKDOWN (YEAR-END 2019)	# assets	Value (in € mn)	Value (in %)
Offices	8	46.7	46.1%
Retail centers	10	23.6	23.3%
Apartments	1	8.2	8.1%
Land	2	4.1	3.9%
Total investment	**21**	**82.5**	**81.4%**
Held for sale	6	18.8	18.6%
Total portfolio	**27**	**101.3**	**100.0%**

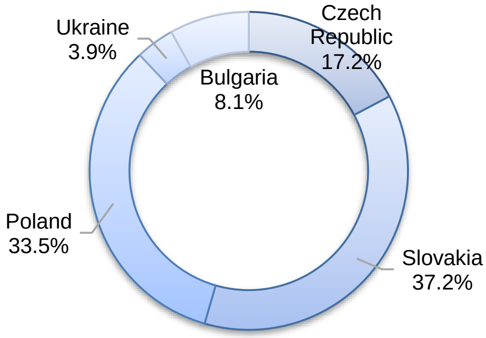
Portfolio occupancy (space) rate per country

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



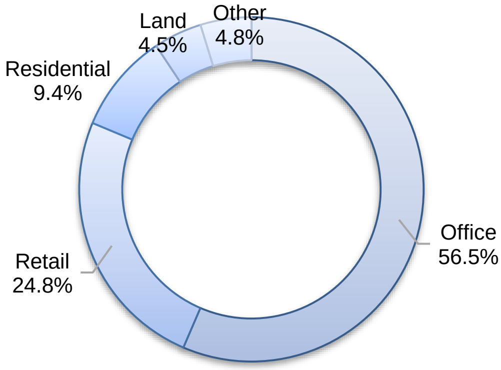
Real estate portfolio[5]
Fair value per country

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



The use of space
within the total real estate portfolio

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



[5] including assets held for sale

1 ARCONA PROPERTY FUND N.V.

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

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

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De Entree 55 – floor 11
NL 1101 BH AMSTERDAM
the Netherlands
Tel: +31(0)20 82 04 720
E-Mail: info@arconacapital.com
Website: www.arconapropertyfund.nl

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

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

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

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

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

The Managing Board currently has the following directors:
G.St.J. Barker LLB FRICS
P.H.J. Mars M.Sc.
H.H. Visscher

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

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

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

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

Listing Agent
ABN AMRO Bank N.V
Gustav Mahlerlaan 10
NL 1082 PP Amsterdam
the Netherlands

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

Depositary
TCS Depositary B.V.
Woudenbergseweg 11
NL 3953 ME Maarsbergen
the Netherlands

Financial Calendar 2020

Publication of trading update of 1st quarter 2020	14 May 2020
Publication of semi-annual report 2020	31 August 2020
Publication of trading update of 3rd quarter 2020	9 November 2020

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

The Managing Board holds a license to manage Investment Institutions in the sense of Section 2:65 Wft (Act on the Supervision of Investment Institutions, Wet op het financieel toezicht).

2 FOREWORD FROM THE MANAGING BOARD

As might be expected, we begin with a summary of the risks that the global COVID-19 epidemic poses to the Fund and the actions we are taking in response. What began as a health issue in Asia in January 2020 has now developed into a global financial and demand shock that will impact most elements of the Fund´s operations. It is not yet clear how much the virus will continue to spread, how long the pandemic will last and what the medium and long-term effects will be on consumer and business behaviour. We have no experience of a similar crisis so there is no established way of predicting the extent of effects on occupancy levels and tenant solvency within our portfolio. Nevertheless, from an analysis of the tenant composition in the portfolio and emerging evidence of the initial impact of government containment measures in the countries in which the Fund operates we can model various scenarios.

We do have some experience of the way financial markets react to unexpected negative events with a potential global impact. We can therefore anticipate tightening credit conditions, weaker liquidity, uncertainty on valuation levels and lower rates of transactional activity. Taken together, we can draw some conclusions as to the likely impact of the crisis on the Fund´s income, both from operations and from asset sales, and the concomitant effects on profitability and cash flow. We can then model the outcomes from this into our plans for the maintenance or refinancing of the Fund´s debt, against a background of financial market uncertainty.

In our Outlook section on Page 32 we have summarised our analysis of the Fund´s tenant base and the extent of its exposure to the economic effects of the pandemic. The situation is changing fast so this analysis will evolve over time, together with our estimates for the likely duration of the crisis. We are currently of the view that ca. 25% of the tenant base will be directly negatively affected, ca. 25% will be unaffected and ca. 50% will be indirectly negatively affected. From this input, we have included a detailed stress test that gives the likely cash flow and profit impacts for various levels of rental income decline. The three scenarios modelled are declines of 10%, 14% and 23.5% in total net rental income for 2020, with 14% as the "central case". We have also detailed the measures we can take to conserve cash and reduce costs, such as reducing discretionary capital expenditure and deferring the 2019 final dividend.

The conclusions of the stress tests are that the Fund can sustain a decline of up to 15% of its rental income for 2020 and still meet its full operational cost and debt service obligations for the year. Rental declines above this level will require the Fund to defer capital expenditure on the properties and to defer or reduce dividend distributions. Overall income decline of more than 40% will require the Fund to defer payments to suppliers and advisors and ultimately to enter into discussions with its banks on the deferral of regular capital repayments on its loans. The current indications are that banks will be open to such discussions, particularly if interest continues to be paid. The Fund can sustain a decline of ca. 60% of its annual rental income before it becomes unable fully to service interest payments on its debt.

The Fund has an obligation to repay or refinance four separate loans during the course of 2020 in a total sum of € 12.7 million. The Managing Board expects to achieve this through the proceeds of sales from the Slovak portfolio during H2, which at the same time would release substantial additional funds to support Fund operations. Until these asset sales complete it is expected that, against the background of continuing market uncertainty, the respective lenders will extend the existing facilities.

This report begins by discussing the real and immediate threat of the COVID-19 virus. It would be easy for us to talk or think of nothing else, but that would be a mistake. At some point the pandemic will pass and at that point the work we have put into securing the financial structure of the Fund and preserving its tenant base will provide us with sound options for the future. In this respect the Managing Board will be continuing to engage in a dialogue with shareholders during 2020 on the strategic options for the Fund.

Highlights from 2019

- The Fund made significant progress on the refinancing and extension of loans. Over € 20 million of debt was refinanced, including the entire Czech and Slovak portfolios. The average maturity term of the Fund´s debt increased to 3.17 years from 1.17 years
- Operational performance improved, with gross rental income increasing by 2.4% and net rental income increasing by 8.3%.
- The portfolio grew by € 12.1 million by the acquisition of assets in Bulgaria and Ukraine from Secure Property Development & Investment PLC (**SPDI**). These acquisitions were largely financed by the issuance of shares of the Fund at Net Asset Value (of € 13.44) and thus had no dilutive effect on existing shareholders.
- A portfolio of office and hostel assets in Kosice, Slovakia, was formally placed on the market in Q4 to reduce the Fund´s large exposure to this sub-market. Offers have been received and are currently being progressed with the aim of completing a portfolio sale in H2 2020.
- The number of shares in issue increased to 3,758,683

3 ARCONA PROPERTY FUND IN BRIEF

General
The Fund is an investment company with variable capital incorporated under Dutch law and registered in Amsterdam. The shares have been listed on Euronext Amsterdam since 2003. Since 31 October 2018 the Fund is also listed on the Prague Stock Exchange (the **PSE**). The Fund invests in commercial real estate in Central and Eastern Europe (the **CEE**).

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

Managing Board
Arcona Capital Fund Management B.V. is the Managing Board of the Fund. On 24 January 2006, it obtained from the AFM a permit under the Wft.

Fund Structure and tradability
The Fund is a closed-end investment institution and its shares are listed on Euronext Amsterdam and the Prague Stock Exchange.

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

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

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

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

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

The current portfolio in the Czech Republic and Slovakia still retains some older office properties with poor insulation and energy conservation ratings (reflecting the date and style of construction). An intensive programme of capital investment into the better-located examples of these assets is focussing on improving energy efficiency, e.g. boiler upgrades, window replacements and façade insulation or replacement. During

2019 the upper floors at Palmovka in Prague and the AT&T space at Letna 45 in Kosice were extensively renovated (see figures 1 and 2 on pages 14 and 15).

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

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

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

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

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

Maintaining a prudent financial strategy that supports growth
The Fund intends to maintain its prudent financial strategy of conservative leverage, targeting a Loan-to-Value ratio in the range of 45% - 50% (as at 31 December 2019: 50.0% including the outstanding convertible bonds), although a Loan-to-Value percentage of up to 60% is possible.

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

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

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

Diversity
The Dutch Corporate Governance Code requires the Fund to have a diversity policy for the composition of its Supervisory Board. The Supervisory Board of the Fund currently comprises two persons, appointed by the shareholders on the basis of their relevant experience, language skills and professional qualifications. If the membership of the Supervisory Board is expanded in the future, the opportunity may be taken to broaden its composition in respect of such factors as age, gender and geographical experience. The Managing Board of the Fund is ACFM. ACFM is not required by the Dutch Corporate Governance code to provide information on its diversity policy.

Fund governance

The Managing Board endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association (**DUFAS**). Following these Principles, the Managing Board will act in the interests of investors of the funds the Managing Board manages. In case of a possible conflict of interest, transactions will be submitted to the Supervisory Board for approval.

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

Portfolio and historical returns

As at 31 December 2019, the Fund's real estate portfolio comprises 27 properties, located in two cities in the Czech Republic, three cities in Slovakia, eleven cities in Poland, two cities in Ukraine and one city in Bulgaria. The majority of the rentable area is designated as modern suburban retail space or flexible secondary office space and the remainder is mostly ho(s)tel space and student accommodation. The fair value of the 27 properties as at 31 December 2019 was € 101.25 million [6], a 13.7% increase compared to the € 89.03 million portfolio of 24 properties ultimo 2018.

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

	2019	2018	2017	2016	2015	2014
Return [7] (in %)	-/- 2.6	-/- 1.1	15.2	-/- 1.3 [8]	2.3	-/-0.9

[6] Including assets held for sale, investment property under development and inventory apartments

[7] Including shareholder distributions

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

4 PRE-ADVICE OF THE SUPERVISORY BOARD

To the general meeting of shareholders
This annual report of the Fund has been prepared by the Managing Board. This report contains the financial statements for the period from 1 January to 31 December 2019. The financial statements are audited and have been approved by Deloitte Accountants N.V. The auditor's report is presented on pages 186 - 191. The Supervisory Board has received notice of this approval.

The Supervisory Board recommends the financial statements for the year 2019 to the General Meeting for approval.

Meetings and activities of the Supervisory Board
During 2019, the Supervisory Board had seven meetings. During these meetings, the Supervisory Board discussed the (administrative) organization, the investment strategy, the commercial strategy and financial reporting of the Fund. These meetings were attended by the Managing Board. In view of the market volatility resulting from the COVID-19 crisis the Supervisory Board will increase the frequency of its meetings with the Managing Board during 2020.

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

Closing distribution 2019
The Fund paid an interim dividend of € 0.10 per share for 2019 in October 2019. Due to current market volatility the Managing Board has recommended to the Supervisory Board that any decision on the amount and timing of the final dividend for 2019 be deferred. The situation will be regularly reviewed as the duration and effects of the COVID-19 pandemic become more apparent.

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

Amsterdam, 28 April 2020

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

5 REPORT OF THE MANAGING BOARD

The Managing Board hereby presents the annual report of 2019 of the Fund. The reporting period is from 1 January 2019 to 31 December 2019.

5.1 SUMMARY OF THE YEAR

5.1.1 DEVELOPMENTS IN 2019

During 2019 both the Czech and Slovak secured bank loans were refinanced by extension and a part of the SPDI acquisition was successfully finalized. On the operational level the portfolio continued to perform well, for example achieving the highest occupancy level in its Czech properties for more than a decade.

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

Arcona Property Fund N.V. achieves highest Czech occupancy rate (28 February 2019)
On 28 February the Fund announced it has agreed the letting of the remaining 260 m² of office space in its Palmovka office building in Prague, taking the building up to full occupancy. In addition, the Fund has exercised its option to extend by one year, from 1 March 2019, the € 4.7 million loan from Real Estate Central Europe on three supermarkets in Poland.

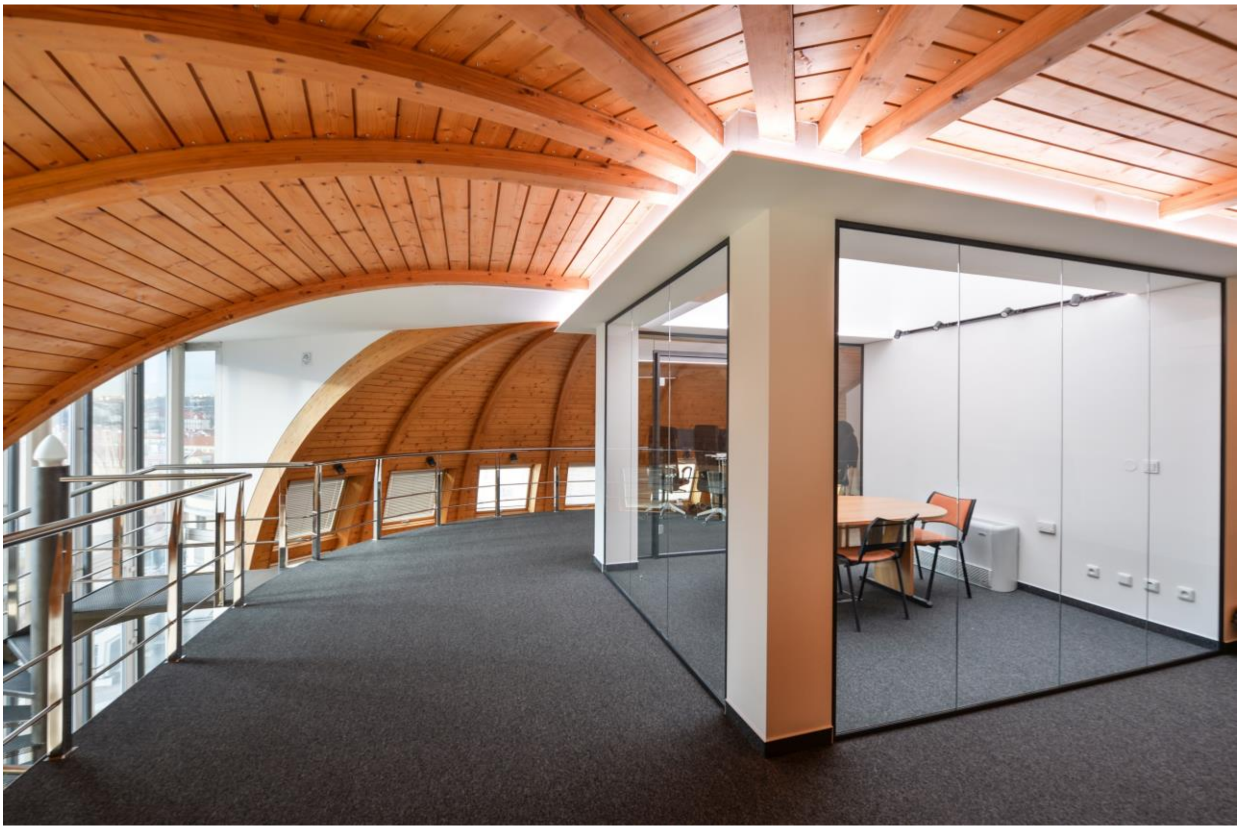


Figure 1: Office space at Palmovka, Prague 8, refurbished for the new tenant Kaktus Software

Arcona Property Fund N.V. refinances Czech portfolio (18 March 2019)
On 18 March the Fund announced it had agreed a new loan facility of € 9.2 million with Sberbank CZ for its Czech real estate portfolio. The new bank loan replaced the existing € 7.1 million facility with Sberbank CZ which was due to expire shortly thereafter. The new loan has the same interest charge as before.

Publication of Annual Report 2018 (4 April 2019)
On 4 April 2019 the Fund published the Annual Report 2018 which reported an operational profit in 2018 of € 2.28 million, up from € 2.13 million in 2017. EPRA earnings per share grew from € 0.37 in 2017 to € 0.42. The Fund proposed payment of a final dividend of € 0.25 per share, bringing the dividend for 2018 to € 0.35, against € 0.24 a year earlier, an increase of 46%. For 2019, the Fund expects an operating result of € 2.4 million. Occupancy rates of the real estate portfolio of the Fund improved during 2018 from 84.0% to 86.9% and the loan to value ratio fell from 52.7% to 50.5%. Lower valuations of the real estate in Poland ultimately led to a net loss for the year of € 197,000 in 2018, against a profit of € 5.57 million in 2017.

Arcona Property Fund N.V. further improves occupancy rate (10 April 2019)
The Fund announced it has extended two existing leases and concluded three new leases in its Polish portfolio. This improves the Fund´s occupancy rate to 87.9%.

Publication of the Q1 figures 2019 (9 May 2019)
The Fund reported an operational result (before tax, valuation gains, and non-recurring items) for Q1 2019 of € 413,000, compared to € 401,000 in Q1 2018.

Arcona Property Fund N.V. AGM sets out future plans (22 May 2019)
On 22 May 2019 the General Meeting of Shareholders adopted the annual accounts of 2018 and granted discharge to the Managing Board and the Supervisory Board. The proposal to distribute € 0.25 per share as a final cash dividend for the year 2018 was adopted. This follows the interim cash dividend of € 0.10 per share paid in August 2018. The shareholders voted against a proposal to liquidate the Fund. The shareholders were also informed about the intended acquisition of the KLIWER office property in Poland, the conditional sale of the Kalisz retail property in Poland and the intention to dispose of some of the Fund´s holdings in Kosice, Slovakia. An update was given on negotiations to acquire the non-Greek assets of SPDI.

Figure 2: Renovated entrance of AT&T at Letna 45 in Kosice

Arcona Property Fund N.V. agrees purchase of Warsaw office building (18 June 2019)
On 18 June the Fund announced it has signed an agreement, conditional on financing, to acquire the KLIWER office building in Warsaw, Poland.

Arcona Property Fund N.V. extends loan (24 June 2019)
On 24 June the Fund announced it has extended until 30 September 2019 a loan of € 2.0 million due to expire on 23 June 2019.

Arcona Property Fund N.V. and SPDI conclude agreement (7 August 2019)
The Fund has signed a formal agreement with SPDI for the purchase of SPDI´s real estate holdings in Romania, Bulgaria and Ukraine. The purchase, which is structured in three phases, is expected to be completed before the end of the year.

Arcona Property Fund N.V. refinances Slovak Portfolio (26 September 2019)
The Fund announced it had reached an agreement with the bank Slovenská Sporitelňa on the refinancing of its Slovak property portfolio. The Fund has agreed a new loan of € 13 million for refinancing, plus an additional facility of € 500,000 for capital investment in the real estate portfolio. The loan has a term of five years and an interest rate of 3-month EURIBOR + 2.45%, currently 2.45%.

Arcona Property Fund N.V. pays interim dividend (8 October 2019)
For 2019 the Fund announced it will pay, as previously announced, an interim dividend of € 0.10 per share in cash.

Arcona Property N.V. completes acquisition of first SPDI assets (1 November 2019)
The Fund announced it expected the first phase of the acquisition of the assets of SPDI would be completed in October 2019. The completion was delayed by the formal approval for the extension of one of the bank loans.

Arcona Property Fund N.V.'s net rental income jumps 11.5% (7 November 2019)
The Fund delivered a 5.3% increase in gross rental income in the third quarter of 2019 compared to the same period last year. The net rental income increased by 11.5%, to € 3.87 million, against € 3.47 million in the same period last year. The Adjusted EPRA Earnings amounted to € 864,000. The occupancy rate at the end of the quarter was 85.8%.

Arcona Property Fund N.V. refinances and extends loans (3 December 2019)
The Fund raised two loans for a total amount of € 2.5 million. A number of maturing loans will be refinanced with the proceeds. The loan-to-value of the Fund will not change significantly due to this refinancing. The first loan repaid is a convertible bond loan of € 1.07 million. The conversion rate of this loan was € 8.24.

Arcona Property Fund N.V. completes acquisition of Boyana Residence (6 December 2019)
The Fund has completed the acquisition of the Boyana Residence (**Boyana**) project of SPDI in Sofia, Bulgaria. The appraised value of the Boyana property is € 8,181,000. The Fund financed the acquisition with the issue of 315,591 new shares and 77,201 warrants. Existing financing from Alpha Bank was taken over and a seller's loan of € 750,000 was also assumed. As a result of the acquisition, the loan-to-value of the Fund decreased from 50.6% to 49.8%.

Arcona Property Fund N.V. extends leases in Poland (12 December 2019)
The Fund extended two expiring lease agreements with Rossmann in Poland for five years. This concerns commercial space for more than 700 m^2, spread over the two retail locations in Grudziądz and Inowrocław.

Event after balance sheet date

Arcona Property Fund N.V. extends loans on Boyana (25 February 2020)
The Fund has reached an agreement with Alpha Bank for the extension of the loan for the recently acquired Boyana Residence project in Bulgaria. This meets the requirements that the Fund had set for the definitive takeover of the project. The shares and warrants that the Fund had placed in the Boyana Foundation pending the extension of the loan have now been transferred to SPDI.

Arcona Property Fund N.V. sells part of the Boyana project (25 February 2020)
The Fund has completed the sale of part of the Boyana project, comprising 8 part-completed apartments, to a local investor for € 1 million. The proceeds will be used to pay down part of the Alpha Bank loan to Boyana.

Arcona Property Fund N.V. provides update on COVID-19 impact (17 March 2020)
By press release the Fund updated stakeholders on the potential impact of the COVID-19 pandemic on the Fund´s operations. The update summarized the Fund´s tenancy base and its vulnerability to virus-related trading restrictions, the current status of the Fund´s debt obligations and the progress being made to sell non-core assets in Slovakia and Poland.

Arcona Property Fund N.V. sells its Kalisz retail centre in Poland (30 March 2020)
The Fund has completed the sale of the vacant retail centre in Kalisz, Poland, to a local entrepreneur for PLN 4,350,000 (€ 945,000).

Yellow Properties, s.r.o. liquidated (31 March 2020)
The Fund had a 5% share interest in the entity Yellow Properties, which undertook a successful residential development in Prague between 2013 and 2016. On 31 March 2020 Yellow Properties was deleted from the local commercial register, thus concluding the liquidation process (see also 15.39.6).

Impact analysis of COVID-19 pandemic (April 2020)
As a response to the COVID-19 pandemic, government restrictions on retail, educational and economic activity were progressively introduced across the CEE region during the latter weeks of March 2020 (lockdown). Based on initial trading data from the portfolio after two weeks of lockdown and rental receipts from tenants for April/Q2 2020 the Managing Board made an analysis of the potential impact of the pandemic on the Fund´s ability to continue as a “going concern”. The conclusion was that there is no material uncertainty as to the ability of the Fund to continue as a “going concern“ in 2020. The analysis considered three scenarios, namely a "worse-case" scenario, a "central-case" scenario and a "best-case" scenario. More information about the three scenarios can be found in paragraph 5.6 Outlook and further in the Report of the Management Board.

Negotiations regarding assets held for sale (April 2020)
The Fund plans to sell up to five assets in Košice (Slovakia) in the coming months. Following a formal marketing campaign and the receipt of several offers for all or some of these assets, a preferred bidder has now been selected and a formal Letter of Intent is expected to be signed with this party in April 2020.

Lease to AT&T in Kosice expanded and extended (20 April 2020)
The Fund has agreed with its biggest tenant, AT&T, a 2-year extension of their lease in the Letna 45 property in Kosice to 30 April 2025 and an expansion of their leased area by 750m², to 6,555 m². The agreement increases the annual rental income from the property by €57,000

5.1.2 NET ASSET VALUE PER SHARE AND SHARE PRICE DEVELOPMENT

The following tables show the development of the Fund’s Triple Net Asset Value and share price during the period 1 January 2019 to 31 December 2019.

Table 2 – Total Return on share price and Triple Net Asset Value during 2019

	Based on share price		Based on NNNAV	
	In €	In %	In €	In %
Start period	7.09		13.65	
End period	6.00		13.14	
Return	**-/- 1.09**	**-/- 15.4**	**-/- 0.51**	
Distribution to shareholders	0.35	5.0	0.35	
Total Return	**-/- 0.74**	**-/- 10.4**	**-/- 0.16**	**-/-1.2**

The NNNAV decreased by € 0.51 per share. This decrease was largely caused by the payments of dividend and interim dividend totalling € 0.35 per share in total in 2019. Another component of this decrease was the reclassification of five assets in Kosice from Investment Property to Assets Held for Sale. This reclassification necessitated increasing the provision for tax liabilities on the assets from 50% to 100%. This had a negative impact of € 0.28 per share. Without these actions the total return would have been positive, at € 0.12 per share for the year.

Figure 1 –Development of the Fund's stock market price per share during 2019

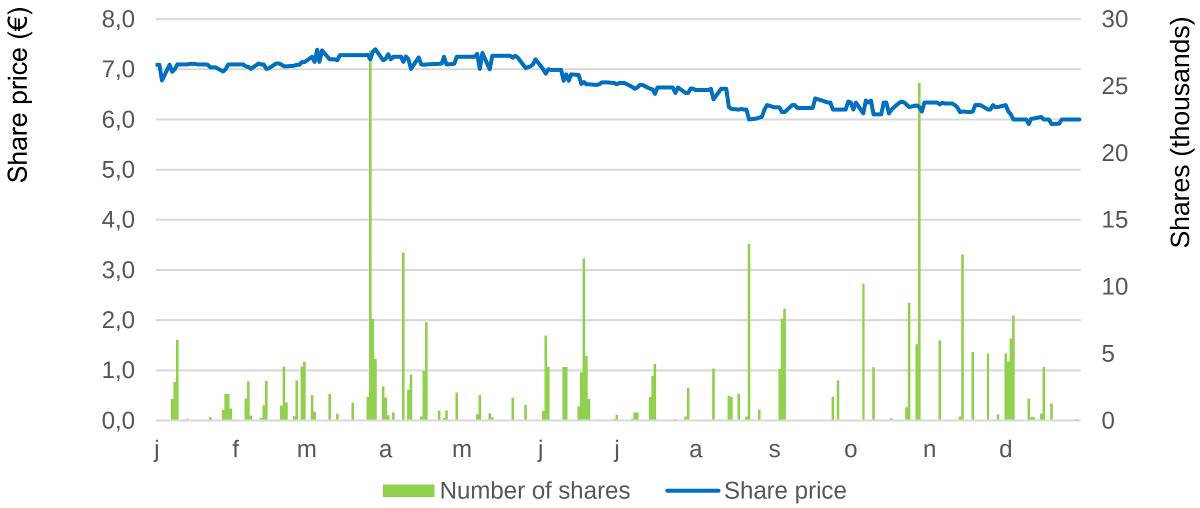


Table 3 – Development of the share price per quarter in 2019

Quarter	Opening price Start of quarter in €	Closing price End of quarter in €	Volume pieces
1st Quarter 2019	7.09	7.40	92,218
2nd Quarter 2019	7.39	6.74	87,295
3rd Quarter 2019	6.73	6.20	62,595
4th Quarter 2019	6.36	6.00	116,058
Average per quarter			*89,542*

The above table shows an average trading volume of 1,410 (2018: 1,731) shares per trading day during 2019. The average quarterly traded volume was 89,542 shares (2018: 106,039) and the average turnover was € 0.59 million per quarter (2018: € 0.78 million per quarter). The stock price traded at the end of 2019 at € 6.00, which represents a 54.3% discount to the net asset value (2018: 48%).

Table 4 – Comparative statement of the NAV per share

	31-12-2019	31-12-2018
Shareholders' equity in accordance with EPRA NAV (in € 1,000)	50,745	45,320
Include:		
1. Fair value of financial instruments	-/- 1	20
2. Fair value of debt	32	38
3. Fair value of deferred tax	-/- 1,372	-/- 2,169
Shareholders equity in accordance with EPRA NNNAV (in €1,000)	**49,404**	**43,209**
Number of ordinary shares in issue	3,758,683	3,165,149
EPRA-NNNAV per profit-sharing share (in €)	**13.14**	**13.65**
Annual return on EPRA-NNNAV (in %) [9]	-/- 3.7	-/- 2.8

See also chapter 7.1.10

5.2 INCOME, COST AND RESULT

Earnings per share (**EPS**) for the 2019 financial year increased to € 0.03 from -/- € 0.06 in the previous year. The EPS increased mainly due to a 32.7% increase of direct and indirect income (see chapter 9) from operations.

5.2.1 BALANCE

Table 5 – Balance statement

	31-12-2019 in € 1,000	31-12-2018 in € 1,000	Change in € 1,000
Investment property	80,992	89,032	-/- 8,04
Non-current assets	929	680	249
Current assets	25,577	2,945	22,632
Total assets	**107,498**	**92,657**	**14,841**
Shareholders' equity	48,000	40,911	7,089
Deferred tax liabilities	4,684	4,606	78
Long-term loans and borrowings	33,448	26,519	6,929
Total current liabilities	21,366	20,621	745
Total shareholders' equity and liabilities	**107,498**	**92,657**	**14,841**

The -/- € 8.04 million change to "Investment property" despite significant portfolio growth is due to the reclassification of € 18.79 million to "assets held for sale" in Slovakia (5 assets) and Poland (1 asset).

"Non-current assets" increased by € 0.25 million due to higher deferred tax assets (see 15.3).

"Current assets" increased largely due to reclassification of investment property to assets held for sale in Slovakia (5 assets) and Poland (1 asset).

"Shareholders' equity" increased by € 7.09 million due to acquisition of the SPDI portfolio which was paid in shares of the Fund (see 15.10).

"Long-term loans and borrowings" increased by € 6.93 million due to the increased loans from Sberbank CZ and Slovenská Sporitelna and the takeover of the loan from Alpha Bank for the Boyana project.

[9] excluding the shareholder distributions

5.2.2 RESULT

The profit for 2019 after tax (see table 6 and chapter 9) amounted to € 0.31 million (2018: -/- € 0.20 million) and can be divided into direct result and indirect result. A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in chapter 9 and in the following paragraphs.

Table 6 – Overview of result

All in € 1,000	**1-1-2019 until 31-12-2019**	**1-1-2018 until 31-12-2018**	**Change**
Gross rental income	8,875	8,699	176
Service charge income	2,184	2,099	85
Service charge expenses	-/- 3,292	-/- 3,225	-/- 67
Property operating expenses	-/- 2,547	-/- 2,754	207
Net rental and related income	**5,220**	**4,819**	**401**
Financial and other operating income	635	406	229
Total direct income	**5,855**	**5,225**	**630**
Administrative expenses	-/- 680	-/- 684	4
Other operating expenses	-/- 1,683	-/- 1,302	-/- 381
Financial expenses	-/- 2,071	-/- 1,757	-/- 314
Total direct costs	**-/- 4,434**	**-/- 3,743**	**-/- 691**
Direct result before tax	**1,422**	**1,482**	**-/- 60**
Indirect result before tax	**-/- 905**	**-/- 1,336**	**-/- 431**
Result before tax	**517**	**146**	**371**
Tax	424	352	72
Result after tax	**93**	**-/- 197**	**290**

The *direct result* before tax is € 1.42 million. The *indirect result* before tax of -/- € 0.91 million reflects the revaluation of the real estate portfolio and reclassification of some investment property to assets held for sale (see 15.2). For more information about the property valuations see 15.2.1.

Ongoing Charges Figure
In 2019 the Ongoing Charges Figure (the **OCF**) increased as a result of a decrease of the total expenses (including “Other operating expenses”) by about 4%, in conjunction with the increase of the average shareholders’ equity by about 1%. Without non-regular costs, such as “Costs of funding and acquisition” (see section 15.29.5) the OCF would be 10.01% (31 December 2018: 10.72%). The “fund expense ratio”, which measures the fund costs such as management fee, audit fees and marketing costs against the average shareholders’ equity, decreased to 4.24% (31 December 2018: 4.31%). The difference to the OCF is that operating costs, such as maintenance costs, are not included in the “fund expense ratio”.

Table 7 – Ongoing Charges Figure

	2019 in %	**2018** in %	**2017** in %	**2016** in %
Ongoing Charges Figure	11.13	10.85	13.02	12.82
OCF excluding one-off and refinancing costs	10.01	10.72	11.71	9.32
Fund expense ratio	4.24	4.31	4.50	3.93

Fund operating expenses
The total fund operating expenses of € 2.36 million (2018: € 1.99 million) include € 491,000 of incidental expenses related to funding and acquisition costs during 2019. See also 15.31.

Financial expenses
The financial expenses are € 2.07 million (2018: € 1.76 million), of which € 1.97 million is interest expense on loans and convertible bonds. The remainder comprises other financial expenses detailed under 15.31 (“Financial Expenses”).

5.2.3 CASH FLOW

The net cash flow of the Fund after operating, investment and financing activities was € 746,000 (2018: -/- € 893,000). The table below provides a summary of the cash flow (see chapter 12).

Table 8 – Consolidated cash flow statement

	2019	**2018**
	in € 1,000	in € 1,000
Cash flow from operating activities	1,234	1,086
Cash flow from investing activities	-/- 585	3,086
Cash flow from financing activities	97	-/- 5,065
Net increase / decrease (-/-) in cash and cash equivalents	**746**	**-/- 893**

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

The “Cash flow from investing activities” of -/- 0.58 million is substantially lower than the previous year. There were no asset sale proceeds in 2019, whereas these totalled € 3.8 million in 2018.

The “Cash flow from financing activities” includes the proceeds from secured bank loans, proceeds from other loans, the repayment of loans and borrowings (€ 6.13 million), the repayment of convertible bonds (€ 1.07 million) and distributions to shareholders (€ 1.11 million). See chapter 12 for more information (“Consolidated statement of cash flow”).

Table 9 – Statement of comprehensive income

	2019	**2018**
	in € 1,000	in € 1,000
Foreign currency translation differences on net investment in group companies	59	-/- 200
Income tax on foreign currency translation differences on net investments in group companies	9	32
	68	-/- 168
Net gain/ (loss) recognised directly in equity	**68**	**-/- 168**
Profit for the period	93	-/-197
Total recognised income and expense for the period	**161**	**-/- 365**

5.2.4 BANK LOANS

Table 10 – Overview of interest-bearing loans and borrowings

	31-12-2019	31-12-2018
	in € 1,000	in € 1,000
Non-current part of loans and borrowings		
Secured bank loans	28,148	17,994
Convertible bonds	3,441	3,412
Other loans and borrowings	-	4,710
Subtotal	**31,589**	**26,116**
Lease liabilities	1,429	n.a.
Total non-current part of loans and borrowings	**33,018**	**26,116**
Current part of loans and borrowings		
Secured bank loans	9,900	15,677
Convertible bonds	-	1,056
Other loans and borrowings	7,538	2,000
Subtotal	**17,438**	**18,733**
Lease liabilities	171	n.a.
Total current part of loans and borrowings	**17,609**	**18,733**
Grand total loans and borrowings	**50,627**	**44,849**
Debt Service[10]	**10,956**	**16,244**

Table 11 – Overview of secured bank loans

	31-12-2019	31-12-2018
	in € 1,000	in € 1,000
DNB Bank	0	0
Slovenská Sporiteľňa	12,061	9,612
Sberbank CZ	8,264	0
BNP Paribas	7,823	8,382
Total long-term interest-bearing loans and borrowings	**28,148**	**17,994**
DNB Bank	5,998	6,396
Slovenská Sporiteľňa	927	957
Sberbank CZ	334	7,073
BNP Paribas [11]	384	1,251
Alpha Bank	2,257[12]	n.a.
Total short-term secured bank loans	**9,900**	**15,677**
Total secured bank loans	**38,048**	**33,671**

Over the past twelve months the total loan-to-value ratio (LTV) of the portfolio has decreased from 50.5% to 50.0% (see also 15.14.4). The Managing Board intends to maintain the total LTV-ratio of the portfolio in the range 40% – 50%, although a Loan-to-Value percentage of up to 60% is permitted. At the end of the reporting period the bank loans had an average maturity of 3.11 years (2018: 1.73) and a weighted average

[10] End year annual scheduled amount of contractual interest and instalments related to bank loans for following year.
[11] See 12.40.1 "Analysis of interest-bearing loans and borrowings"
[12] This excluding the Sertland loan of € 666,000

interest rate of 4.23% (see 15.37.4). The convertible bonds had an average maturity of 2.38 years and a weighted average interest rate of 6.38%.

See section 15.11.4 (“Securities, bank covenants and ratios secured bank loans”) for more information on the secured bank loans as at the statement of financial position’s date.

5.2.5 CURRENCY EXCHANGE RATE

Exchange rates used for the Consolidated Statement of Financial Position (see also 13.7.4)

	31-12-2019	**31-12-2018**
Bulgarian Lev (EUR / BGN)	1.95580	1.95580
% change	*0.0%*	*0.0%*
Czech Koruna (EUR / CZK)	25.40800	25.72400
% change	*1.2%*	*-/- 0.7%*
Polish Zloty (EUR / PLN)	4.25680	4.30140
% change	*1.0%*	*-/- 3.0%*
Pound Sterling (EUR / GBP)	n.a.	0.89453
% change	*n.a.*	*-/- 0.8%*
Ukrainian Hryvnia (EUR / UAH)	26.4220	31.7141
% change	*16.7%*	*5.3%*

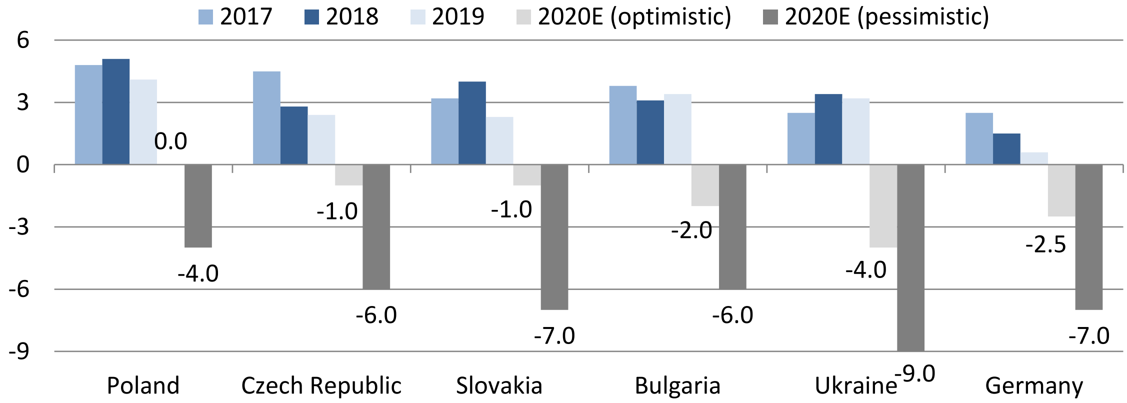
Source: European Central Bank (ECB) if available. Exchange rates Ukrainian Hryvnia are based on National Bank of Ukraine.

5.3 DEVELOPMENTS IN THE MARKET AND PORTFOLIO

5.3.1 ECONOMIC BACKGROUND AND OUTLOOK

Both the final GDP growth numbers for 2019 and 2020's unfolding coronavirus growth shock (**COVID-19**) point to the CEE region's economic growth cycle coming to an end. Europe's economic engine, Germany sputtered to a 0.6% expansion in 2019, with buoyant consumption carrying a severely-contracting manufacturing sector. German autos, a key export sector for the entire CEE region, suffered, seeing slumping global demand, especially for diesel models. CEE and Europe in general are all high-exporting economies and the slowdown in global trade volumes, evident since mid-2018, took its toll. As with Germany, domestic demand in the CEE countries was much more buoyant in 2019 and sustained GDP growth at a 4.1% rate in Poland, 3.4% in Bulgaria, 3.2% in Ukraine, 2.4% in the Czech Republic and 2.3% in Slovakia. The region's Central Banks, with the exception of the Czech National Bank, kept interest rates very low relative to inflation, encouraging those consumption trends.

GDP GROWTH, SELECTED CEE COUNTRIES AND GERMANY, 2017-20E



Source: countryeconomy.com (historical data), Arcona Capital external consultancy (2020 estimate), based on Goldman Sachs, Deutsche Bank, ING, Dragon Capital estimates as of 24 March 2020

The profound COVID-19 pandemic shock, still unfolding across the world at the time of writing, is likely to result in moderate to severe recessions in Europe, Germany and the CEE countries in 2020. As ING have stated, "the depth of the recession will be determined by how long the virus outbreak and the lockdowns will last". A moderate recession phase, presented here as an "optimistic COVID-19 scenario" is one where the epidemic comes under control in Europe, social distancing and "lockdown" measures are removed by the end of June or earlier and international travel resumes in the second half of the year. GDP growth estimates for countries range between 0.0% (Poland) and -/- 4.0% (Ukraine), with Germany contracting -/- 2.5%. A rebound in economic growth, making up some of this lost ground, would unfold in 2021 and total economic output for all countries would exceed 2019 levels again in 2022.

A more severe outcome, where COVID-19 proves more difficult to contain, both in Europe and elsewhere in the world, including in the UK and USA is a "pessimistic COVID-19 scenario". Here, the disease's prevalence does not allow social distancing and "lockdown" measures to be removed by June in Europe or that such measures are reintroduced periodically throughout the year as fresh outbreaks of COVID-19 recur. In this situation economies are seen as contracting by -/- 4.0% (Poland) to -/- 9.0% (Ukraine), with Germany's economy shrinking -7.0%. Goldman Sachs, on 23 March, estimated in published research that the Eurozone economy may contract by -/- 9.0% in 2020. Governments around the world, via fiscal measures and Central Banks, via interest rate cuts and "quantitative easing", have taken action to mitigate the chance of such an outcome.

CEE's vulnerabilities to the COVID-19 downdraft phase include the following: first, high export ratios to GDP (over 85% in Slovakia, for example) which in a situation where demand for products elsewhere, is a weakness; secondly, the complexity of these import-export economies: CEE companies rely on supply chains to import goods, assemble and re-export. Supply chains are disrupted at best, presently, and some may be permanently reconfigured. Thirdly, much of the economic growth generated in recent years is due to domestic consumption and in some countries (Bulgaria and the Czech Republic especially) tourism. Much of this consumption is curtailed, at a zero level, at the time of writing and some of it is “lost demand”, never to be spent. Fourthly, Foreign Direct Investment by global multinationals and EU Structural funds were major drivers of economic growth in the CEE region in the last two cycles. A hiatus, at best, in these flows of investment capital looks likely.

CEE’s comparative strengths in this downdraft phase include: first, the present COVID-19 outbreak is generally less severe in the region than in Western Europe and the USA. Relatively quick action on social distancing has occurred. Secondly, a relatively low consumption spend in absolute currency terms versus Western Europe and the USA on comparison retailing, or termed more broadly “consumer discretionary” purchases. These encompass all discretionary decision purchases, such as travel, electronic goods, cars. The memory of many CEE citizens of more difficult times, without discretionary spending, is more vivid. Thirdly, the level of government debt to GDP in the CEE countries, with the exception of Ukraine, is low, meaning that large fiscal stimulus to combat the downturn is possible and being deployed. Indeed, the Czech fiscal/loan guarantee package already announced is, at around 18% of GDP, the largest in Europe at the time of writing. Fourthly, CEE corporates, banks and even real estate companies have learnt to operate with lower leverage than peers elsewhere due to their experiences in the 2008 Global Financial Crisis. Fifthly, this relative lack of debt in the CEE region’s financial systems means a lower likelihood of very unorthodox macroeconomic solutions such as the massive monetary interventions being pursued in the US, the Eurozone and Japan. The long-term inflationary effects of these extraordinary interventions are not yet widely debated.

Looking beyond COVID-19 is tricky at present. A vaccine is likely to be widely available some time in 2021, meaning economies should normalise by then. It is hoped that consumer price inflation remains under control. One of the CEE region’s most acute problems in 2017-2019, labour shortages, will most likely be dealt with through rising unemployment. This should mean a resumption of corporate investment, with perhaps more from local sources and the beginnings of a new economic cycle. Nimble, cheap workforces, redeployed into new industries if necessary, should benefit in the eventual cyclical upswing. And real estate, as a “hard”, “real” asset class, should participate in that recovery.

5.3.2 REAL ESTATE MARKETPLACE

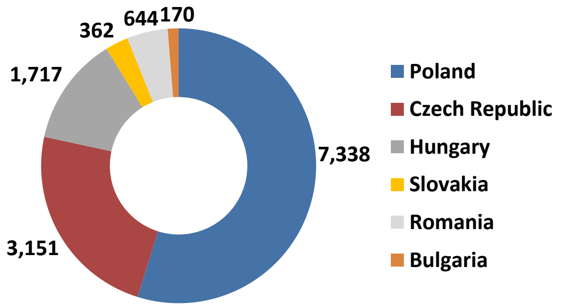
Ahead of the current crisis situation, investors purchased a volume of € 13.4bn of commercial real estate in the CEE-6 Central European markets in 2019, down -/- 4% year-on-year from 2018’s record level, according to Colliers International data. That record in 2018 correlates with the peaking of GDP growth and economic leading indicators relating to consumption in 2017-18 and the present expected downturn in growth very likely points to much lower volumes in 2020.

Assessing 2019, purchases of Polish assets were again dominant, with € 7.4bn making up 55% of the total pie and edging up 3% year-on-year versus 2018 to set a new record. According to CBRE data, deals involving assets in Polish regional cities formed the majority of these investments for the fifth year running, with Warsaw assets in the minority. Czech flows rebounded 26% year-on-year in 2019, with several large purchases by Asian investors in and around Prague boosting the total. Slovak (-/- 55% year-on-year), Romanian (-/- 32%) and Bulgarian (-/- 75%) volumes all fell last year compared to 2018. Lower investment into these less liquid marketplaces is often a coincident signal of a general slowdown.

The presence of local buyers is key in more difficult commercial real estate market environments as they tend to lend stability, being more likely to be present through a whole investment cycle and more prepared to consider higher-yielding assets in less fashionable locations. Local banks also know their domestic counterparties better. In this vein, Poland looks most vulnerable in 2020. Domestic investors were again noticeably absent from the Polish marketplace in 2019 and also from Slovakia last year. Local activity picked up in Romania and maintained market liquidity in Bulgaria. Domestic investors again made over 50% of Czech and Hungarian purchases in 2019, especially in the office and retail sectors.

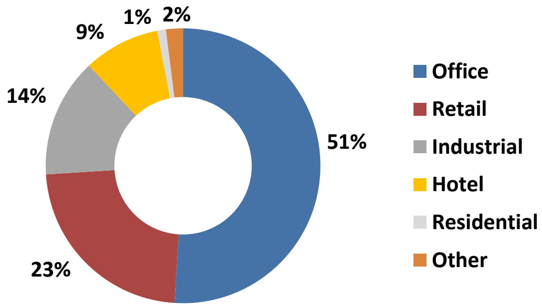
2019 saw a repeat of 2018 with the office sector dominating deal flow across the region. Office (up 18%) and hotel (up 250%) flows were strong and the region saw its first transactions in the residential sector. These sectors tend to be GDP proxies and are thus very likely to struggle in the current COVID-19 downdraft phase. Both retail and industrial volumes fell by around a third in 2019, the former still correcting from the very high deal flow seen in the 2016-18 period. A lack of product appeared to hold back investments into industrial in 2019.

CEE-6 FLOWS BY COUNTRY (2019, € mn)



Source: Colliers International

CEE-6 FLOWS BY SECTOR (2019, € mn)



Source: Colliers International

5.3.3 REAL ESTATE OUTLOOK

In our optimistic COVID-19 scenario, a gradual return to normal economic activity in CEE by July sees the CEE real estate markets to an investment volume of around € 7-8bn in total for the year 2020. CEE government support of retail shopping centre owners and tenants in the downdraft phase should mean little in the way of distressed selling of any of those assets immediately. But recent, pre-COVID-19 valuations may be too high levels to ignore for stressed Western European or US real estate funds looking to reduce the size of their portfolios. Low unemployment levels across the region, relative to Europe, should help to build a reasonably healthy rebound in consumer demand and thus help stabilise rents. Tenant mix and type also matters in logistics assets, though those in the food, medicinal and healthcare equipment supply chains should have survived the downdraft phase in relatively good condition. Online retailers obviously benefit. Purchase demand for and rent levels in commercial offices depend more on the tenant mix of the assets themselves and the market supply situation in any particular city. International tenants will be reviewing business plans and commitments to the region, as will those active in the consumer discretionary sector. Greater differentiation of product pricing is thus likely. Supply chain industrial assets, prevalent in the CEE region, should receive government support to preserve their solvency and jobs and thus re-engage in production when normalisation occurs. Some sectors, such as autos, are likely to see restructuring of supply chains as the downturn triggers a shift of focus and reduction of production capacity. The slow economic pick-up should shift market outlooks in favour of tenants rather than landlords across all the sectors.

In our more profound pessimistic COVID-19 scenario, activity remains muted for the rest of 2020 and investment volumes for the CEE-6 countries remain below € 5-6bn for the year. The only transactions executed are distressed disposals of easy-to-sell assets. The intense fallout from the downdraft phase is particularly felt by European and US multinationals operating in the industrial and consumer discretionary sectors; this affects tenant demand in office, industrial and traditional shopping centre retail. Government support packages keep employees and tenants largely in place during the year but are likely to trigger retrenchments the longer the hiatus of activity goes on.

Both scenarios foresee a delay to real estate development projects, affecting the supply of completed projects across the sector arenas. Financial stress on developers obviously increases in the pessimistic COVID-19 scenario.

The Polish office market

Ahead of COVID-19, Poland's impressive economic growth performance had driven vacancy rates well below 10% in the very liquid Warsaw marketplace, spiking headline prime rents up 18% to around €

26.0/sqm/month (Colliers International data) at the end of 2019, ranging up from € 14/sqm/month for B class offices. Signs of a cyclical economic slowdown in H2 2019 and increased construction activity suggest that the peak of the cycle may have been reached, both in Warsaw and in the Polish regions.

For Szczecin, where our office asset is located, vacancy rates in the CBD stabilised at 5.8% at the end of 2019, slightly up from 5.1% in December 2018, according to Colliers International. This is the second lowest vacancy rate amongst the office markets of major cities in Poland. Prime rents held steady last year, at € 14.0/sqm/month. New office supply, in the form of active construction stood at 23,100 sqm or around 13% of existing stock, lower than at the end of 2018. Szczecin remains as a location with lower average wages than Warsaw or comparative EU cities and this factor may see continue demand from business process outsourcing (**BPO**) players looking to cut costs in a post-COVID 19 scenario.

The Polish retail market

Polish private consumption grew faster than even the impressive overall GDP growth rates in both 2018 and 2019, with falling unemployment and net immigration boosting volumes and therefore underpinning rents. This encouraged a positive tone in the retail real estate arena, in spite of the ongoing challenge from e-commerce. Vacancy rates in traditional shopping centres in for the eighteen largest Polish cities remained low, at just 3.9%, according to Colliers International, versus 3.1% in 2018. The country's unemployment rate holds the key for the rental and vacancy rate prospects for the sector overall post-COVID 19 and employment will be correcting downwards from very high levels, creating some insulation for convenience retailers. Looking at the supply side for the whole retail sector, 2019 saw an expansion of just 0.3mn sqm, with another 0.4mn sqm (3% of stock) currently under construction. The market does not appear oversupplied with space, on normal metrics, presently.

After substantial news-flow concerning bankruptcies and restructurings in 2018, 2019 saw increased investor and developer activity in the small retail park (2,000 – 4,999 sqm) and convenience centre (5,000 – 19,999 sqm) sectors, especially in small and medium-sized cities. Trei Real Estate, Saller Group and Napollo were the most active players in these sectors, according to Colliers International. A new developer, EDS Retail Park, also appeared on the market. New projects will be built in Kutno, Lubin, Nowy Dwór Mazowiecki and Reda. In addition, developers were until recently securing subsequent plots for further investments. The major restructuring in the food retail sector that took place in 2019 was that of Tesco, reducing its footprint in the country in the face of intense competition from Biedronka and Lidl. In addition, SPAR has finalised the takeover agreement for the Piotr i Paweł Group, and a gradual rebranding of the chain's stores is underway.

The intense fight for market share in the food retail marketplace that has gone on for over 3 years is of course put in the shade by a substantial demand boost due to the COVID-19 restrictions meaning more food & beverages, drugstore goods, medicines and other goods purchased in outlets that are open and online instead of discretionary or comparison retail purchases (electronic goods, clothes, eating out) that are now closed. The longer COVID-19 goes on, the longer the relief from that price war and the greater an eventual likelihood of a steadying or increase of rents for landlords.

2020 was to be marked by new tax and legal regulations that are scheduled to affect the retail market in Poland. These include the next stage of the tightening of the Sunday trade ban (only 7 trading Sundays this year), another increase in the minimum wage, the return or modification of the retail tax on large-format stores, a government Act on counteracting food waste, raising excise on tobacco and alcohol, as well as the introduction of the act on food quality inspections. COVID-19 might delay some of these moves.

The Czech office market

The crest in Czech economic growth in 2017 signalled a peak in the office market cycle in 2019: prime rents in Prague ticked up another 4.5% last year to a level of € 23/sqm/month. Prague prime yields moved in -50bps and hit a cycle low of 4.0% in Q3 2019. Strength in domestic consumption sustained service sector demand but was not enough to see an -/- 18% reduction in gross take-up, at 439,000 sqm according to Savills. Vacancy rates bottomed at 4.4% in Q1 2019 and rose to close the year at 5.5%. COVID-19 is likely to see the cycle curtailed and vacancy rates rise. Prime yields might finally back up away from the cycle low, if any transactions occur. New office supply totalled 202,000 sqm at the year end, an increase of 33% year on year, with another 248,000 sqm of space under construction in the city.

Office market activity picked up in Brno in 2019, with gross take-up jumping 35% higher to 81,000 sqm over the year. The market appears in balance, according to Colliers International in February 2020, with 65% of the under-construction space comprising 55,800 sqm already leased to future tenants. Taking this into account, the vacancy rate at 10.3% is likely to remain stable if normal market conditions resume in line with our first economic scenario: the COVID-19 downdraft phase does introduce some uncertainty to all construction activity. Prime rents in Brno stood at € 15.0-16.0/sqm/month at year end 2019. The city remained a popular location for IT tenants, recruiting employees directly from the city's university.

The Slovak office market

2019's export-led slowdown in Slovak GDP growth to just 2.3% was more marked than commentators expected. Exhibiting a similar time-lag to its Czech neighbour, the effect on the Slovak office market activity appeared deferred to 2020, with Bratislava's prime rents ticking up 3% to € 16/sqm/month by 2019 year end. Average rents stood at € 13.40/sqm/month. Prime office yields in Bratislava fell -/- 50bps to a new all-time low of 5.5%. Vacancy rates ticked up 270bps to 8.7% during the course of 2019, according to Colliers International data.

Rents in the Slovak capital were nevertheless firm due to gross take-up expanding 16% to 200,000 sqm, easily outstripping new stock additions of approximately 80,000 sqm, which were close to the 2018 figure. These additions amounted to just over 4% of the 1.84mn sqm of stock in the city. Several larger buildings are due to be finished and delivered in the 2020-2022 period, with the pipeline summing to 276,200 sqm according to Colliers. This supply works out at close to the 2018-19 run rate. As elsewhere, COVID-19 throws the timing of these completions into uncertainty but also threatens the already-slowing demand outlook.

The Bulgarian residential market

Sofia's high-end residential market, concentrated in the districts of the city at the foot of the Vitosha mountain, continued to expand in 2019. The supply of new mid-plus and high-end residential units in Sofia registered a significant 19% increase last year, with total stock reaching 10,600 units, according to Colliers International. New supply had jumped at an 8% rate in 2018. Despite the marked increase in supply, the vacancy rate tracked down from 7% to 5%, with demand thus remaining robust. Price reductions did occur for projects that remained unsold from 2018 but otherwise values held their ground in 2019. Pre-sales represented 40% of all registered transactions last year.

The share of buyers in 2019 intending to hold the flats as an investment rose to 40%, from 33% in 2018. For them, rents in the high end private segment maintained their levels. The average rent for a two–bedroom apartment amounted to € 950 – 1,200/month, according to Colliers International.

The outlook for the segment is of course clouded by COVID-19 effects. A hit to GDP will stymie demand, as would a lockdown of the city of Sofia in a more severe manner. An additional 4,000 residential units are under construction presently of which 250 were expected to come on to the market in H1 2020, according to Colliers International. Colliers were already expecting some downward pressure in 2020 on the asking price of properties on the secondary residential market due to this supply pipeline. The onset of the COVID-19 downdraft phase appears likely to exacerbate this downturn.

The Ukrainian land market

Ukraine's recovery and stabilisation continued in 2019, with GDP growth of 3.2%, even in the face of continued disputes with Russia. This has triggered a revival of development supply into some of the key residential and commercial real estate segments, certainly in the capital Kyiv and elsewhere as well. According to Colliers International, around 188,000 sqm comprising 4 new shopping centres and 94,000 sqm of offices were completed and supplied to the Kyiv market in 2019. Another 877,000 sqm in 13 retail projects is under construction or planned by 2023, boosting stock by 58% if it is all built. In the office arena, vacancy rates have fallen to just 7%, from 17.5% in 2015. This has triggered the construction of 20 new business centres with a combined lease area of more than 230,000 sqm all due to come to the market in 2020. These numbers, if delivered, indicate that a revival in demand for land plots in and around Kyiv and other major cities should occur, if the economy keeps growing.

The high probability of a significant COVID-19 downdraft phase in Ukraine makes it likely that the plans to deliver this new stock to the retail and office segments may be postponed. International industrial and logistics companies, starting to look at Ukraine as a viable low cost alternative location for production, will most likely put expansion plans on hold for now. Thus the marginal demand for land plots is likely to ebb away, at least for 2020.

5.3.4 REAL ESTATE PORTFOLIO DEVELOPMENT

Table 12 – Comparative statement of the real estate portfolio

	31-12-2019	31-12-2018	change	%
Fair value (in € 1,000) [13]	101,251	89,032	12,219	13.7%
Number of properties	27	24	3	12.5%
Rentable area (in m²)	111,906	103,849	8,057	7.8%

The fair value as at end 2019 is € 12.22 million higher than a year before and is the net result of three SPDI acquisitions, capital investments into the portfolio and valuation movements. The like-for-like fair value of the 24-asset portfolio was unchanged at € 89.0 million.

Table 13 – Statement of changes in investment properties (see also 15.2.4)

	2019	2018
	in € 1,000	in € 1,000
Balance as at 1 January	**89,032**	**89,798**
Acquisitions	6,165	-
Purchases and additions	512	690
Exchange rate differences	162	-/- 120
Fair value adjustments	213	-/- 1,336
Balance as at 31 December (including assets held for sale)	**96,084**	**89,032**
Reclassification	-/- 19,652	-
Balance as at 31 December	**76,432**	**89,032**

The “Purchases and additions” during 2019 reflects capital expenditure into the properties.

Table 14 – Comparative statement of real estate income within like-for-like[14] portfolio

	2019	2018	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	8,875	8,699	176	2.0%
Service cost income	2,184	2,099	85	4.0%
Total income	**11,059**	**10,798**	**261**	**2.4%**
Service costs	-/- 3,292	-/- 3,225	-/- 67	2.1%
Operational costs	-/- 2,547	-/- 2,754	207	-/- 7.5%
Net rental income	**5,220**	**4,819**	**401**	**8.3%**

The increase in net rental income in the amount of € 401,000 is due to higher occupancy ratios across the 24-asset investment portfolio. The like-for-like net rental income of € 5.22 million is 8.3 % higher compared to the previous year (€ 4.82 million). The three new assets are not income-generating properties and did not contribute to this increase.

[13] Including assets held for sale
[14] When compared to same portfolio as at end 2018

5.3.5 FUND PORTFOLIO OPERATIONS

The table below shows how the key ratios of the Fund´s operations changed over 2019:

Table 15 – Comparative statement of the real estate portfolio based on indicators

	31-12-2019	**31-12-2018**	**Change**	**%**
Fair value per asset (in € 1,000)	3.777	3,710	67	1.8
Number of properties (annual average)	27.0	24.0	3	12.5
NOI per asset [15] (in € 1,000)	217.5	200.8	16.7	8.3
Occupancy [16] (in %)	84.3	86.9	2.6	3.0
Total loan-to-value (in %)	50.0	50.5	-/- 0.5	-/- 1.0
Discount Share price to NNNAV (in %)	55.0	48.0	7.0	14.6
Ongoing Charges Figure [17] (in %)	10.01	10.72	0.71	-/- 6.6
Fund expense ratio (in %)	4.24	4.31	0.07	-/- 1.6
Solvability (in %) [18]	81.0	79.1	1.9	2.4

5.4 FUND STRATEGY AND OBJECTIVE

The aim of the Managing Board is to position the Fund as the leading quoted vehicle investing in income-generating real estate in Central and Eastern Europe. To achieve this will require significant further increases in the size of the Fund and in the level of dividends distributed to shareholders.

The Fund objectives are:

- An annual dividend yield of ca. 8% on the prevailing share price.
- Long-term fund size of € 500 million with approximately 30 to 50 assets and a geographic distribution as follows:
  - Poland: 40% (€ 200 million)
  - Czech Republic: 20% (€ 100 million)
  - Slovakia: 10% (€ 50 million)
  - Other countries in the region of Central and Eastern Europe e.g. Romania, Bulgaria, Serbia, Croatia and Hungary: 30% (€ 150 million)
- A balanced portfolio of modern high-yielding, multi-tenanted real estate across the region.
- Loan to value between 45% - 50% (including convertible bonds).

The Polish portfolio is currently at 33.5% (2018: 38.9%), the Czech portfolio is 17.2% (2018: 18.5%), the Slovakia portfolio is 37.2% (2018: 42.6%), the Ukrainian portfolio is 3.9% (2018: 0%) and the Bulgarian portfolio is 8.1% (2018: 0%). The loan to value is currently 50.0% (2018: 50.5%).

5.5 DIVIDEND POLICY

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

[15] Per income producing asset

[16] Weighted based on fair value, excluding non-income generating properties Aisa Bela and Boyana Residence

[17] Excluding one-off cost elements

[18] Defined as equity / liabilities x 100%

5.6 OUTLOOK

Uncertainty and scenario modelling

Uncertainty around the scale, timing and impact of the COVID-19 pandemic means it is impossible to give meaningful guidance for earnings for the year ahead. Instead, we have given a range of outcomes for the current year for different income scenarios. The results give a clear picture of the possible effects on our finances and point to the practical steps we can take to ensure that the Fund is able to sustain its operations and preserve shareholder value.

Method

The scenario modelling we have used to assess the effects of the pandemic has the following inputs:

- A base case start point of the net rent received from each market segment of the portfolio during 2019;
- An assessment of the Fund´s tenant composition to identify tenants at serious risk, tenants at general risk and tenants at no risk or potentially benefitting from the crisis;
- Current information on the percentage of floorspace closed down by government decree or otherwise not available for tenant use;
- Current information on the percentage of tenants requesting full or part rental discounts;
- An assessment of the likely duration of the effects of the pandemic and of its likely trajectory.

Conclusion

The conclusion of our scenario modelling is that the likely effects of the pandemic will be a drop in annual net income of between € 550,000 and € 1.22 million. The Fund can sustain a drop of ca. € 800,000 in its annual net income before its ability to meet debt service and operational costs (at pre-crisis levels) starts to be impaired. The Fund has some flexibility to reduce operational costs. The Fund´s net income would need to fall by € 3.2 million (60%) before it becomes unable fully to cover its forecast debt service costs for 2020. 25% of the Fund´s forecast 2020 income has, of course, already been received in the form of rents paid for January, February and March.

Scenario modelling inputs

- <u>Base case</u>

Net income in 2019 was € 5,220,000, split between Poland (€ 2,291,000), Slovakia (€ 2,025,000) and, Czech Republic (€ 917,000). No significant changes to the income-producing component of the portfolio took place during the year and the occupancy rate is broadly the same, so the original 2020 budget anticipated similar net income levels for 2020. Rent for the first three months of 2020 was payable in advance and was received as normal across the portfolio in the sum of approximately € 1,300,000. The scenario modelling takes this Q1 rental amount and adjusts it across the next three quarters in line with best case, worst case and central case assumptions.

- <u>Tenant composition assessment</u>

The Fund portfolio is currently 58% offices, 30% retail and 12% student/hostel accommodation. From the office component, the largest occupier sectors are telecommunications, software/IT and government services. There is no significant exposure to the travel, hospitality, event planning, sports or retail management sectors. From the retail component, approximately 75% of the floorspace is occupied by supermarkets, food retailers, drugstores and pharmacies. The remaining 25% is directly affected by the crisis, either being closed down by government decree or closed due to lack of customer demand. From the accommodation component, most is rented to students whose places of learning are currently closed, but who can be expected to require their accommodation again for the Autumn 2020 term onwards.

- Current floorspace usage

As at 30 March 2020 tenants were open and trading in 76% of the retail floorspace in the Polish portfolio and 75% of the floorspace in the Slovak portfolio. All the Fund´s office, storage and accommodation space is open and available for tenants' use. In total 93% of the Fund´s leased floorspace was fully available for use.

- Tenant discount requests and alleviation measures

As at 1 April 2020 the Fund´s asset management teams had received rental discount or payment delay requests from 27 tenants comprising 16% of the Fund´s total rent roll. These requests are being handled by the Fund on an individual basis to reflect the specific circumstances of each tenant.

The student accommodation in Kosice, Slovakia, is rented out to individual students and is directly affected by the closure of the city´s university. After consultation with the university authorities the Fund has offered the option of early lease terminations to the students affected which a number are expected to accept. It is estimated the impact of these measures will be a reduction of up to € 125,000 in net income in Q2 2020 from budgeted amounts.

- Pandemic duration assessments

Based on the occupancy and rent statistics available as at 1 April 2020 the Fund can assess with a fair degree of accuracy the likely impact on income for Q2 2020. The impact on income for the remainder of the year is much more difficult to assess, as there is no clear view as to the likely duration of the pandemic and of the exceptional measures being taken to limit its effects, The Fund has therefore modelled three scenarios to reflect a short term impact with a quick recovery, a medium-term impact with a slower recovery, and a longer-term impact with a weak recovery.

- Effect on debtors, financial instruments and exchange rates

The provisions for dubious debtors across the portfolio did not materially change during Q1 2020. Due to the pandemic, the Fund expects to make additional provisions for debtors in Q2.

The exchange rate between the Euro and the Polish Zloty and Czech Crown strengthened in favour of the Euro by approximately 8% from year-end 2019 to 1 April 2020. The impact of this exchange rate fluctuation on the Fund is relatively limited as the majority of rent in Poland is denominated in Euros. If this readjustment persists, the Managing Board expects the effect on NAV to be less than 1% (less than € 0.13 per share).

The Fund uses interest rate swaps in Poland and Czech Republic. The effect of the COVID-19 pandemic on the result of these interest swaps in Poland is not material. The swap in Czech Republic showed a negative impact of around € 310,000.

- Effects of Government support measures

The governments of the countries in which the Fund is invested have introduced various measures to support businesses and individuals negatively affected by the crisis. Further measures are being considered and may be introduced in the coming weeks. These may include obligatory rent and mortgage payment holidays, protection from enforcement actions, cheap loan provision and subsidies for wage costs. It is not clear at this stage whether these measures will have positive or negative impacts on the Fund´s operations and their potential effects have not therefore been reflected in the scenarios modelled.

Three income scenarios – best, worst and central

The worst-case scenario models an overall rental drop for 2020 of 23.5%, with regional declines of between 25% and 40% during Q2 and Q3 improving to a decline of between 15% and 20% in Q4. This scenario results in a net income result of € 4 million for the year.

The best-case scenario models an overall rental drop for 2020 of 10.5%, with regional declines of between 15% and 25% in Q2, improving to a decline of between 10% and 15% in Q3 and to overall -/- 4.6% in Q4. This scenario results in a net income result of € 4.68 million for the year.

The central case scenario models an overall rental drop for 2020 of 14.1%, reflecting anticipated rental declines of between 20% and 30% in Q2, 12.5% to 20% in Q3 and 7.5% to 10% in Q4. This scenario results in a net income result of € 4.49 million for the year.

Mitigation

The Fund spent € 0.51 million during 2019 on improvements to the properties and distributed € 1.11 million in dividends to shareholders. Should the Fund´s income decrease further than anticipated during 2020 as a result of the COVID-19 crisis, free cash flow can be enhanced by deferment of capital expenditure and/ or dividend distributions.

Scenario modelling summary

In 2019 the Fund´s net income was € 5.2 million. Operational costs were € 2.36 million and debt service amounted to € 2.07 million. The scenario modelling exercise shows that the Fund should be able to meet its budgeted payment obligations for the year in the "best case" and "central case" scenarios without deferring planned capital expenditure or dividend payments. In the "worst case" scenario the Fund would need to defer ca. € 400,000 of planned expenditure to meet its regular payment obligations. No contribution from the asset sale programme (summarised below) has been assumed in these scenarios due to current market volatility.

In all three scenarios, the Fund is able to meet its debt service payment obligations in 2020. In the Czech Republic, the government has stipulated that interest and amortization payments on bank loans may be deferred at the request of the borrower, without creating a covenant breach. We anticipate similar measures will be put in place shortly in the other countries in which the Fund invests. The main local subsidiaries of the Fund (in Poland, Czech Republic and Slovakia) also retain a reserve of three months debt service payments in separate accounts which can be used to support regular payments as required.

The Fund is scheduled to refinance a further portion of its loans in 2020 (€ 12.6 million). For one loan in Poland (€ 6.0 million) the financing bank (DNB Nord Bank) has indicated that it is prepared temporarily to extend the loan in view of the current market circumstances. Talks with the bank about the extension conditions are ongoing. As the Fund repaid part of this loan in 2016, DNB Nord Bank does not currently test the covenants in place. Three further loans of € 6.7 million in total will expire at the end of this year. The Fund plans to repay these loans from the proceeds of the envisaged sales from the portfolio in Košice (Slovakia). The Fund plans to sell up to five assets in Košice in the coming months. Following a formal marketing campaign and the receipt of several offers for all or some of these assets, a preferred bidder has now been selected and a formal Letter of Intent is expected to be signed with this party in April 2020. If this sale ultimately does not progress, the Fund can decide to sell more liquid assets or seek to refinance the loans with other parties. In a worst case scenario, the Fund would need to arrange with the lenders to extend these loans.

The Fund has an overall loan-to-value ratio of approximately 50% (including loans at fund level). The bank loan-to-value ratio is 42.5%. The loan-to-value ratios of the local entities are still well below the requirements set by the banks and therefore offer sufficient scope to absorb substantial declines in the market values of the properties, should these occur.

In the Czech Republic, the market value of the portfolio can fall by 29% or CZK 130.6 million (€ 5.1 million) before the LTV covenant of Sberbank CZ is breached. In Slovakia, the market values have room to fall by 23% or € 8.7 million before the LTV covenant of Slovenska Sporitelna is breached. In Poland, the LTV covenant of BNP Paribas would be breached if the market value (currently € 17.3 million) were to fall by circa. € 5.3 million (31%). The DNB Nord Bank LTV covenant of 75% would be breached if the market value of the Maris asset were to fall by € 1.1 million or 12%. The assumption in these calculations is that the local entities do not make any instalments on the respective loans of the four banks

Bank	LTV Covenant In %	2019 In %
Sberbank CZ	70	49
Slovenska Sporitelna	45	35
BNP Paribas	65	45
DNB Nord Bank	75	66
Alpha Bank	n.a.	28

Lower income receipts in the portfolio will certainly have a negative impact on the debt service coverage ratio (DSCR). Each bank loan has covenants for the DSCR. The covenants for the DSCR in the Czech Republic (Sberbank CZ) and Slovakia (Slovenska Sporitelna) are currently being met with a reasonable positive margin. The Sberbank CZ DSCR should, even in the worst-case scenario (1.16), remain above the minimum level of 1.10.

In Slovakia the DSCR would drop to 1.21 in the ” worst-case” scenario. In the course of the year the Fund expects to be able to lower the DSCR by making capital repayments from the proceeds of sales. This would enable the Fund to meet the Slovenska Sporitelna DSCR even in the worst-case scenario. However, if needed, additional measures, such as the postponement of capital expenditures, can also be taken.

For the loan from BNP Paribas in Poland, all covenants are currently being met. In the event that rental income declines further due to the effects of the COVID-19 pandemic, the DSCR covenant may be breached. However, as the Fund expects to be able to continue to make both interest and amortization payments on the loan (possibly by utilizing some funds from the Debt Service Reserve Account), the Management Board anticipates the bank will be willing to grant a waiver for this breach.

As stated above, DNB Nord Bank does not test covenants on its € 6.0 million loan to the Fund subsidiary in Poland holding the Maris asset. The Fund expects to meet full debt service payment obligations on this loan during 2020.

Bank	DSCR Covenant In %	2019 In %
Sberbank CZ	1.10	1.23
Slovenska Sporitelna	1.25	1.44
BNP Paribas	1.20	1.20
DNB Nord Bank	1.10	1.10
Alpha Bank	n.r.	n.r.

Based on the above and the analyses made in the management report, the Managing Board is of the opinion that there is no material uncertainty as to the ability of the Fund to continue as a “going concern“ in 2020. However, in the event a covenant of a bank loan is breached and a waiver cannot be agreed, the banks could charge penalty fees or higher interest rates or the Managing Board could be required to sell liquid assets. Such penalties or ‘forced sales’ could destroy value and lead to falls in NAV per share.

Acquisitions

The Fund intends to complete the acquisition of 5 further assets of SPDI during H1 2020. This includes 3 development sites in the Ukraine and two fully-leased office properties in Bucharest, Romania. The total value of the assets to be acquired will be ca. € 15 million. The acquisitions will be funded by the issuance of shares at Net Asset Value and by the assumption of existing senior debt arrangements.

Sales

The Fund plans to sell up to 5 assets in Kosice, Slovakia, during H2 2020. The 5 assets had an aggregate fair value as at 31 December 2019 of € 17.6 million. Net proceeds from the sales will be utilised largely for the repayment of debt at regional and Fund level.

5.7 RISK MANAGEMENT

Risk Management is considered an important managing board responsibility. In this annual report there were no material changes to the risk management framework specified in paragraph 15.37 “Risk management”.

Risk appetite and risk management

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

With the exception of the risks presented in paragraph 15.35 “Risk management” and described above in the paragraph *Risks associated with COVID-19*, we have not identified any other risks that could have a materially adverse effect on our business. Unidentified or unforeseen risks, however, could have a material adverse effect on our business.

Internal control framework

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

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

Risk monitoring

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

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

5.8 REMUNERATION POLICY

The Managing Board of the Fund applies a remuneration policy. The remuneration policy contributes to appropriate and effective risk management and does not encourage employees to take unnecessary risks within the framework of the prospectus and statutes of the Fund. The remuneration policy is in line with the strategy of the Fund, the goals and values of the Managing Board and the interests of the Fund’s investors. The remuneration policy incorporates measures that should prevent the occurrence of conflicts of interest.

The goal is to maintain a healthy balance between the fixed and variable remuneration. The fixed remuneration is sufficient for daily expenses and includes payments for education and pension contributions. The variable remuneration must be seen as an addition to the fixed remuneration and evaluates individual employees’ achievements for the company as a whole.

The Managing Board does not pay out a guaranteed variable bonus. Any variable bonus is determined based on results that can be measured or clear achievement goals. The full remuneration policy of the Managing Board can be downloaded from www.arconacapital.com.

Remuneration for the Managing Board for the period 2019 – 2015

In 2019 the Fund paid a total fee of € 1,338,000 (2018: € 1,330,000) to the Managing Board, affiliated companies and Secure Management Ltd. Of this total amount, the Managing Board received a fund management fee of € 680,000 (2018: € 684,000) and affiliated companies received an asset management fee of € 658,000 (2018: € 646,000).

	2019 In €	2018 In €	2017 In €	2016 In €	2015 In €
The Managing Board	680,000	684,000	675,000	439,000	400,000
Arcona Capital Czech Republic	474,000	466,000	474,000	469,000	454,000
Arcona Capital Poland	179,000	180,000	127,000	0	0
Secure Management	5,000	0	0	0	0
Total remuneration	**1,338,000**	**1,330,000**	**1,276,000**	**908,000**	**854,000**

The remuneration for the Managing Board is described in section 15.30 “Administrative expenses”.

The Managing Board employed on average 3.0 employees (2018: 2.4 employees). The managing directors of the Managing Board are employed by Arcona Capital Nederland N.V. (2) and Arcona Capital GmbH(1).

The total number of employees involved in the activities of the Fund is 6 (2018: 6). The Managing Board of the Fund receives a fixed management fee, described in the prospectus of the Fund. Part of the fixed management fee is paid as asset management fee to Arcona Capital Czech Republic, since 2017 to Arcona Capital Poland and since 2019, to Secure Management.

People in senior management functions with the Managing Board are seen as identified staff. Identified staff are defined as follows:

- Managing directors of the Managing Board; and
- Employees fronting administration, portfolio management, marketing and human resources.

No employees received (according to article 1:120 Wft) a remuneration exceeding € 1 million.

The Managing Board comprises three men. When new managing directors are named, the Managing Board will aim to achieve a balanced Board composition.

During 2019 the Fund did not employ any staff directly (2018:0). As identified staff, a managing director of Arcona Capital Nederland N.V. and its mother company Arcona Capital GmbH is shown. This director is not a policy maker of the Managing Board.

Remuneration for the Supervisory Board for the period 2019 – 2015

The Supervisory Board received a total remuneration of € 28,000 (2018: € 28,000) in 2019. The remuneration for the Supervisory Board has not changed for the last five years.

	2019 In €	2018 In €	2017 In €	2016 In €	2015 In €
Supervisory Board	**28,000**	**28,000**	**28,000**	**28,000**	**28,000**

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 15.31.3 “Analysis of Supervisory Board fees” and 15.31.4 “Analysis of other operating expenses”.

The Managing Board´s management contract with the Fund is described in the prospectus of the Fund and determines the annual level of management fee. The Supervisory Board is therefore not required to issue a remuneration report under the remuneration policy. The Supervisory Board monitors that the fees paid are in accordance with these contractual arrangements.. An adjustment of the remuneration can only be implemented if approved by the General Meeting of Shareholders.

5.9 CORPORATE GOVERNANCE

The Fund is a listed company, which as an investment institution is not required fully to apply the Corporate Governance Code preserved in law. However, the Managing Board and Supervisory Board of the Fund consider the principles of accountability and transparency, which underlie the Corporate Governance Code, to be of direct relevance to the Fund. Accordingly, they will seek to apply the principles and best practice provisions set out in the Corporate Governance Code as fully as possible to the operation of the Fund.

5.10 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL

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

Amsterdam, 28 April 2020

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

6 THE REAL ESTATE PORTFOLIO

As at 31 December 2019 the Fund's portfolio comprised twenty-seven properties. The following section gives an overview of each property in the portfolio. The properties are located in five Central European countries: four in the Czech Republic, eight in Slovakia, twelve in Poland, one in Bulgaria and two in Ukraine.

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

6.1 THE REAL ESTATE PORTFOLIO IN POLAND

The Fund portfolio as at 31 December 2019 comprises eleven modern retail centres in regional cities across Poland and one modern office building, in Szczecin. The properties are all multi tenanted. The main characteristics of each property are briefly summarised below:

8 Laubitza, Inowroclaw (Laubitza)	
Type	Retail
Rentable Surface (in m²)	1,749
Occupation Rate (in %)	100.0
Fair value (in € m)	2.138

The property is located in Inowroclaw, within Stare Miasto district, at 8 Laubitza Street, close to Dworcowa Street. The area is mostly commercial in nature. The retail building, completed in 2001, comprises one floor above ground of 1,749 m² of total lettable area and 41 parking spaces situated at the east, south and west sides of the property.

800-lecia Inowroclawia 27, Inowroclaw (Lecia)	
Type	Retail
Rentable Surface (in m²)	2,548
Occupation Rate (in %)	95.3
Fair value (in € m)	2.820

Inowrocław Lecia is located in the central part of Poland near to Bydgoszcz and Toruń. The city has approximately 75,000 inhabitants. The site is located on the south-eastern edge of the city, in a residential area comprising apartment blocks and single family houses. The immediate area is served by seven bus lines providing convenient access to the property for customers using public transport. The centre provides 2,548 m² lettable area and 100 parking places.

1 Krzemowa, Gdansk (Krzemowa)	
Type	Retail
Rentable Surface (in m²)	1,615
Occupation Rate (in %)	100.0
Fair value (in € m)	3.062

The Gdańsk–Sopot-Gdynia (750,000 inhabitants) conurbation (TriCity) is located in the northern part of Poland, on the Baltic coast. The property is situated in the southern part of Gdańsk, within the city's most densely populated district, Chelm (50,000 inhabitants). To the north-east it borders the Srodmiescie district, home of the medieval old town. Surrounded by multifamily residential buildings, the property benefits from high volumes of passing traffic, with Gdansk's city centre reachable by car within less than 10 minutes. The site has two entry points, provides 46 parking spaces and extends to 5,122 m². The main tenant is Biedronka, on a lease expiring in 2027.

1 Plutona, Glogow (Plutona)	
Type	Retail
Rentable Surface (in m²)	1,825
Occupation Rate (in %)	10.0
Fair value (in € m)	1.658

Glogow is a developing medium-sized town in the south-east part of Poland, with a current population of nearly 70,000. The property is located in the city's largest housing estate, Kopernik, with a population of 22,500. High-rise residential buildings dominate the property's direct surroundings. The lettable area is 1,825 m² and there are 62 parking places.

82 Kalinkowa, Grudziadz (Kalinkowa)

Type	Retail
Rentable Surface (in m²)	2,558
Occupation Rate (in %)	93.5
Fair value (in € m)	2.630

Grudziadz is a city with nearly 100,000 inhabitants, located in the north of Poland. The property is located in the south-western part of Grudziadz in a densely populated residential area. It is bordered by the Strzemiecin housing estate with its 12-storey blocks of flats to the north and the Kopernika housing estate with its medium-density dwellings to the north-east. The site extends to 8,213 m² and is predominantly held freehold. Part of the parking area (1,300 m²) is held under a leasehold agreement signed with the municipality of Grudziadz. The parking area overall has 126 parking places. The main tenant is Hildebrandt, on a lease expiring in 2021.

137 Wajska Polskiego, Piotrkow Trybunalski (Wajska)

Type	Retail
Rentable Surface (in m²)	2,650
Occupation Rate (in %)	98.7
Fair value (in € m)	3.553

Piotrków Trybunalski is located in the central part of Poland near to Łódź. The city has approximately 75,000 inhabitants. The city's main competitive advantage is its location in central Poland on the main transport artery providing fast connections to the country's major towns and cities. With recent improvements in the national road and transport infrastructure the city has become one of the most important distribution locations in Poland. The property is located on Wojska Polskiego Street, the main road connecting Piotrkow city centre with the north-western peripheries. Its neighbourhood comprises residential areas to the north and business facilities to the south. Because of its prominent location on the main road and its distinctive signage, the retail centre is highly visible. Extensive new residential developments are under way adjoining the site to north-west which will add to the centre's catchment area. The property has 95 parking places. The main tenant is Biedronka, expiring in 2028.

6 Wolnosci, Slupsk (Wolnosci)

Type	Retail
Rentable Surface (in m²)	1,872
Occupation Rate (in %)	100.0
Fair value (in € m)	1.397

Slupsk is an historic town in north-western Poland, located just 18 km away from Ustka, a popular seaside resort on the Baltic coast. The current population is 95,000 inhabitants. The property is located in the northern part of the city and its immediate surroundings comprise high density mid-rise residential developments. The Old Town is within 10-minutes' walk. Two bus stops are located directly in front of the property with several others within walking distance. The property has 48 parking places. The main tenant is Jinfeng on a lease expiring in 2022.

80-82 Graniczna, Kalisz (Kalisz) – ASSET HELD FOR SALE

Type	Retail
Rentable Surface (in m²)	2,561
Occupation Rate (in %)	0.0
Fair value (in € m)	1.175

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

The property was built in 2010 as a neighbourhood retail centre anchored on a supermarket and with 18 smaller retail units around a central atrium. This concept failed and the property is now vacant. The Fund plans to sell the property during 2020.

216 Legionow St., Torun (Torun)

Type	Retail
Rentable Surface (in m²)	2,229
Occupation Rate (in %)	100.0
Fair value (in € m)	2.849

This single-storey retail building, completed in 2001, comprises 2,229 m^2 of total lettable area and 64 parking spaces. The property is located in Torun, Chelminskie Przedmiescie district, at 216 Legionow St., close to Wielki Row St. The area is predominantly residential in nature. There is direct access to the building from Legionow and Kozacka Sts. Car parking is located from the north (Wielki Row St.), west (Legionow St.) and south sides of the property and consists of 64 over ground car spaces. Public transport is secured with 2 bus lines that have stops at Wielki Row St. and 4 bus lines that have stops at Legionow St. The site of the property is held leasehold.

20 Grzymaly Siedleckiego St., Bydgoszcz (Bydgoszcz)

Type	Retail
Rentable Surface (in m²)	1,793
Occupation Rate (in %)	100.0
Fair value (in € m)	1.611

This single-storey retail building, completed in 2001, comprises 2,229 m^2 of total lettable area and 64 parking spaces. The property is located in Torun, Chelminskie Przedmiescie district, at 216 Legionow St., close to Wielki Row St. The area is predominantly residential in nature. Public transport is secured with 2 bus lines that have stops at Wielki Row St. and 4 bus lines that have stops at Legionow St. The site of the property is held leasehold.

107 Kardynala Wyszynskiego St., Lodz (Lodz)

Type	Retail
Rentable Surface (in m²)	1,580
Occupation Rate (in %)	95.1
Fair value (in € m)	1.868

This single-storey retail building, completed in 2001, provides 1,580 m^2 of total lettable area and 60 parking spaces situated in the north and east sides of the property. The property is located in Lodz, Polesie District, at 107 Kardynala Wyszynskiego St., close to Popieluszki St. The area is predominantly residential in nature. Public transport is secured with 7 bus lines that have stops to the west of the property. The main tenant is Tesco, on a lease expiring in 2021. The site of the property is held leasehold.

9 Holdu Pruskiego Square, Szczecin (Maris)	
Type	Office
Rentable Surface (in m²)	5,974
Occupation Rate (in %)	81.1
Fair value (in € m)	9.149

This office building, completed in 2005, comprises six floors above ground and three underground levels (with 119 parking spaces) and is located in the city centre opposite Szczecin´s iconic new concert hall. The total rentable area is 5,974 m². The property is currently multi-leased, with 11 tenants. The main tenant is Intive with a lease expiring in 2023.

6.2 THE REAL ESTATE PORTFOLIO IN THE CZECH REPUBLIC

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

Sujanovo namesti.3, Brno (VUP)	
Type	Office & Storage
Rentable Surface (in m²)	4,655
Occupation Rate (main building) (in %)	86.8
Fair value (in € m)	2.598

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

Na Zertvach 34, Prague 8 (Palmovka)	
Type	Office
Rentable Surface (in m²)	2,180
Occupation Rate (in %)	100.0
Fair value (in € m)	3.219

The modern office building is located in Prague near the Palmovka metro station in a fast developing area on the border of the Prague districts of Karlin, Libeň and Vysočany. The total rentable area is 2,169 m². The accessibility by road is good and by public transport excellent. The building dates from 1998-1999 and has 28 underground parking spaces.

Prvniho pluku 621, Prague 8 (Karlin)	
Type	Office
Rentable Surface (in m²)	4,055
Occupation Rate (in %)	100.0
Fair value (in € m)	5.910

This office complex comprises two adjoining 4- storey buildings. It is located in Karlin, Prague 8, close to the city centre. One of the buildings was recently refurbished to modern standards and the other building was constructed in 2002. The total rentable space (predominantly office space) is 4,055 m². There is sufficient parking capacity, with 35 parking spaces in the courtyard.

Politickych veznu 10, Prague 1	
Type	Office
Rentable Surface (in m²)	2,367
Occupation Rate (in %)	92.2
Fair value (in € m)	5.713

This representative office building is located in Prague’s city centre, near Wenceslas Square. The main building has eight floors and the total rentable space is 2,367 m². The whole complex has partly been reconstructed with additional parking spaces. The property is close to the Wilsonova arterial road through Prague city centre and within 5 minutes’ walk of the central railway station.

6.3 THE REAL ESTATE PORTFOLIO IN SLOVAKIA

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

Záhradnicka 46, Bratislava (Záhradnicka)	
Type	Office
Rentable Surface (in m²)	3,755
Occupation Rate (in %)	76.9
Fair value (in € m)	4.497

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

Krivá 18, Kosiče (Krivá 18) – ASSET HELD FOR SALE	
Type	Office
Rentable Surface (in m²)	6,058
Occupation Rate (in %)	73.5
Fair value (in € m)	2.914

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

Pražská 4, Kosiče (Pražská 4) – ASSET HELD FOR SALE	
Type	Office
Rentable Surface (in m²)	6,088
Occupation Rate (in %)	68.7
Fair value (in € m)	2.506

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

Pražská 2, Kosiče (Pražská 2) – ASSET HELD FOR SALE	
Type	Office
Rentable Surface (in m²)	6,058
Occupation Rate (in %)	88.43
Fair value (in € m)	2.799

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

Krivá 23, Kosiče (Krivá 23) – ASSET HELD FOR SALE

Type	Office
Rentable Surface (in m²)	7,333
Occupation Rate	69.2
Fair value (in € m)	3.359

This ten-storey commercial building occupies an accessible location approximately 500m south east from the city centre. The premises are used primarily as offices. The total space of Krivá 23 is 9,034 m² of which 7,333 m² is rentable. There are 111 parking places available. The façade was fully refurbished in 2018.

Letná 45, Kosiče (Letná)

Type	Office
Rentable Surface (in m²)	11,169
Occupation Rate (in %)	91.1
Fair value (in € m)	11.010

This office building (the biggest in the portfolio) is prominently situated on Festival Square, approx. 1 km north west from the historical centre of Košice. There is an ongoing refurbishment programme to increase accessibility, aesthetics and tenant facilities. The building is easily accessible by car or public transport as it is near the outer city ring road. There are 70 parking places and 14 garages available. The main tenant, AT&T, continues to expand within the property and has recently agreed an extension of its lease to 2025.

Kysucká 16, Kosiče (Kosmalt) – ASSET HELD FOR SALE

Type	Office/hostel
Rentable Surface (in m²)	10,711
Occupation Rate (in %)	69.1
Fair value (in € m)	6.032

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

A. Rudnayova 21, Žilina (Vural)

Type	Office
Rentable Surface (in m²)	10,458
Occupation Rate (in %)	65.9
Fair value (in € m)	4.554

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

6.4 THE REAL ESTATE PORTFOLIO IN BULGARIA

The Fund´s portfolio includes a residential project located in Sofia, Bulgaria. The project comprises 5 apartment blocks and adjoining development land. The main characteristics of the property are summarised below:

Boyana Residences, Sofia (Boyana)	
Type	Apartments and land plot
Surface area (in m²)	22,440
Occupation Rate (in %)	n/a
Fair value (in € m)	8.181

The project is located in the low-density Boyana residential district 9 km south-west of Sofia city centre.

Phase I of the project has been completed and obtained an occupancy permit in 2016. This phase delivered 67 apartment units, 34 of which were still unsold at the time of acquisition by the Fund. Phases II and III are not yet under construction. They will add another 18,790 sqm of residential space (174 apartment units and 211 parking places). The development plans include a variety of units, ranging from 60 to 150 sqm, with the ground floor units also offering gardens.

The Fund´s business plan for the project is to refurbish and sell the remaining completed apartments, to update and re-permit the development segments and ultimately to sell these on to local developers.

6.5 THE REAL ESTATE PORTFOLIO IN UKRAINE

The Fund´s portfolio includes two land plots located in Ukraine, in the cities of Odessa and Zaporizhzhia. The main characteristics of the properties are briefly summarised below:

Nerubaiske Village, Odessa (Biliayivskyi District)	
Type	Land plot
Surface area (in m²)	223,934
Occupation Rate (in %)	n/a
Fair value (in € m)	3.141

The land plot fronts the Odessa-Kiev M-05 Highway, a six-lane strategic road with high levels of freight traffic connecting Ukraine´s capital city with its largest seaport.

The land plot is approximately 7.5 km from the Odessa Ring Road and 1.8 km from the nearest motorway exit. The immediate neighbourhood is developing as a logistics and industrial hub for Odessa, with two major schemes, the established temperature-controlled complex 'Inrise Logistics Park' and the newly built 'Odessa Logistics Park' already in operation. The plot has been prepared for warehouse construction with extensive foundation works already completed.

The Fund´s business plan for the project is to update the development documentation and planning and then to sell to a local or international warehouse developer.

Balabynska Village, Zaporizhzhia (Zaporizkyi District)	
Type	Land plot
Surface area (in m²)	263,834
Occupation Rate (in %)	n/a
Fair value (in € m)	0.908

This very large land plot is located about 2 km to the south of the city of Zaporizhzhia and borders the M105 highway from Kharkov to Mariupol. The site is zoned for commercial use and offers potential for retail park or shopping centre development.

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7 EPRA PERFORMANCE INDICATORS

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

7.1.1 EPRA Earnings

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

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

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

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

The Diluted EPRA Earnings per share (**Diluted EPRA EPS**) should be calculated on a diluted basis taking into account the impact of any options, convertibles, etcetera that are "dilutive". For the explanation of the effect of exercise of options, convertibles and other equity interests (fully diluted basis) see the explanation in (3), mentioned in section 7.1.8 "Explanation of adjustments calculation of EPRA Net Asset Value".

7.1.2 Calculation of (diluted) EPRA Earnings

	Notes	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Earnings per IFRS Consolidated Income Statement	9	93	-/- 197
Exclude:			
1. Valuation results of properties and other investments			
a. Owned investment property	15.25.1	-/- 162	1,336
b. Investment property under development	15.26	42	-
c. Other investments	15.33	1	1
2. Result on disposals of properties and other investments			
a. Realised currency results on net investments in group companies	15.28	-/- 47	-/- 139
3. Tax on results on disposals of properties and other investments		-	-
4. Changes in fair value of financial instruments			
a. Derivatives	15.28	-/- 22	24
b. Convertible bonds	15.14.6	43	44
5. Acquisition costs on share deals		-	-
6. Taxes in respect of EPRA adjustments		5	130
EPRA Earnings		**-/- 47**	**1,199**
Total number of shares in issue entitled to profit	15.13.1	3,758,683	3,165,149
EPRA Earnings per share (in €)		**-/- 0.01**	**0.38**
Total number of outstanding profit-sharing shares (fully diluted)		3,758,683	3,165,149
Diluted EPRA Earnings per share (in €)		**-/- 0.01**	**0.38**

7.1.3 Explanation of adjustments calculation of (diluted) EPRA Earnings

1. Valuation results of properties and other investments

This adjustment includes the gain or loss in the Consolidated Income Statement arising in the period from the revaluation of owned investment property, investment property under development and other investments at their fair value. Therefore the valuation results of properties held for sale and right-of-use assets are not excluded from EPRA Earnings.

2. Results on disposals of properties and other investments

This adjustment includes the profit or loss on disposal of owned investment property, investment property under development and other investments. Therefore the results on disposals of owned investment property held for sale, right-of-use assets and investment property under development held for sale are not excluded from EPRA Earnings.
This adjustment includes also the profit or loss on foreign currency translation differences in case of (partial) reduction of net investment in foreign activities (release from “Reserve for currency translation differences”).

3. Tax on results on disposals of properties and other investments

This adjustment includes the tax charge or credit relating to profits or losses on owned investment property, investment property under development and other investments sold in the period, calculated consistently with 1 and 2 above.

4. Changes in fair value of financial instruments

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

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

5. Acquisition costs on share deals

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

6. Taxes in respect of EPRA adjustments

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

7.1.4 Calculation of (diluted) adjusted EPRA Earnings

	Notes	2019 In € 1,000	2018 In € 1,000
EPRA Earnings	7.1.2	-/- 47	1,199
Exclude:			
1. Valuation results of “owned investment properties held for sale”	15.25.1	940	-
2. Valuation results of “Right of use assets”	15.25.1	85	-
3. Release secured vendor loan Real Estate Central Europe AS	15.28	-/- 500	-
4. Early termination of rent contracts	15.29	-/- 52	-/- 188
5. Costs of funding and acquisition	15.31.5	491	57
6. Interest expense on lease liabilities	15.33	100	-
7. Other exchange and currency translation results	15.33	23	-/- 3
Include:			
8. Operating leases	15.14.7	-/- 185	-
Subtotal adjustments (before taxes)		902	-/- 134
9. Taxes in respect of above adjustments		-/- 163	36
Total adjustments		739	-/- 98
Adjusted EPRA Earnings		**692**	**1,101**
Total number of shares in issue entitled to profit	15.13.1	3,758,683	3,165,149
Adjusted EPRA Earnings per share (in €)		**0.18**	**0.35**
Total number of outstanding profit-sharing shares (fully diluted)		3,758,683	3,165,149
Diluted adjusted EPRA Earnings per share (in €)		**0.18**	**0.35**

7.1.5 Explanation of adjustments calculation of (diluted) adjusted EPRA Earnings

The EPRA Earnings is a measure of the underlying operating performance of an investment property company. It therefore does provide a measure of recurring income, but does not, for example, exclude “exceptional” items that are part of IFRS Earnings. For that reason the Fund has introduced its own (diluted) adjusted EPRA Earnings. In this calculation the Fund excludes “exceptional” and “one-off costs” and “one-off revenues”. Moreover in this calculation valuation results, as well as results on disposals of properties held for sale and right-of-use assets are excluded, as well as accrued interest lease liabilities.
The operating leases are included in the calculation of the (diluted) adjusted EPRA Earnings. As a result of above described adjustments the impact of applying IFRS 16 (e.g. fair value adjustments right-of-use assets) are eliminated in the (diluted) adjusted EPRA Earnings.

7.1.6 EPRA Net Asset Value

Net Asset Value (NAV) is a key performance measure used for real estate investment funds. However, NAV reported in the Consolidated Financial Statements under IFRS (see also section 15.13.1) does not provide shareholders with the most relevant information on the fair value of the assets and liabilities within an ongoing real estate investment company with a long-term investment strategy.

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

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

7.1.7 Calculation of EPRA Net Asset Value

	Notes	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Group equity in accordance with IFRS	8	48,000	40,911
Exclude:			
1. Fair value of financial instruments		1	-/- 20
2. Deferred tax	15.5.1	2,744	4,429
Group equity in accordance with EPRA NAV		**50,745**	**45,320**
Total number of shares in issue entitled to profit	15.13.1	3,758,683	3,165,149
3. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)		-	-
Total number of outstanding profit-sharing shares (fully diluted)		**3,758,683**	**3,165,149**
EPRA NAV per profit-sharing share (in €)		**13.50**	**14.32**

7.1.8 Explanation of adjustments calculation of EPRA Net Asset Value

1. Fair value of financial instruments

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

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

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

2. Deferred tax

This adjustment includes the recognised deferred taxes in the Consolidated Statement of Financial Position in respect of the difference between the fair value and tax value of owned investment property, investment property under development, or other non-current investments (including investments in group companies) as these deferred taxes would only become payable if the assets are sold. Therefore deferred taxes on properties held for sale and right-of-use assets are not excluded from EPRA NAV.

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

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

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

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

7.1.9 EPRA Triple Net Asset Value

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

7.1.10 Calculation of EPRA Triple Net Asset Value

	Notes	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Group equity in accordance with EPRA NAV	7.1.7	50,745	45,320
Include:			
1. Fair value of financial instruments		-/- 1	20
2. Fair value of debt		32	38
3. Fair value of deferred tax		-/- 1,372	-/- 2,169
Group equity in accordance with EPRA NNNAV		**49,404**	**43,209**
Total number of shares in issue entitled to profit	15.13.1	3,758,683	3,165,149
4. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)		-	-
Total number of outstanding profit-sharing shares (fully diluted)		**3,758,683**	**3,165,149**
EPRA NNNAV per profit-sharing share (in €)		**13.14**	**13.65**

7.1.11 Explanation of adjustments calculation of EPRA Triple Net Asset Value

1. Fair value of financial instruments

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

2. Fair value of debt

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

3. Fair value of deferred tax

This adjustment includes the fair value of the deferred taxes concerning investment property, investment property under development or other non-current investments (including investments in group companies; these three items hereinafter mentioned as "non-current investments"). The deferred taxes are calculated with regard to all taxable temporary differences with regard to the "non-current investments", whether these deferred taxes are included in the Statement of Financial Position or not. For items not included in the Statement of Financial Position, see section 13.29.3 in the Accounting Principles Consolidated Financial Statements.

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

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

4. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)
For the effect of exercise of options, convertibles and other equity interests (fully diluted basis) see the explanation in section 7.1.8 (3) “Explanation of adjustments calculation of EPRA Net Asset Value” above.

7.1.12 Specification deferred taxes on the Initial Recognition Exception of assets and liabilities
In the Statement of Financial Position deferred taxes are not recognised with regard to taxable and / or deductible differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss (“Initial Recognition Exception”). Therefore these types of deferred taxes are also not included in the calculation of the EPRA Triple Net Assset Value. The specification is as follows:

	Unrecognised deferred tax assets In € 1,000	**Unrecognised deferred tax liabilities** In € 1,000	**Total 2019** In € 1,000
Investment property	-	258	-/- 258
Investment property under development	22	-	22
Inventories	49	4	45
	71	**262**	**-/- 191**

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

	Notes	**31-12-2019** In € 1,000	**31-12-2018** In € 1,000
Group equity in accordance with EPRA NNNAV	7.1.10	49,404	43,209
Exclude:			
1. Cumulative distributions to shareholders		3,120	2,012
Group equity in accordance with EPRA NNNAV before distributions to shareholders		**52,524**	**45,221**
Total number of shares in issue entitled to profit	15.13.1	3,758,683	3,165,149
2. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)		-	-
Total number of outstanding profit-sharing shares (fully diluted)		**3,758,683**	**3,165,149**
EPRA NNNAV per profit-sharing share before distributions to shareholders (in €)		**13.97**	**14.29**

8 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Assets			
Investment property	*15.2*	78,016	89,032
Investment property under development	*15.3*	2,976	-
Other investments	*15.4*	-	5
Deferred tax assets	*15.5*	367	236
Tax assets	*15.11*	23	-
Trade and other receivables	*15.7*	2	18
Prepayments and lease incentives	*15.8*	237	121
Cash and cash equivalents	*15.9*	300	300
Total non-current assets		**81,921**	**89,712**
Inventories	*15.10*	2,823	-
Other investments	*15.4*	4	-
Tax assets	*15.11*	121	124
Trade and other receivables	*15.7*	646	706
Prepayments and lease incentives	*15.8*	752	421
Cash and cash equivalents	*15.9*	2,446	1,694
Assets held for sale	*15.12*	18,785	-
Total current assets		**25,577**	**2,945**
Total assets		**107,498**	**92,657**
Group equity (attributable to Parent Company shareholders)	*15.13*	**48,000**	**40,911**
Liabilities			
Loans and borrowings	*15.14*	33,018	26,116
Trade and other payables	*15.15*	33	37
Deferred income and tenant deposits	*15.16*	397	366
Deferred tax liabilities	*15.17*	4,684	4,606
Total non-current liabilities		**38,132**	**31,125**
Tax liabilities	*15.18*	326	108
Loans and borrowings	*15.14*	17,609	18,733
Trade and other payables	*15.15*	3,084	1,595
Deferred income and tenant deposits	*15.16*	347	185
Total current liabilities		**21,366**	**20,621**
Total liabilities		**59,498**	**51,746**
Total group equity and liabilities		**107,498**	**92,657**

9 CONSOLIDATED INCOME STATEMENT

	Notes	2019 In € 1,000	2018 In € 1,000
Gross rental income	*15.23*	8,875	8,699
Service charge income		2,184	2,099
Service charge expenses	*15.24*	-/- 3,292	-/- 3,225
Property operating expenses	*15.24*	-/- 2,547	-/- 2,754
Net rental and related income		**5,220**	**4,819**
Valuation results of properties	*15.25*	-/- 863	-/- 1,336
Valuation results of investment property under development	*15.26*	-/- 42	-
Net results on properties	*15.27*	**-/- 905**	**-/- 1,336**
Financial income	*15.28*	575	190
Other operating income	*15.29*	60	216
Other income		**635**	**406**
Total income		**4,950**	**3,889**
Administrative expenses	*15.30*	680	684
Other operating expenses	*15.31*	1,682	1,302
		2,362	**1,986**
Net operating result before financial expenses		**2,588**	**1,903**
Financial expenses	*15.33*	2,071	1,757
Profit before income tax		**517**	**146**
Income tax expense	*15.35*	424	343
Profit for the period		**93**	**-/- 197**
Attributable to:			
Parent Company shareholders		93	-/- 197
Profit for the period		**93**	**-/- 197**
Basic earnings per share (€)	*15.36.1*	0.03	-/- 0.06
Diluted earnings per share (€)	*15.36.4*	0.03	-/- 0.06

10 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2019** In € 1,000	**2018** In € 1,000
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences on net investment in group companies		59	-/- 200
Income tax on foreign currency translation differences on net investments in group companies		9	32
		68	-/- 168
Net gain / loss (-/-) recognised directly in group equity		**68**	**-/- 168**
Profit for the period	*9*	93	-/- 197
Total comprehensive income for the period		**161**	**-/- 365**
Attributable to:			
Parent Company shareholders		161	-/- 365
Total comprehensive income for the period		**161**	**-/- 365**

11 CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve currency translation differences In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Total share-holders' equity In € 1,000
Balance as at January 1, 2019	15,826	15,350	7,661	2,136	210	-/- 272	40,911
Total comprehensive income	-	-	-/- 602	68	-/- 66	761	161
Own shares issued	2,968	5,068	-	-	-	-	8,036
Distributions to shareholders	-	-/- 1,108	-	-	-	-	-/- 1,108
Balance as at December 31, 2019	**18,794**	**19,310**	**7,059**	**2,204**	**144**	**489**	**48,000**
Balance as at January 1, 2018	15,826	16,110	7,196	2,304	266	334	42,036
Total comprehensive income	-	-	465	-/- 168	-/- 56	-/- 606	-/- 365
Distributions to shareholders	-	-/- 760	-	-	-	-	-/- 760
Balance as at December 31, 2018	**15,826**	**15,350**	**7,661**	**2,136**	**210**	**-/- 272**	**40,911**

12 CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	2019 In € 1,000	2018 In € 1,000
Cash flow from operating activities			
Profit for the period	*9*	93	-/- 197
Adjustments for:			
Valuation results of properties[1]	*15.25*	863	1,336
Valuation results of investment property under development	*15.26*	42	-
Financial income	*15.28*	-/- 575	-/- 190
Financial expenses	*15.33*	2,071	1,757
Income tax expense	*15.35*	424	343
Changes in:			
Change in tax assets		-/- 6	-/- 6
Change in trade and other receivables		268	-/- 52
Change in prepayments and lease incentives		-/- 442	64
Change in tax liabilities		7	-/- 16
Change in trade and other payables		246	-/- 117
Change in deferred income and tenant deposits		191	-/- 83
Cash generated from operating activities		**3,182**	**2,839**
Interest received		6	48
Interest paid		-/- 1,764	-/- 1,657
Income tax paid / income tax received		-/- 190	-/- 144
Net cash from / used in (-/-) operating activities		**1,234**	**1,086**
Cash flow from investing activities			
Proceeds from the sale of properties		-	3,776
Acquisition of / additions to properties		-/- 512	-/- 690
Acquisition of / additions to assets held for sale		-/- 73	-
Net cash from / used in (-/-) investing activities	*15.38.1*	**-/- 585**	**3,086**
Cash flow from financing activities			
Proceeds from secured bank loans		5,024	-
Proceeds from other long-term liabilities		2,500	-
Repayment of secured bank loans		-/- 3,064	-/- 2,885
Repayment of convertible bonds		-/- 1,070	-/- 1,420
Repayment of other long-term liabilities		-/- 2,000	-
Payment of lease liabilities		-/- 185	-
Distributions to shareholders		-/- 1,108	-/- 760
Net cash from / used in (-/-) financing activities	*15.38.2*	**97**	**-/- 5,065**
Net increase / decrease (-/-) in cash and cash equivalents		746	-/- 893
Cash and cash equivalents as at 1 January	*15.9*	1,994	2,919
Effect of exchange and currency translation result on cash held		6	-/- 32
Cash and cash equivalents as at 31 December	*15.9*	**2,746**	**1,994**

[1] Transaction costs and transfer tax excluded.

13 ACCOUNTING PRINCIPLES CONSOLIDATED FINANCIAL STATEMENTS

13.1 REPORTING ENTITY

The company Arcona Property Fund N.V., hereinafter referred to as “the Fund”, was incorporated on November 27, 2002 in accordance with Dutch law and is established in Amsterdam (the Netherlands). The Fund obtained a listing on the Euronext Fund Services (EFS) in Amsterdam on November 13, 2003 and a listing on the Prague Stock Exchange (PSE) in Prague on October 30, 2018.

The Fund is registered in Amsterdam (the Netherlands), De Entrée 55, 1101 BH and is entered in the Trade Register of the Chamber of Commerce under number 08110094.

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

The Consolidated Financial Statements have been approved by the Supervisory Board.

The Consolidated Financial Statements of the Fund for the financial period comprise the Fund and its subsidiaries.

13.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

13.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS

The Fund has applied the significant accounting principles as set out in section 13.2 to 13.29. The Managing Board authorised the Consolidated Financial Statements for issue on April 28, 2020.

As at December 31, 2019, group equity of the Fund is positive. As stated in the liquidity forecast up to end-2020, the current cash position is sufficient to cover budgeted costs. This forecast takes into account debt service requirements, the repayment and/or refinancing of loans and uncertainty regarding the impact of Covid-19 (see also 15.37 Risk Management and 15.41 Events after statement of financial position’s date).

Based on the analyses made in the management report and note 15.41 Events after statement of financial position’s date, the Managing Board is of the opinion that there is no material uncertainty as to the ability of the Fund to continue as a “going concern“ in 2020. However, in the event a covenant of a bank loan is breached and a waiver cannot be agreed, the banks could charge penalty fees or higher interest rates or the Managing Board could be required to sell liquid assets. Such penalties or ‘forced sales’ could destroy value and lead to falls in NAV per share.

Based on these assumptions, the Managing Board is of the opinion that the Fund is able to continue as a going concern. Therefore, these Consolidated Financial Statements are based on assumptions of going concern.

13.4 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

13.4.1 General

The Consolidated Financial Statements have been prepared on the basis of historical cost, except for:

- investment property;
- investment property under development;
- assets held for sale;
- financial assets at fair value through profit or loss; and
- financial liabilities at fair value through profit or loss.

Investment property and investment property under development, are hereinafter referred to as 'Investment property'.

The accounting policies explained below have been consistently applied to the results, other gains and losses, assets, liabilities and cash flows of entities included in the Consolidated Financial Statements and are consistent with those used in the prior period, with the exception of the application of new and amended IFRS's as mentioned in section 13.4.4.

13.4.2 Judgements, assumptions and estimation uncertainties

13.4.2.1 General

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

13.4.2.2 Judgements

Judgements made by Managing Board in the application of the EU-IFRS that have significant effect on the Consolidated Financial Statements with a significant risk of material adjustment in the next financial period are:

- Equity-accounted investees: whether the Group has significant influence over an investee;
- Consolidation: whether the Group has de facto control over an investee; and
- Lease term: whether the Group is reasonably certain to exercise extension options.

13.4.2.3 Assumptions and estimation uncertainties

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

Assumptions and estimation uncertainties made by the Managing Board that have significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities in the next financial period are:

- Fair value measurements: in estimating the fair value of an asset or liability, the Group uses observable market data to the extent it is available. The Group engages external, independent appraisers to perform the valuation. The Managing Board works closely with the external, independent appraisers to establish the appropriate valuation techniques and inputs to the model;

- Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
- Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Measurement of "expected credit losses" allowance for trade receivables: key assumptions in determining the weighted-average loss rate;
- Acquisition of subsidiary: fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired and liabilities assumed, measured on a provisional basis;
- Amount of prepaid acquisition related costs for the remaining planned acquisitions from Secure Property Development & Investment plc (**SPDI**);
- Identifying related parties.

13.4.3 Measurement of fair values

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

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

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

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

- 13.8: "Financial instruments";
- 13.9.2: "Investment property";
- 13.10: "Investment property under development";
- 13.18.2: "Assets held for sale".

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

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

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 came into effect on 1 January 2019 and supersedes former lease guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model in which lessees have to recognise a right-of-use asset and a corresponding liability for all leases (i.e. all leases on the Statement of Financial Position), with the exception of short-term leases and leases for low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses or, if it relates to investment property the right of use will be valued at fair value in line with IAS 40. The right of use will additionally be adjusted for any remeasurement of the lease liability, when applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Previously, the Fund classified land leases as operating leases under IAS 17. The land leases typically run for a period of 25 - 30 years. Somes leases include an option to renew the lease for an additional 30 years at the end of the non-cancellable period.

At transition date to IFRS 16, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Fund's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.
The Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

At transition date to IFRS 16, the Fund recognised additional right-of-use assets, including investment property and additional lease liabilities, recognising the difference (if applicable) in retained earnings.The impact on transition is summarised below:

	01-01-2019 in € 1,000
Right-of-use assets presented under "Investment property"	1,669
Lease liabilities presented under "Loans and borrowings"	-/- 1,669
Deferred taxes	-
Retained earnings	**-**

When measuring lease liabilities for leases that were classified as operating leases, the Fund discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted average rate applied is 6.40%.

The following table represents the reconciliation between off-balance sheet commitments under operating leases disclosed as of December 31, 2018 and the IFRS 16 lease liability restated as of January 1, 2019:

	01-01-2019 in € 1,000
Off-balance sheet commitments under operating leases as of December 31, 2018	2,944
Discounted using the incremental borrowing rate at January 1, 2019	1,669
Other	-
Lease liabilities recognised as at January 1, 2019	1,669

As a result of applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Fund recognised € 1,584,000 of "Right-of-use assets" and € 1,600,000 of "Lease liabilities" as at December 31, 2019.

Also, in relation to those leases under IFRS 16, the Fund has recognised fair value adjustments and interest costs, instead of operating lease expense. During the financial period, the Fund recognised € 85,000 of fair value adjustments and € 100,000 interest costs from these leases.

13.4.5 New and revised IFRS Standards and interpretations not yet applied

A number of new standards, changes to standards and interpretations have only taken effect after January 1, 2020 and therefore have not been applied to these Consolidated Financial Statements. New standards that might be relevant for the Fund are described below. The Fund does not plan to apply early adoption of these standards. The Fund expects that the changes listed below will have no material effect on its results and financial position.

IFRS 17 *Insurance Contracts*

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An Exposure Draft *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after January 1, 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 *Definition of material*
The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards
Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early application permitted.

13.5 BASIS OF CONSOLIDATION

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

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

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

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

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

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

13.5.2 Elimination of transactions on consolidation

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

13.6 BASIS OF PREPARATION OF CONSOLIDATED STATEMENT OF CASH FLOW

The Fund has used the indirect method for the Consolidated Statement of Cash Flow. Given the nature of the Fund (investment company) financial income is not netted against financial expenses but presented separately under the total income (see also section 13.25.6), so financial income is presented in the Consolidated Statement of Cash Flow under "Cash flow from operating activities".

Cash and cash equivalents as mentioned in the Consolidated Statement of Cash Flow include the Statement of Financial Position's item "Cash and cash equivalents" and, if applicable "Bank overdrafts". Transactions without settlement in cash are not recognised in the Consolidated Statement of Cash Flow.

13.7 CURRENCY

13.7.1 Functional and presentation currency

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

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

13.7.2 Foreign currency transactions

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

13.7.3 Financial statements of foreign activities and net investment in foreign activities

The assets and liabilities of foreign operations and fair value adjustments arising on consolidation are translated into Euros at the exchange rate applicable on the Statement of Financial Position's date.
The income and expenses of foreign operations are translated into Euros at the exchange rates at the dates of the transactions. For practical reasons, the average monthly exchange rate for the financial period are used

to approximate the exchange rates at the dates of the transactions, however only if the exchange rates do not fluctuate significantly.

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

13.7.4 Exchange rates used for the Consolidated Statement of Financial Position

	31-12-2019	31-12-2018
Bulgarian Lev (EUR / BGN)	1.95580	1.95580
% change	*0.0%*	*0.0%*
Czech Koruna (EUR / CZK)	25.40800	25.72400
% change	*1.2%*	*-/- 0.7%*
Polish Zloty (EUR / PLN)	4.25680	4.30140
% change	*1.0%*	*-/- 3.0%*
Pound Sterling (EUR / GBP)	n.a.	0.89453
% change	*n.a.*	*-/- 0.8%*
Ukrainian Hryvnia (EUR / UAH)	26.4220	31.7141
% change	*16.7%*	*5.3%*

Source: European Central Bank (ECB) if available. Ukrainian Hryvnia National Bank of Ukraine.

13.7.5 Average exchange rates used for the Consolidated Income Statement

	2019	2018
Bulgarian Lev (EUR / BGN)	1.95580	1.95580
Czech Koruna (EUR / CZK)	25.65875	25.67842
Polish Zloty (EUR / PLN)	4.29898	4.26839
Ukrainian Hryvnia (EUR / UAH)	26.43658	n.a.

13.8 FINANCIAL INSTRUMENTS

13.8.1 General

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

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

13.8.2 Financial assets

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

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

Classification of financial assets

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

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

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

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

Despite the foregoing, the Fund may make the following irrevocable election / designation at initial recognition of a financial asset:
- the Fund may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see below); and
- the Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see below).

I. Financial assets at amortised cost and effective interest method

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

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

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

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

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

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

II. Financial assets classified as at FVTOCI

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

III. Financial assets at FVTPL

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

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

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

All the Fund’s financial assets are classified as “Financial assets at amortised cost and effective interest method”, with the exception of:

- The 5%-investment in Yellow Properties, s.r.o. This investment is classified as “Financial assets at FVTPL”;
- Derivatives. These financial instruments are classified as “Financial assets at FVTPL”.

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

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

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

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

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

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

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

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

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

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

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

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

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

Definition of default

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

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

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

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability

of default and loss given default is based on historical data adjusted by forward-looking information as described above.
As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Fund's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

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

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

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

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

13.8.3 Financial liabilities and equity

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

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Fund are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Fund's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Fund's own equity instruments.

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

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

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

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

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

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

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

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Fund of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's

documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

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

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

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

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not:

1. contingent consideration of an acquirer in a business combination,
2. held-for-trading, or
3. designated as at FVTPL

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

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

All the Fund’s liabilities are classified as “financial liabilities measured subsequently at amortised cost”, with the exception of:

- Derivatives. These financial instruments are classified as “Financial liabilities at FVTPL”.

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

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

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

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

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

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

Other derivatives are presented as current assets or current liabilities.

13.9 INVESTMENT PROPERTY

13.9.1 General

Investment property compromises owned investment property, as well as right-of-use assets. Investment property is a property that is held to realise rental income or an increase in value, or both. Right-of-use assets are assets that represents a lessee's right to use an underlying asset for the lease term.
The initial recognition of investment properties is at cost including related transaction costs. After initial recognition, investment properties are carried at fair value. The accounting principles for right-of-use assets are described in section 13.26 "Leases".

13.9.2 Measurement of fair value

Fair value is the price that would be received for an asset in an orderly transaction between market participants at the measurement date and adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow or capitalisation projections. Valuations are performed as at Statement of Financial Position's date. External valuations are performed by an external, independent appraiser with relevant recognised qualifications and recent experience with the location and the type of property. The valuations have been made in accordance with the appropriate sections of the current Valuation Standards contained within the RICS Valuation standards. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Considering the type of investment property Level 3 fair value hierarchy is applied for all real estate assets in the portfolio.

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

A. Development of rents;
B. Capitalisation factor for transactions;
C. Fair rents per type of property;
D. Property prices;
E. Vacancy;
F. Remaining period of non-cancellable rental contracts.

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

- The term and reversion method involves the following: net income up to the end of the contract term and the market-based net income over the following at least ten years are discounted back to the valuation date ("term"). For the time after this period, the stabilised net rental income is capitalised at the market interest rate and also discounted back to the valuation date to determine the perpetual yield ("reversion"). Depending on the estimates of risk - which are based on the type of property, location and region as well as current market circumstances - different discount rates are applied to the current rental income and the capitalisation of the perpetual yield. The assumptions underlying the valuation, e.g. for risk, void periods, vacancies or maintenance costs and capex are based on estimates by relevant market players, on derived data or the appraisers' experience. Capital expense (CAPEX) is expenditure in the foreseeable future which falls outside the scope of the normal annual maintenance programme.
- The hard core and top-slice method is similar to the logic behind the term and reversion model. Net income generated by the property - up to the market rent (hard core component) - is capitalised at a normal market interest rate as a perpetual yield over the entire term (term of the rental contract plus subsequent rental). The top-slice component (the net income for this same term that exceeds the market rent) is then discounted at a risk-adjusted market interest rate. The amount of the risk premium is dependent on the probability of vacancy.
- The initial yield method applies a single all risks yield at the date of valuation, i.e. net income / gross purchase price.

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

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

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

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

No.	Property category	Yield factor 2019[2] in %	Yield factor 2018 in %
A	Office B^+-class	6.25 - 9.05	6.50 - 8.50
B	Office B^--class	7.50 - 9.00	9.00 - 9.21
C	Office / business B / C-class	8.00 - 13.50	11.75 - 14.00
D	Retail B-class	7.88 - 12.00	7.88 - 11.89

No.	Property category	Market rent per sqm (in € 1) 2019	Market rent per sqm (in € 1) 2018
A	Office B^+-class	108 - 158	103 - 162
B	Office B^--class	118 - 132	140 - 154
C	Office / business B / C-class	60 - 84	52 - 108
D	Retail B-class	72 - 156	72 - 157

No.	Property category	Vacancy 2019 in %	Vacancy 2018 in %
A	Office B^+-class	0 - 18.9	0.9 - 12.0
B	Office B^--class	0.8 - 23.1	0 - 23.3
C	Office / business B / C-class	11.7 - 31.3	11.5 - 34.1
D	Retail B-class	0 - 100.0	0 - 100.0

Where necessary the following aspects are reflected in the valuation:

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

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

[2] The yield factors 2018 and 2019 correspond with the equivalent yield specifications of the external independent appraiser.

13.10 INVESTMENT PROPERTY UNDER DEVELOPMENT

Property that is currently being constructed or developed for future use as investment property is classified as investment property under development. Investment property under development is measured at fair value if the fair value is considered to be reliably determinable. Investment properties under development for which the fair value cannot be determined reliably, but for which the Fund expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier.

It may sometimes be difficult to reliably determine the fair value of the investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, the Managing Board considers the following factors, among others:

- The provisions of the construction contract;
- The stage of completion;
- Whether the project / property is standard (typical for the market) or non-standard;
- The level of reliability of expected cash inflows after completion;
- The development risk specific to the property;
- Past experience with similar constructions;
- Status of construction permits.

Costs include the material and labour for the construction, costs of staff directly related to technical supervision, project management on the basis of time spent and finance costs. The finance cost is capitalised interest that is charged until the date of delivery and is based on the interest to be allocated to development or on the basis of the average effective rate of the Group, where no specific project financing is present. Interest charges include interest and all costs associated with the Fund.

The fair value of development is determined on an identical basis as investment properties, with the understanding that the capitalisation factor is adjusted to reflect development risks.

Fair value changes and impairment losses are recognised in the income statement as valuation result. Investment property under development is transferred to investment property on the date of delivery.

13.11 OTHER INVESTMENTS

All other investments are financial instruments. The accounting principles for financial instruments are described in section 13.8 “Financial instruments”.

13.12 DEFERRED TAX ASSETS

The accounting principles with regard to deferred tax assets are described in section 13.29 “Income tax expense”.

13.13 TRADE AND OTHER RECEIVABLES

Trade and other receivables (without a significant financing component) are initially measured at the transaction price and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

13.14 PREPAYMENTS AND LEASE INCENTIVES

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

13.15 CASH AND CASH EQUIVALENTS

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

13.16 INVENTORIES

Inventories are recognised initially at cost, including transaction costs, which represents their fair value at the time of acquisition and are subsequently measured at the lower of cost and net realizable value.

13.17 TAX ASSETS

Tax assets comprise the expected tax receivable on the taxable amounts and any adjustments to the tax receivable in respect of previous years. The amount of the tax receivable is the best estimate of the tax amount expected to be received that reflects uncertainty related to taxes.

13.18 ASSETS HELD FOR SALE

13.18.1 General

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

13.18.2 Measurement of fair value

Assets (or a disposal group) held for sale, are generally measured at the lower of their carrying amount and fair value less cost of disposal, except for investment property. Investment property held for sale is measured in accordance with section 13.9 “Investment property”. Any impairment loss on a disposal group is allocated to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Fund’s regular accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on re-measurement are recognised in the Income Statement.

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

13.19 GROUP EQUITY

For the accounting principles of the several equity components see sections 18.3.3 to 18.3.7.

13.20 LOANS AND BORROWINGS

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost, with any difference between cost and the redemption amount being stated in the Income Statement over the term of the loans using the effective interest method.

13.21 TRADE AND OTHER PAYABLES

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

13.22 DEFERRED INCOME AND TENANT DEPOSITS

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

13.23 DEFERRED TAX LIABILITIES

The accounting principles with regard to the deferred tax liabilities are described in section 13.29 “Income tax expense”.

13.24 TAX LIABILITIES

Tax liabilities comprise the expected tax payable on the taxable amounts and any adjustments to the tax payable in respect of previous years. The amount of the tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to taxes.

13.25 INCOME

13.25.1 Gross rental income

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

Rent adjustments due to indexation are recognised as they arise.

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

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

13.25.2 Service charge income and service charge expenses

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

13.25.3 Property operating expenses

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

13.25.4 Valuation results of properties

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

13.25.5 Results on disposals of properties

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

13.25.6 Financial income

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

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

Financial income also includes the positive changes in fair value of derivatives.

13.25.7 Other operating income

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

Other operating income also includes any lump-sum payments made by tenants as compensation for early termination of rental contracts.

13.26 LEASES

The Fund has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

13.26.1 Policy applicable from January 1, 2019

At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after January 1, 2019.

The Fund as a lessee

At commencement or on modification of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Fund has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses or, if it relates to investment property the right of use will be valued at fair value in line with IAS 40. The right of use will additionally be adjusted for any remeasurement of the lease liability, when applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

The Fund determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Fund is reasonably certain to exercise, lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and low value assets

The Fund has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Fund recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Fund as a lessor

At inception or on modification of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Fund acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Fund makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Fund considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Fund is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Fund applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Fund applies IFRS 15 to allocate the consideration in the contract.

The Fund applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Fund further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Fund recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of “other revenue”.

Generally, the accounting policies applicable to the Fund as a lessor in the comparative period were not different from IFRS 16.

13.26.2 Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Fund determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
    a. the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
    b. the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
    c. facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

The Fund as a lessee

In the comparative period, as a lessee the Fund classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Fund's Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

The Fund as a lessor

When the Fund acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Fund made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Fund considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Lessee's incremental borrowing rate

The lessee's incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
The lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The incremental borrowing rate is constructed out of:

- the reference rate, based on the government bond of the respective right of use asset;
- the financing spread adjustment, based on the credit spreads within the group structure;
- the lease specific adjustment, based on the spread between equivalent yield of lease-hold assets and non-lease-hold assets in the portfolio.

13.27 ADMINISTRATIVE EXPENSES AND OTHER OPERATING EXPENSES

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

13.28 FINANCIAL EXPENSES

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

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

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

13.29 INCOME TAX EXPENSE

13.29.1 Income tax expense

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

13.29.2 Current tax

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

Tax assets and liabilities are offset only if certain criteria are met.

13.29.3 Deferred tax

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

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, using tax rates enacted or substantively enacted at the Statement of Financial Position’s date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Fund expects, at Statement of Financial Position's date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of properties measured at fair value is presumed to be recovered through sale, and the Fund has not rebutted this presumption.

Deferred tax assets and liabilities are offset in case the Fund or its subsidiaries has a legally enforceable right to set-off tax assets against tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same Tax Authority.

14 SEGMENT INFORMATION

14.1 GENERAL

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

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

Given the Fund's management decision-making structure and internal reporting structure each property is indicated as an operating segment. The properties held during the financial period (current period and / or previous period), as mentioned in section 15.2.1 "Analysis of investment property", are taken into account in the segment reporting overviews.
The following segment reporting overviews are given for each property:

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

Since each separate property is indicated as an operating segment, most of the Fund's assets and liabilities cannot be allocated to the operating segments. Therefore only the carrying amount of each property is reported as a segment asset (see section 15.2.1 "Analysis of investment property").

14.2 GEOGRAPHIC CATEGORIES

The Fund distinguishes the following geographic categories:

A. Czech Republic;
B. Slovakia;
C. Poland;
D. Ukraine;
E. Bulgaria;
F. The Netherlands;
G. Other countries.

14.3 SEGMENTATION CRITERIA

The following segmentation criteria are used:

- If the assets in an individual foreign country represents more than 1% of the total assets as at Statement of Financial Position's date, these assets shall be disclosed separately. If those assets represent less than 1% of the total assets as at Statement of Financial Position's date, these items will be allocated as "Other countries". The assets located in the Fund's country or domicile are disclosed separately, also in case these assets are less than 1% of the total assets;
- The allocation of the property is based on the geographic location of the premises;
- The allocation of deferred tax assets is based on the geographic location of the company which generated the deferred tax assets;
- The allocation of investments in associates is based on the business location of the company the Fund invests in;
- The allocation of other assets (bank accounts, cash, receivables, etc.) is based on the geographic location of the debtor.

The allocation of segment results to the several geographic categories is based on the geographic location of the premises.

14.4 SEGMENT RESULTS

14.4.1 Overview of segment result (overview A)

Segment	Gross rental Income 2019	2018	Service charge income 2019	2018	Service charge expenses 2019	2018	Property operating expenses 2019	2018	Subtotal net rental & related income 2019	2018
	in € 1,000		in € 1,000		in € 1,000		in € 1,000		in € 1,000	
Czech Republic:										
Drahobejlova	n.a.	-	n.a.	33	n.a.	-/- 12	n.a.	-/- 2	n.a.	19
Palmovka	271	190	109	82	-/- 89	-/- 84	-/- 76	-/- 68	215	120
Karlin	430	400	177	161	-/- 145	-/- 125	-/- 152	-/- 139	310	297
VUP	213	227	173	187	-/- 162	-/- 159	-/- 86	-/- 92	138	163
PV 10	313	302	156	140	-/- 115	-/- 108	-/- 100	-/- 133	254	201
Total Czech Republic	**1,227**	**1,119**	**615**	**603**	**-/- 511**	**-/- 488**	**-/- 414**	**-/- 434**	**917**	**800**
Slovakia:										
Záhradnicka	375	382	11	9	-/- 102	-/- 91	-/- 103	-/- 117	181	183
Pražská 2	486	432	8	9	-/- 195	-/- 185	-/- 167	-/- 128	132	128
Pražská 4	377	363	4	5	-/- 122	-/- 117	-/- 121	-/- 101	138	150
Krivá 18	414	398	6	8	-/- 108	-/- 106	-/- 111	-/- 114	201	186
Krivá 23	436	428	9	7	-/- 119	-/- 114	-/- 118	-/- 113	208	208
Letná	1,164	1,228	20	22	-/- 190	-/- 167	-/- 265	-/- 275	729	808
Vural	461	500	81	117	-/- 241	-/- 244	-/- 144	-/- 154	157	219
Kosmalt	946	842	10	11	-/- 378	-/- 349	-/- 299	-/- 255	279	249
Total Slovakia	**4,659**	**4,573**	**149**	**188**	**-/- 1,455**	**-/- 1,373**	**-/- 1,328**	**-/- 1,257**	**2,025**	**2,131**
Poland:										
Laubitza 8	202	200	73	57	-/- 73	-/- 74	-/- 57	-/- 64	145	119
800-lecia Inowroclawia	294	251	113	125	-/- 100	-/- 125	-/- 69	-/- 71	238	180
Krzemowa	245	246	141	136	-/- 115	-/- 114	-/- 70	-/- 74	201	194
Plutona	100	198	48	83	-/- 49	-/- 85	-/- 47	-/- 42	52	154
Kalinkowa	207	286	141	116	-/- 140	-/- 119	-/- 83	-/- 73	125	210
Wojska Polskiego	250	289	170	132	-/- 134	-/- 129	-/- 77	-/- 108	209	184
Wolnosci	158	155	63	63	-/- 69	-/- 68	-/- 59	-/- 54	93	96
Graniczna	-	-	-	-	-/- 42	-/- 63	-/- 46	-/- 37	-/- 88	-/- 100
Grzymaly Siedleckiego	232	170	68	67	-/- 72	-/- 67	-/- 29	-/- 91	199	79
Kardyn. Wyszynskiego	237	233	120	114	-/- 116	-/- 106	-/- 45	-/- 103	196	138
Legionow	351	292	146	129	-/- 133	-/- 148	-/- 45	-/- 163	319	110
Maris	713	687	337	286	-/- 283	-/- 266	-/- 165	-/- 183	602	524
Total Poland	**2,989**	**3,007**	**1,420**	**1,308**	**-/- 1,326**	**-/- 1,364**	**-/- 792**	**-/- 1,063**	**2,291**	**1,888**
Ukraine:										
Aisi Bela	-	n.a.	-	n.a.	-	n.a.	-/- 8	n.a.	-/- 8	n.a.
Bulgaria:										
Boyana	-	n.a.	-	n.a.	-	n.a.	-/- 1	n.a.	-/- 1	n.a.
Inventories	-	n.a.	-	n.a.	-	n.a.	-/- 4	n.a.	-/- 4	n.a.
Total Bulgaria	**-**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-/- 5**	**n.a.**	**-/- 5**	**n.a.**
Grand total	**8,875**	**8,699**	**2,184**	**2,099**	**-/- 3,292**	**-/- 3,225**	**-/- 2,547**	**-/- 2,754**	**5,220**	**4,819**

Segment	Subtotal net rental & related income 2019	2018	Net results on properties 2019	2018	Other operating income 2019	2018	Financial expenses 2019	2018	Total segment result 2019	2018
	in € 1,000		in € 1,000		in € 1,000		in € 1,000		in € 1,000	
Czech Republic:										
Drahobejlova	n.a.	19	n.a.	-	n.a.	-	n.a.	-	n.a.	19
Palmovka	215	120	296	-/- 55	-	-	-	-	511	65
Karlin	310	297	126	173	-	-	-	-	436	470
VUP	138	163	50	-/- 8	-	-	-	-	188	155
PV 10	254	201	140	-/- 10	6	-	-	-	400	191
Total Czech Republic	**917**	**800**	**612**	**100**	**6**	**-**	**-**	**-**	**1,535**	**900**
Slovakia:										
Záhradnicka	181	183	149	-/- 160	-	-	-	-	330	23
Pražská 2	132	128	-/- 59	-/- 84	-	-	-	-	73	44
Pražská 4	138	150	-/- 62	-/- 35	-	-	-	-	76	115
Krivá 18	201	186	-/- 440	49	-	-	-	-	-/- 239	235
Krivá 23	208	208	-/- 51	114	-	-	-	-	157	322
Letná	729	808	-/- 103	646	-	-	-	-	626	1,454
Vural	157	219	184	-/- 354	-	-	-	-	341	-/- 135
Kosmalt	279	249	-/- 78	100	-	-	-	-	201	349
Total Slovakia	**2,025**	**2,131**	**-/- 460**	**276**	**-**	**-**	**-**	**-**	**1,565**	**2,407**
Poland:										
Laubitza 8	145	119	-/- 317	-/- 34	-	-	-	-		85
800-lecia Inowroclawia	238	180	-/- 39	-/- 238	-	-	-	-		-/- 58
Krzemowa	201	194	1	-/- 85	-	-	-	-		109
Plutona	52	154	-/- 430	24	46	-	-	-		178
Kalinkowa	125	210	149	-/- 495	-	-	-	-		-/- 285
Wojska Polskiego	209	184	-/- 67	-/- 254	-	-	-	-		-/- 70
Wolnosci	93	96	5	-/- 109	-	-	-	-		-/- 13
Graniczna	-/- 88	-/- 100	-/- 250	-/- 294	-	-	-	-	-/- 338	-/- 394
Grzymaly Siedleckiego	199	79	36	-/- 72	-	-	17	-	252	7
Kardyn. Wyszynskiego	196	138	-/- 167	3	-	-	29	-	58	141
Legionow	319	110	224	-/- 188	-	-	54	-	597	-/- 78
Maris	602	524	-/- 191	30	-	-	-	-	411	554
Total Poland	**2,291**	**1,888**	**-/- 1,046**	**-/- 1,712**	**46**	**-**	**100**	**-**	**1,191**	**176**
Ukraine:										
Aisi Bela	-/- 8	n.a.	-/- 54	n.a.	-	n.a.	-	n.a.	-/- 62	n.a.
Bulgaria:										
Boyana	-/- 1	n.a.	43	n.a.	-	n.a.	-	n.a.	42	n.a.
Inventories	-/- 4	n.a.	-	n.a.	-	n.a.	-	n.a.	-/- 4	n.a.
Total Bulgaria	**-/- 5**	**n.a.**	**43**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**38**	**n.a.**
Grand total	**5,220**	**4,819**	**-/- 905**	**-/- 1,336**	**52**	**-**	**100**	**-**	**4,267**	**3,483**

14.4.2 Reconciliation segment result with profit for the period

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

	2019 in € 1,000	**2018** in € 1,000
Total segment result (overview A)	4,267	3,483
Unallocated income	583	406
Unallocated expenses	4,333	3,743
Profit before income tax	517	146
Income tax expense	424	343
Profit for the period	**93**	**-/- 197**

14.4.3 Overview of type of property per segment

Segment	Type of property[3]
Czech Republic:	
Drahobejlova	Office
Palmovka	Office
Karlin	Office
VUP	Office
PV 10	Office
Slovakia:	
Záhradnicka	Office
Pražská 2	Office
Pražská 4	Office
Krivá 18	Office
Krivá 23	Office
Letná	Office
Vural	Office
Kosmalt	Residential
Poland:	
Laubitza 8	Retail
800-lecia Inowroclawia	Retail
Krzemowa	Retail
Plutona	Retail
Kalinkowa	Retail
Wojska Polskiego	Retail
Wolnosci	Retail
Graniczna	Retail
Grzymaly Siedleckiego	Retail
Kardyn. Wyszynskiego	Retail
Legionow	Retail
Maris	Office
Ukraine:	
Aisi Bela	Land
Bulgaria:	
Boyana	Other
Inventories	Residential

14.4.4 Major tenants

The Fund has no tenants (2018: no) with a gross rental income more than 10% of the Fund's total gross rental income.

[3] Based on main purpose of the property

14.4.5 Geographic overview of assets (overview B)

	Czech Republic		Slovakia		Poland		Ukraine		Subtotal	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
	in € 1,000		in € 1,000		in € 1,000		in € 1,000		in € 1,000	
Investment property	17,440	16,541	20,061	37,860	34,319	34,631	861	-	72,681	89,032
Investment property under development	-	-	-	-	-	-	2,976	-	2,976	-
Other investments	4	5	-	-	-	-	-	-	4	5
Deferred tax assets	-	-	-	-	176	236	130	-	306	236
Inventories	-	-	-	-	-	-	-	-	-	-
Tax assets	-	-	-	-	143	124	-	-	143	124
Trade and other receivables	57	72	136	173	259	479	-	-	452	724
Prepayments and lease incentives	220	74	440	198	250	266	-	-	910	538
Cash and cash equivalents	460	273	610	577	1,067	916	-	-	2,137	1,766
Assets held for sale	-	-	17,610	-	1,175	-	-	-	18,785	-
	18,181	**16,965**	**38,857**	**38,808**	**37,389**	**36,652**	**3,967**	**-**	**98,394**	**92,425**

	Subtotal (transfer)		Bulgaria		Netherlands		Other countries		Grand total	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
	in € 1,000		in € 1,000		in € 1,000		in € 1,000		in € 1,000	
Investment property	72,681	89,032	5,335	-	-	-	-	-	78,016	89,032
Investment property under development	2,976	-	-	-	-	-	-	-	2,976	-
Other investments	4	5	-	-	-	-	-	-	4	5
Deferred tax assets	306	236	61	-	-	-	-	-	367	236
Inventories	-	-	2,823	-	-	-	-	-	2,823	-
Tax assets	143	124	1	-	-	-	-	-	144	124
Trade and other receivables	452	724	2	-	-	-	194	-	648	724
Prepayments and lease incentives	910	538	1	-	78	4	-	-	989	542
Cash and cash equivalents	2,137	1,766	199	-	410	228	-	-	2,746	1,994
Assets held for sale	18,785	-	-	-	-	-	-	-	18,785	-
	98,394	**92,425**	**8,422**	**-**	**488**	**232**	**-**	**-**	**107,498**	**92,657**

15 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15.1 SUBSIDIARIES

15.1.1 Consolidated subsidiaries

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

Name of subsidiary	Registered office	Country of incorporation	Proportion of shares held by the parent 31-12-2019	Proportion of shares held by the group 31-12-2019
			In %	In %
Arcona Capital RE Bohemia s.r.o.	Prague	Czech Republic	100.0	n.a.
Arcona Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100.0	n.a.
Arcona Capital Real Estate Poland Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Capital Real Estate Trio Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Real Estate B.V.	Amsterdam	The Netherlands	100.0	n.a.
Arcona Poland B.V.	Amsterdam	The Netherlands	n.a.	100.0
Arcona Poland B.V. Project 5 Sp.k.	Warsaw	Poland	n.a.	100.0
Aisi Bela LLC	Kiev	Ukraine	100.0	n.a.
Boyana Residence E.O.O.D.	Sofia	Bulgaria	100.0	n.a.

Name of subsidiary	Registered office	Country of incorporation	Proportion of shares held by the parent 31-12-2018	Proportion of shares held by the group 31-12-2018
			In %	In %
Arcona Capital RE Bohemia s.r.o.	Prague	Czech Republic	100.0	n.a.
Arcona Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100.0	n.a.
Arcona Capital Real Estate Poland Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Capital Real Estate Trio Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Real Estate B.V.	Amsterdam	The Netherlands	100.0	n.a.
Arcona Poland B.V.	Amsterdam	The Netherlands	n.a.	100.0
Arcona Poland B.V. Project 5 Sp.k.	Warsaw	Poland	n.a.	100.0

15.1.2 Subsidiaries incorporated during the financial period

During the financial period the Fund incorporated no subsidiaries.

15.1.3 Subsidiaries acquired during the financial period

During the financial period the Fund acquired the following subsidiaries:

Subsidiary	Interest	Date of acquisition
	In %	
Aisi Bela LLC	100.0	October 31, 2019
Boyana Residence E.O.O.D.	100.0	December 5, 2019

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

15.1.3.1 Acquisition of Aisi Bela LLC

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

	31-10-2019		
Identifiable assets acquired and liabilities assumed	**Recognised fair values on acquisition**	**Fair value adjustments**	**Acquisition carrying amount**
	In € 1,000	In € 1,000	In € 1,000
Investment property	907	-/- 35	872
Investment property under development	3,139	-/- 123	3,016
Deferred tax assets	159	-	159
Prepayments and lease incentives	1	-	1
Loans and borrowings	-/- 78	-	-/- 78
Deferred tax liabilities	-/- 158	158	-
Net identifiable assets acquired and liabilities assumed	**3,970**	**-**	**3,970**

Result on acquisition	**31-10-2019**
	In € 1,000
Balance of identifiable net assets and liabilities acquired	3,970
Consideration paid (by issuance of shares of the Fund)	-/- 3,970
Acquisition-related costs	-
Result on acquisition	**-**

15.1.3.2 Acquisition of Boyana Residence E.O.O.D.

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

	05-12-2019		
Identifiable assets acquired and liabilities assumed	**Recognised fair values on acquisition**	**Fair value adjustments**	**Acquisition carrying amount**
	In € 1,000	In € 1,000	In € 1,000
Investment property	5,335	-/- 42	5,293
Inventories	2,846	-/- 23	2,823
Deferred tax assets	114	-/- 49	65
Trade and other receivables	196	-	196
Prepayments and lease incentives	6	-	6
Loans and borrowings	-/- 3,008	-	-/- 3,008
Tax liabilities	-/- 137	-	-/- 137
Deferred tax liabilities	-/- 114	114	-
Trade and other payables	-/- 1,172	-	-/- 1,172
Net identifiable assets acquired and liabilities assumed	**4,066**	**-**	**4,066**

Result on acquisition	**05-12-2019**
	In € 1,000
Balance of identifiable net assets and liabilities acquired	4,066
Consideration paid (by issuance of shares of the Fund)	-/- 4,066
Acquisition-related costs	-
Result on acquisition	**-**

For the specification of the “Consideration paid (by issuance of shares of the Fund)” reference is made to section 19.10.6.

15.1.4 Subsidiaries sold during the period

During the financial period the Fund sold no subsidiaries.

15.2 INVESTMENT PROPERTY

15.2.1 Analysis of investment property

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Owned investment property	76,432	89,032
Right-of-use assets	1,584	n.a.
	78,016	**89,032**

15.2.2 Analysis of owned investment property

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Buildings (including underground)	70,236	89,032
Land plots	6,196	n.a.
	76,432	**89,032**

15.2.3 Specification of owned investment property

Name of property	Address	31-12-2019 In € 1,000	31-12-2018 In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o. (Czech Republic)			
Palmovka	Na Žertvách 34, Prague	3,219	2,863
Karlin	Prvního Pluku 621/8a, Prague	5,910	5,676
VUP	Šujanovo náměsti 3, Brno	2,598	2,507
PV 10	Politických Vězňu 10, Prague	5,713	5,495
Subtotal		**17,440**	**16,541**
In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)			
Záhradnicka	Záhradnícka 46, Bratislava	4,497	4,340
Pražská 2	Pražská 2, Košice	Held for sale	2,850
Pražská 4	Pražská 4, Košice	Held for sale	2,540
Krivá 18	Krivá 18, Košice	Held for sale	3,330
Krivá 23	Krivá 23, Košice	Held for sale	3,380
Letná	Letná 45, Košice	11,010	10,950
Vural	Alexandra Rudnaya 21, Žilina	4,554	4,360
Kosmalt	Kysucká 16, Košice	Held for sale	6,110
Subtotal		**20,061**	**37,860**
In ownership of Arcona Capital Real Estate Poland Sp. z o.o. (Poland)			
Laubitza	Laubitza 8, Inowroclaw	2,138	2,455
Lecia Inowroclawia	800-lecia Inowroclawia 27, Inowroclaw	2,820	2,859
Krzemowa	Krzemowa 1, Gdansk	3,062	3,050
Plutona	Plutona 1, Glogow	1,658	2,088
Kalinkowa	Kalinkowa 82, Grudziadz	2,630	2,481
Wojska Polsiekgo	Wojska Polskiego 137, Piotrkow Trybunalski	3,553	3,597
Wolnosci	Wolnosci 6, Slupsk	1,397	1,392
Graniczna	Graniczna 80-82, Kalisz	Held for sale	1,416
Subtotal		**17,258**	**19,338**
In ownership of Arcona Capital Real Estate Trio Sp. z o.o. (Poland)			
Grzymaly Siedleckiego	Grzymaly Siedleckiego 20, Bydgoszcz	1,611	1,487
Kardynala Wyszynskiego	Kardynala Wyszynskiego 107, Lodz	1,868	2,003
Legionow	Legionow 216, Torun	2,849	2,614
Subtotal		**6,328**	**6,104**
In ownership of Arcona Capital Poland B.V. Project 5 Sp.k. (Poland)			
Maris	Holdu Pruskiego 9 & 12 Malopolska 12, Szczecin	9,149	9,189
In ownership of Aisi Bela LLC (Ukraine)			
Balabino Project	Territory of Balabynska Village Council, Zaporizkyi District, Zaporizhzhia Region	861	n.a.
In ownership of Boyana Residence E.O.O.D. (Bulgaria)			
Boyana	Gardova Glava, Boyana	5,335	n.a.
		76,432	**89,032**

15.2.4 Statement of changes in owned investment property

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	89,032	89,798
Acquisitions	6,165	-
Additions	512	690
Fair value adjustments	162	-/- 1,336
Exchange rate differences	213	-/- 120
Reclassification (to “Assets held for sale”)	-/- 19,652	-
Balance as at 31 December	**76,432**	**89,032**

15.2.5 Valuation of owned investment property
The owned investment properties, stated under section 15.2.3 “Specification of owned investment property”, were valued by an external, independent appraiser as at Statement of Financial Position’s date. The valuations are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The fair values of the owned investment properties are primarily derived using the hard-core and top-slice method. All owned investment properties are valued at fair value.

15.2.6 Specification of right-of-use assets

Nature of right-of-use asset	Related to owned investment property	31-12-2019	31-12-2018
		In € 1,000	In € 1,000
Right-of-use by Arcona Capital Real Estate Trio Sp. z o.o. (Poland)			
Land lease	Grzymaly Siedleckiego	256	n.a.
Land lease	Kardynala Wyszynskiego	452	n.a.
Land lease	Legionow	876	n.a.
		1,584	**n.a.**

15.2.7 Statement of changes in right-of-use assets

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	n.a.	n.a.
Effect of change accounting principles	1,669	n.a.
Fair value adjustments	-/- 85	n.a.
Balance as at 31 December	**1,584**	**n.a.**

15.2.8 Valuation of right-of-use assets
The right-of-use assets, stated under section 15.2.6 “Specification of right-of-use assets”, were not valued by an external, independent appraiser as at Statement of Financial Position’s date. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, as well as foreign currency translation differences. The Managing Board is of the opinion above method is the most appropriate approach to the valuation of right-of-use assets as required by IFRS 16.

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

15.2.10 Sensitivity analysis

The appraisal of the "Buildings including underground", hereinafter referred to as the Porfolio implies an average weighted Reversion Yield of 10.1% (December 31, 2018: 11.6%).

In case the yields used for the appraisals of the portfolio on Statement of Financial Position's date had been 50 basis points higher, the value of the portfolio would have decreased by 5.5% (December 31, 2018: 0.5%). In this situation, the group equity would have been € 3,915,000 lower (December 31, 2018: € 353,000 lower).

In case the yields used for the appraisals of the portfolio on Statement of Financial Position's date had been 50 basis points lower, the value of the portfolio would have increased by 2.2% (December 31, 2018: 0.6%). In this situation, the group equity would have been € 1,599,000 higher (December 31, 2018: € 421,000 higher).

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

Change in	Change in yield				
ERV 2019	**-/- 0.50%**	**-/- 0.25%**	**0.00%**	**0.25%**	**0.50%**
-/- 5.0%	-/- 2.7%	-/- 4.6%	-/- 4.9%	-/- 8.3%	-/- 10.0%
-/- 2.5%	-/- 0.5%	-/- 2.5%	-/- 2.8%	-/- 6.2%	-/- 7.9%
0.0%	2.2%	0.2%	0.0%	-/- 3.8%	-/- 5.5%
2.5%	3.9%	1.8%	1.5%	-/- 2.1%	-/- 3.9%
5.0%	6.1%	4.0%	3.6%	0.0%	-/- 1.9%

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

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

15.3 INVESTMENT PROPERTY UNDER DEVELOPMENT

15.3.1 Specification of investment property under development

Name of property	Address	31-12-2019 In € 1,000	31-12-2018 In € 1,000
In ownership of Aisi Bela LLC (Ukraine)			
Bela Logistic Park	Territory of Nerubaiske Village Council, Biliayivskyi District, Odesa Region	2,976	n.a.

15.3.2 Statement of changes in investment property under development

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	n.a.	n.a.
Acquisitions	3,016	n.a.
Fair value adjustments	-/- 42	n.a.
Exchange rate differences	2	n.a.
Balance as at 31 December	**2,976**	n.a.

15.4 OTHER INVESTMENTS

15.4.1 Specification of other investments

Name of other investment	**Proportion of shares held by the group 31-12-2019**	**Proportion of shares held by the group 31-12-2018**
	In %	In %
Yellow Properties, s.r.o., v likvidaci[4]	5.0	5.0
Eastern European Property Fund Limited	Sold	< 0.1

15.4.2 Analysis of other investments

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Non-current part of other investments	-	5
Current part of other investments	4	-
	4	**5**

15.4.3 Statement of changes in other investments

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	5	6
Disposals	-	-
Fair value adjustments	-/- 1	-/- 1
Balance as at 31 December	**4**	**5**

Yellow Properties, s.r.o. v likvidaci is measured at fair value through profit or loss (FVTPL); see also section 13.8.2).

[4] V likvidaci: in liquidation.

15.5 RECOGNISED DEFERRED TAXES

15.5.1 Specification of recognised deferred taxes

	Recognised deferred tax assets In € 1,000	Recognised deferred tax liabilities In € 1,000	Total 2019 In € 1,000
Investment property	295	2,970	-/- 2,675
Investment property under development	-	22	-/- 22
Receivables from shareholders and other group companies	-	47	-/- 47
Subtotal non-current investments	295	3,039	-/- 2,744
Tax losses (carried forward)	283	-	283
Trade and other receivables	20	15	5
Prepayments and lease incentives	25	31	-/- 6
Cash and cash equivalents	1	-	1
Assets held for sale	197	1,996	-/- 1,799
Tax liabilities	3	-	3
Secured bank loans	-	67	-/- 67
Loans due to shareholders and other group companies	-	84	-/- 84
Trade and other payables	79	-	79
Current liabilities due to shareholders and other group companies	12	-	12
Deferred taxes before set-off	915	5,232	-/- 4,317
Set-off deferred taxes	-/- 548	-/- 548	-
	367	**4,684**	**-/- 4,317**

	Recognised deferred tax assets In € 1,000	Recognised deferred tax liabilities In € 1,000	Total 2018 In € 1,000
Investment property	604	4,977	-/- 4,373
Receivables from shareholders and other group companies	-	56	-/- 56
Subtotal non-current investments	904	5,033	-/- 4,429
Tax losses (carried forward)	90	-	90
Trade and other receivables	40	24	16
Prepayments and lease incentives	-	33	-/- 33
Secured bank loans	-	60	-/- 60
Loans due to shareholders and other group companies	-	63	-/- 63
Trade and other payables	71	-	71
Current liabilities due to shareholders and other group companies	38	-	38
Deferred taxes before set-off	843	5,213	-/- 4,370
Set-off deferred taxes	-/- 607	-/- 607	-
	236	**4,606**	**-/- 4,370**

15.5.2 Analysis of recognised deferred taxes

	Will expire 31-12-2019 In € 1,000	Will never expire 31-12-2019 In € 1,000	Total 31-12-2019 In € 1,000
Investment property	-	-/- 2,675	-/- 2,675
Inventment property under development	-	-/- 22	-/- 22
Receivables from shareholders and other group companies	-	-/- 47	-/- 47
Tax losses (carried forward)	133	150	283
Trade and other receivables	-	5	5
Prepayments and lease incentives	-	-/- 6	-/- 6
Cash and cash equivalents	-	1	1
Assets held for sale	-	-/- 1,799	-/- 1,799
Tax liabilities	-	3	3
Secured bank loans	-	-/- 67	-/- 67
Loans due to shareholders and other group companies	-	-/- 84	-/- 84
Trade and other payables	-	79	79
Current liabilities due to shareholders and other group companies	-	12	12
	133	**-/- 4,450**	**-/- 4,317**

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

An allocation of the recognised deferred tax assets to the various geographic segments is presented in section 14.4.4 “Geographic overview of assets (overview B)”.

15.5.3 Analysis of recognised tax losses (carried forward)

	2019 In € 1,000	2018 In € 1,000
Expires in 2020	66	71
Expires in 2021	-	1
Expires in 2022	33	18
Expires in 2023	22	-
Expires in 2024	12	-
Subtotal will expire	133	90
Will never expire	150	-
Balance as at 31 December	**283**	**90**

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

15.5.4 Statement of changes in recognised deferred taxes

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	-/- 4,370	-/- 4,157
Adjustments related to prior years	221	11
Additions as a result of acquisitionss	224	-
Additions / withdrawals	-/- 386	-/- 234
Change in tax rate	-	1
Exchange rate differences	-/- 6	9
Balance as at 31 December	**-/- 4,317**	**-/- 4,370**

15.6 UNRECOGNISED DEFERRED TAXES

15.6.1 Specification of unrecognised deferred taxes

	Unrecognised deferred tax assets In € 1,000	Unrecognised deferred tax liabilities In € 1,000	Total 2019 In € 1,000
Investment property	418	258	160
Investment property under development	214	-	214
Tax losses (carried forward)	1,406	-	1,406
Inventories	49	4	45
Trade and other receivables	60	-	60
Assets held for sale	20	-	20
Secured bank loans	144	-	144
Trade and other payables	4	-	4
Current liabilities due to shareholders and other group companies	177	-	177
	2,492	**262**	**2,230**

	Unrecognised deferred tax assets In € 1,000	Unrecognised deferred tax liabilities In € 1,000	Total 2018 In € 1,000
Investment property	121	-	121
Tax losses (carried forward)	985	-	985
Prepayments and lease incentives	1	-	1
Tax liabilities	3	-	3
Secured bank loans	164	-	164
Trade and other payables	3	-	3
Current liabilities due to shareholders and other group companies	149	-	149
	1,426	**-**	**1,426**

15.6.2 Analysis of unrecognised deferred taxes

	Will expire 31-12-2019 In € 1,000	Will never expire 31-12-2019 In € 1,000	Total 31-12-2019 In € 1,000
Investment property	-	160	161
Investment property under development	-	214	184
Tax losses (carried forward)	954	452	1,406
Inventories	-	45	45
Trade and other receivables	-	60	60
Assets held for sale	-	20	20
Secured bank loans	-	144	144
Trade and other payables	-	4	4
Current liabilities due to shareholders and other group companies	-	177	177
	954	**1,276**	**2,230**

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

15.6.3 Analysis of unrecognised tax losses (carried forward)

	2019 In € 1,000	2018 In € 1,000
Expires in 2020	30	75
Expires in 2021	5	-
Expires in 2022	148	123
Expires in 2023	52	59
Expires in 2024	32	37
Expires in 2025	394	353
Expires in 2026	155	179
Expires in 2027	138	159
Subtotal will expire	954	985
Will never expire	452	-
Balance as at 31 December	**1,406**	**985**

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

15.6.4 Statement of changes in unrecognised deferred taxes

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	1,426	1,227
Adjustments related to prior years	3	-/- 69
Additions as a result of acquisitionss	508	-
Additions / withdrawals	417	282
Change in tax rate	-/- 133	-/- 2
Exchange rate differences	9	-/- 12
Balance as at 31 December	**2,230**	**1,426**

15.7 TRADE AND OTHER RECEIVABLES

15.7.1 Analysis of trade and other receivables

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Non-current part of trade and other receivables	2	18
Current part of trade and other receivables	646	706
	648	**724**

15.7.2 Specification of trade and other receivables

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Trade receivables	360	639
Receivables SPDI	194	-
Invoiceable amounts	31	50
Interest rate swaps used for hedging	13	-
Other receivables	50	35
	648	**724**

The “Receivables SPDI amounting to € 194,000 relates to

- an adjustment to the acquisition price of Boyana Residence E.O.O.D. amounting to € 111,000. This adjustment is already included in the consideration paid, as described in section 15.1.3.2;
- a compensation to be claimed amounting to € 83,000, in case the Fund has to pay the penalty interest to Alpha Bank, as mentioned in section 15.15.2.

15.7.3 Analysis of trade receivables

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Trade receivables (gross)	1,201	1,352
Total expected credit losses for trade receivables	-/- 841	-/- 713
	360	**639**

15.7.4 Provision for doubtful trade receivables

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

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

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

15.7.5 Risk profile of trade receivables

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

	Trade receivables as at December 31, 2019				
	Until 1 month past due	**1 until 3 months past due**	**3 months until 1 year past due**	**More than 1 year past due**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Expected credit loss rate	2.0%	7.6%	26.6%	68.4%	
Trade receivables (gross)	165	41	181	814	1,201
Collective assessed expected credit losses	-/- 4	-/- 3	-/- 48	-/- 557	-/- 612
Individually assessed expected credit losses					-/- 229
Trade receivables (net)					**360**

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

For more information about the risk profile of trade receivables see section 15.37.9.

15.7.6 Movement in lifetime expected credit losses for trade receivables

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

	2019		
	Collective assessed expected credit losses In € 1,000	**Individually assessed expected credit losses** In € 1,000	**Total expected credit losses** In € 1,000
Balance as at 1 January	555	158	713
Additions as a result of acquisitionss	23	-	23
Amounts written-off	-/- 109	-	-/- 109
Amounts recovered	-/- 79	-	-/- 79
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	220	71	291
Exchange rate differences	2	-	2
Balance as at 31 December	**612**	**229**	**841**

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

15.7.7 Individually assessed expected credit losses for trade receivables

The individually assessed expected credit losses for trade receivables for the amount of € 229,000 comprise:

- € 136,000 to the debtor Piotr & Pawel. Piotr & Pawel is in suspension of payment. The Managing Board used an individually assessed expected credit loss rate of 75% for outstanding amounts at Arcona Capital Real Estate Poland Sp. z o.o. with regard to Piotr & Pawel after 3 months past due and 90% for outstanding amounts at Arcona Capital Real Estate Trio Sp. z o.o. after 3 months past due;
- € 89,000 to the debtor Gemar. The Managing Board used an individually assessed expected credit loss rate of 100% for all outstanding amounts with regard to Gemar;
- € 4,000 to the debtor Eurocom. The Managing Board used an individually assessed expected credit loss rate of 100% for all outstanding amounts with regard to Eurocom.

As at statement of financial position's date the gross outstanding trade receivables (VAT inclusive) with regard to Piotr & Pawel amount to € 415,000 (December 31, 2018: € 564,000), resulting in a maximum credit risk (VAT exclusive) of € 351,000 (December 31, 2018: € 488,000).

Piotr & Paweł is expected to close its administration procedure in Q2 2020. The deal proposed to creditors was accepted by vote on 2 March 2020 and will be formalized by a court ruling. Once the court ruling become binding and enforceable, which is expected to happen in the course of Q2 2020, the administration process will be over and creditors will receive promised repayments within 30 days from the end of the process.

Based on the above the Managing Board is of the opinion the individually assessed expected credit losses from Piotr & Pawel are sufficient.

15.8 PREPAYMENTS AND LEASE INCENTIVES

15.8.1 Analysis of prepayments and lease incentives

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Non-current part of prepayments and lease incentives	237	121
Current part of prepayments and lease incentives	752	421
	989	**542**

15.8.2 Specification of prepayments and lease incentives

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Deferred expenses	297	263
Prepayments	418	185
Lease incentives	274	94
	989	**542**

€ 219,000 of the prepayment amounts are acquisition-related costs (e.g. advisory costs, legal fees and costs of due diligence) for assets of SPDI, which are expected to be acquired during 2020.

15.9 CASH AND CASH EQUIVALENTS

15.9.1 Analysis of cash and cash equivalents

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Non-current part of cash and cash equivalents	300	300
Current part of cash and cash equivalents	2,446	1,694
	2,746	**1,994**

The “Cash and cash equivalents” are at the free disposal of the Fund, with the exception of € 1,075,000 (December 31, 2018: € 649,000), which amount is retained on reserve accounts (e.g. “Security Deposit Account”, “Repair Reserve Account”, “Debt Service Account” and “CAPEX Account”).

15.9.2 Specification of cash and cash equivalents

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Bank balances	2,442	1,691
Deposits	301	301
Cash	3	2
	2,746	**1,994**

15.10 INVENTORIES

15.10.1 Analysis of inventories

Name of inventory	Address	Quantity 31-12-2019	Carrying amount 31-12-2019 In € 1,000	Quantity 31-12-2018	Carrying amount 31-12-2018 In € 1,000
In ownership of Boyana Residence E.O.O.D. (Bulgaria)					
Apartment 1-D	Residential Complex Gardova Glava, Boyana	13	367	n.a.	n.a.
Apartment 2-A	Residential Complex Gardova Glava, Boyana	28	927	n.a.	n.a.
Apartment 3-C	Residential Complex Gardova Glava, Boyana	16	426	n.a.	n.a.
Apartment 7-D	Residential Complex Gardova Glava, Boyana	11	305	n.a.	n.a.
Apartment 8-E	Residential Complex Gardova Glava, Boyana	11	482	n.a.	n.a.
Parking places	Residential Complex Gardova Glava, Boyana	77	316	n.a.	n.a.
			2,823		**n.a.**

15.10.2 Statement of changes in inventories

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	n.a.	n.a.
Acquisitions	2,823	n.a.
Balance as at 31 December	**2,823**	n.a.

15.11 TAX ASSETS

15.11.1 Specification of tax assets

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Non-current part of tax assets	23	-
Current part of tax assets	121	124
	144	**124**

15.11.2 Specification of tax assets

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Corporate Income Tax (CIT)	132	118
Value Added Tax (VAT)	12	6
	144	**124**

15.12 ASSETS HELD FOR SALE

15.12.1 Analysis of assets held for sale

Name of property	Address	31-12-2019 In € 1,000	31-12-2018 In € 1,000
In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)			
Pražská 2	Pražská 2, Košice	2,799	Investment property
Pražská 4	Pražská 4, Košice	2,506	Investment property
Krivá 18	Krivá 18, Košice	2,914	Investment property
Krivá 23	Krivá 23, Košice	3,359	Investment property
Kosmalt	Kysucká 16, Košice	6,032	Investment property
Subtotal		**17,610**	**n.a.**
In ownership of Arcona Capital Real Estate Poland Sp. z o.o. (Poland)			
Graniczna	Graniczna 80-82, Kalisz	1,175	Investment property
		18,785	**n.a.**

The Fund has recognised the 5 properties shown above in ownership of Arcona Capital RE Slovakia s.r.o. as “Properties held for sale”. The Managing Board expects to complete the sales of these properties within 8 months from statement of financial position’s date.

Graniczna was sold on March 30, 2020 for an amount of PLN 4,350,000 (€ 945,000).

15.12.2 Statement of changes in assets held for sale

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Balance as at 1 January	n.a.	n.a.
Reclassification (from “Owned investment property”)	19,652	n.a.
Additions	73	n.a.
Fair value adjustments	-/- 940	n.a.
Balance as at 31 December	**18,785**	**n.a.**

15.12.3 Valuation of assets held for sale

The assets held for sale, stated under section 15.12.1 “Analysis of assets held for sale”, were valued by an external, independent appraiser as at 31 December of the current year, except for the asset held for sale

"Graniczna". "Graniczna" is valued against expected sales price (in local currency) based on a conditional agreement.

The valuations have been prepared for accounting purposes and are in accordance with relevant IFRS regulations. The market values of the investment properties are primarily derived using the hard-core and top-slice method. All assets held for sale are valued at fair value, without deduction of costs of sale.

15.13 GROUP EQUITY

15.13.1 Comparative statement

	31-12-2019	31-12-2018	31-12-2017	31-12-2016	31-12-2015
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Group equity	**48,000**	**40,911**	**42,036**	**36,452**	**28,569**
Number of ordinary shares in issue	3,731,692	3,138,158	3,138,158	3,138,158	1,411,713
Number of registered shares in issue	26,991	26,991	26,991	26,991	26,991
Total number of shares in issue entitled to profit	**3,758,683**	**3,165,149**	**3,165,149**	**3,165,149**	**1,438,704**
Net Asset Value per ordinary and registered share (in €)	**12.77**	**12.93**	**13.28**	**11.52**	**19.86**

15.13.2 (Interim) distributions to shareholders

At the General Meeting of Shareholders (GM) of the Fund dated May 21, 2019, the GM approved the proposal of the Priority for a final distribution to the shareholders in the amount of € 0.25 per ordinary and registered share. The ex-dividend date was June 3, 2019. Payment date was June 6, 2019.

Based on the interim Parent Company Financial Statements dated June 30, 2019 the Managing Board made an interim distribution to the shareholders in the amount of € 0.10 per ordinary and registered share. The ex-dividend date was October 10, 2019. Payment date was October 14, 2019.

15.13.3 "Closed-end" structure

The Fund operates as a closed-end investment company. Ordinary shares can be traded continuously through:

- Euronext Fund Services (EFS) in Amsterdam (The Netherlands); and
- Prague Stock Exchange (PSE) in Prague (Czech Republic).

The registered shares are currently restricted from trading on EFS and PSE.

15.13.4 Capital Management

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

15.13.5 Equity components

For further analysis and statements of changes in the various equity components see sections 19.9 to 19.16.

15.14 LOANS AND BORROWINGS

15.14.1 Analysis of loans and borrowings

	Non-current liabilities 31-12-2019	Current liabilities 31-12-2019	Total 31-12-2019
	In € 1,000	In € 1,000	In € 1,000
Secured bank loans	28,148	9,900	38,048
Convertible bonds	3,441	-	3,441
Lease liabilities	1,429	171	1,600
Other loans and borrowings	-	7,538	7,538
	33,018	**17,609**	**50,627**

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

15.14.2 Statement of changes in secured bank loans

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	33,671	36,551
Additions as a result of acquisitionss	2,258	-
Loans advanced	22,019	-
Redemptions	-/- 20,037	-/- 2,885
(Amortisation) flat fee	35	64
Exchange rate differences	102	-/- 59
Balance as at 31 December	**38,048**	**33,671**

15.14.3 Analysis of secured bank loans

Name of company	Name of credit institution	Carrying amount 31-12-2019	Weighted average interest rate
		In € 1,000	In %
Arcona Capital RE Bohemia s.r.o.	Sberbank	8,598	3.96
Arcona Capital RE Slovakia s.r.o.	Slovenská Sporiteľňa	12,988	2.45
Arcona Capital Real Estate Poland Sp. z o.o.	BNP Paribas Polska Bank	8,206	3.25
Arcona Poland B.V. Project 5 Sp.k.	DNB Nordbank	5,998	3.60
Boyana Residence E.O.O.D.	Alpha Bank	2,258	5.75
		38,048	

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

15.14.4 Securities, bank covenants and ratios secured bank loans

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

	Sberbank	**Slovenská Sporiteľňa**	**BNP Paribas**	**DNB Nordbank**	**Alpha Bank**
Carrying amounts securities:					
• Owned investment property (in € 1,000)	17,440	20,061	17,258	9,149	5,335
• Inventories (in € 1,000)	-	-	-	-	2,823
• Assets held for sale (in € 1,000)	-	17,610	-	-	-
• Trade and other receivables (in € 1,000)	13	108	168	11	-
• Cash and cash equivalents (in € 1,000)	460	607	655	285	199
Bank covenants:					
• Debt Service Coverage Ratio (DSCR) (minimum)	1.10	1.25	1.20	1.10	n.a.
• EBITDA / annual instalments of bank or other loans	n.a.	n.a.	n.a.	n.a.	n.a.
• Debt Service Reserve Account (DSRA) (in € 1,000)	n.a.	300	n.a.	n.a.	n.a.
• Capital expenditure (CAPEX) (in € 1,000)	n.a.	300	n.a.	n.a.	n.a.
• EBITDA (in € 1,000)	n.a.	1,600	n.a.	n.a.	n.a.
• Loan to value	70.0%	45.0%	65.0%	75.0%	n.a.
• Negative equity borrower	n.a.	n.a.	None	n.a.	n.a.
• Issued shares borrower pledged	Yes	No	Yes	No	Yes
Ratios:					
Debt Service Coverage Ratio (DSCR)	1.23	1.44	1.20	1.10	n.a.
Loan to value (LTV)	49.37%	34.55%	44.89%	65,58%	27.60%
Withdrawable credit facilities:					
Maximum credit facilities	8,610	13,267	8,274	6,000	2,258
Outstanding amount	8,610	13,017	8,274	6,000	2,258
Withdrawable credit facilities	-	250	-	-	-

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

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

15.14.5 Analysis of convertible bonds

Date of issue	Convertible as of	Date of maturity	Nominal interest rate	Interest rate used[5]	Conversion price	Face value	Carrying amount 31-12-2019	Carrying amount 31-12-2018
			In %	In %	In €	In € 1,000	In € 1,000	In € 1,000
01-12-2014	01-12-2015	01-12-2019	6.00	7.50	8.24	1,070	n.a.	1,056
17-10-2016	01-11-2016	31-10-2021	6.50	7.50	8.76	3,500	3,441	3,412
						4,570	**3,441**	**4,468**

15.14.6 Statement of changes in convertible bonds

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	4,468	5,844
Redemptions	-/- 1,070	-/- 1,420
Accrued interest	43	44
Balance as at 31 December	**3,441**	**4,468**

15.14.7 Statement of changes in lease liabilities

	2019	2018
	In € 1,000	In € 1,000
Balance as at 1 January	n.a.	n.a.
Effect of change in accounting principles	1,669	n.a.
Redemptions	-/- 185	n.a.
Accrued interest	100	n.a.
Exchange rate differences	16	n.a.
Balance as at 31 December	**1,600**	**n.a.**

15.14.8 Analysis of lease liabilities

Nature of lease liability	Related to property	31-12-2019	31-12-2018
		In € 1,000	In € 1,000
Lease liability by Arcona Capital Real Estate Trio Sp. z o.o. (Poland)			
Land lease	Grzymaly Siedleckiego	259	n.a.
Land lease	Kardynala Wyszynskiego	456	n.a.
Land lease	Legionow	885	n.a.
		1,600	**n.a.**

15.14.9 Maturity analysis contractual undiscounted cash flows of lease liabilities

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Less than 1 year	188	n.a.
1 to 5 years	750	n.a.
More than 5 years	1,850	n.a.
	2,788	**n.a.**

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

15.14.10 Analysis of other loans and borrowings

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Secured vendor loan Real Estate Central Europe AS	4,210	4,710
Unsecured loan H.M. van Heijst	-	2,000
Unsecured loan Florijn Investments B.V.	2,000	n.a.
Unsecured vendor loan Secure Property Development & Investment plc	750	n.a.
Unsecured loan C.J. Bogerd	500	n.a.
Unsecured loan Almaz-Press-Ukraine LLC	78	n.a.
	7,538	**6,710**

15.14.11 Statement of changes in other loans and borrowings

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	6,710	6,710
Additions as a result of acquisitions	78	-
Loans advanced	3,250	-
Redemptions	-/- 2,500	-
Balance as at 31 December	**7,538**	**6,710**

The "Redemptions" for the amount of € 2,500,000 includes also the release of the secured vendor loan Real Estate Central Europe AS for the amount of € 500,000, as a result of the shares' purchase price reduction Arcona Capital Real Estate Trio Sp. z.o.o. (see section 15.28).

15.14.12 Conditions of other loans and borrowings

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

- Secured vendor loan Real Estate Central Europe AS: a weighted average interest rate of 6% is applicable. The issued capital of Arcona Real Estate Trio Sp. z o.o. is pledged;
- Unsecured loan Florijn Investments B.V.: a weighted average interest rate of 10% is applicable.
  Arcona Capital Real Estate Poland Sp. z o.o. and Arcona Capital Real Estate Trio Sp. z o.o. (hereinafter referred to as "the Third Party Security Provider") shall not (and the Fund shall ensure that the Third Party Security Provider will not) create or permit to subsist any right or mortgage or other security interest over the property "Graniczna" (Kalisz) held by Arcona Capital Real Estate Poland Sp. z o.o. (Poland) in favour of another person than the lender.
  Each Third Party Security Provider shall grant security by way of third party security for the obligations of the Fund under any Finance Document to the lender promptly upon request (in form and substance satisfactory to the lender) over the property "Graniczna" (Kalisz) and / or any receivables of Arcona Capital Real Estate Trio Sp. z o.o.;
- Unsecured vendor loan Secure Property Development & Investment plc: a weighted average interest rate of 6% is applicable. There are no securities given;
- Unsecured loan C.J. Bogerd: a weighted average interest rate of 10% is applicable. There are no securities given;
- Unsecured loan Almaz-Press-Ukraine LLC: a weighted average interest rate of 0% is applicable. There are no securities given.

15.15 TRADE AND OTHER PAYABLES

15.15.1 Analysis of trade and other payables

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Non-current part of trade and other payables	33	37
Current part of trade and other payables	3,084	1,595
	3,117	**1,632**

15.15.2 Specification of trade and other payables

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Trade payables	522	279
Accruals	636	573
Administrative expenses	595	641
Interest rate swaps used for hedging	73	82
Interest payables	140	57
Interest payables Alpha Bank	376	n.a.
Secured bank loan Alpha Bank to be taken over	666	n.a.
Interest payables secured bank loan Alpha Bank to be taken over	109	n.a.
	3,117	**1,632**

The “Interest payables Alpha Bank” relates to the acquired subsidiary Boyana Residence E.O.O.D. The “Interest payables Alpha Bank” includes also accrued penalty interest, since the secured bank loan was to be fully repaid as at March 29, 2019.
The accrued penalty interest is contractually payable as at December 31, 2019. As at January 6, 2020 the Fund agreed with Alpha Bank this penalty interest for an amount up to € 40,000 will be waived in case the Fund will repay the loan within the agreed repayment schedule.

The “Secured bank loan Alpha Bank to be taken over” and “Interest payables secured bank loan Alpha Bank to be taken over” relates to the acquired subsidiary Boyana Residence E.O.O.D.
The “Secured bank loan Alpha Bank to be taken over” will be reclassified to “Loans and borrowings” after the Fund has reached an agreement with Alpha Bank for the extention of the secured bank loan. As at February 25, 2020 the Fund announced it had reached an agreement with Alpha Bank for the extension of the secured bank loan. Therefore as of this date the “Secured bank loan Alpha Bank to be taken over” will be reclassified to “Loans and borrowings”.

15.15.3 Specification of administrative expenses

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Fund Management fee	595	641
Performance-related remuneration	-	-
	595	**641**

15.16 DEFERRED INCOME AND TENANT DEPOSITS

15.16.1 Analysis of deferred income and tenant deposits

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Non-current part of deferred income and tenant deposits	397	366
Current part of deferred income and tenant deposits	347	185
	744	**551**

15.16.2 Specification of deferred income and tenant deposits

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Deposits received from tenants	544	538
Advance payments received from tenants	-	9
Advance payments sale of inventories	200	-
Lease incentives	-	4
	744	**551**

15.17 DEFERRED TAX LIABILITIES

For the specification and analysis of the (un)recognised deferred tax liabilities see section 15.5.1 to 15.6.4.

15.18 TAX LIABILITIES

15.18.1 Specification of tax liabilities

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Non-current part of tax liabilities	-	-
Current part of tax liabilities	326	108
	326	**108**

15.18.2 Analysis of tax liabilities

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Property tax	136	-
Value Added Tax (VAT)	85	83
Corporate Income Tax (CIT)	83	9
Withholding Tax (WHT)	22	16
	326	**108**

15.19 CONTINGENT ASSETS

As at Statement of Financial Position's date the Fund held no contingent assets which are not included in the Statement of Financial Position, except the unrecognised deferred tax assets.

15.20 NON-CONTINGENT ASSETS

As at Statement of Financial Position's date the Fund held no non-contingent assets other than already recognized in the statement of financial position.

15.21 NON-CONTINGENT LIABILITIES

As at Statement of Financial Position's date the Fund has the following non-contingent liabilities which are not included in the Statement of Financial Position:

A. Arcona Capital RE Slovakia s.r.o. has a non-contingent liability for the amount of € 411,000 with regard to repair and maintenance.

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

15.22 CONTINGENT LIABILITIES

As at Statement of Financial Position's date the Fund has the following contingent liabilities which are not included in the Statement of Financial Position:

A. Arcona Capital RE Bohemia s.r.o. has a contingent liability for the amount of CZK 5,669,000 (€ 223,000) towards the buyer of the investment property Štefánikova with regard to rent received in advance by Arcona Capital RE Bohemia s.r.o. for usage of the parking places (free of payment) by the lessee of Štefánikova. Based on the agreement (2012) the buyer of Štefánikova will pay the taxes with regard to this rent;

B. The Fund has a contingent liability towards the sellers of RECE Progress Sp. z o.o. (currently named: Arcona Capital Real Estate Trio Sp. z o.o.) for the maximum amount of € 1,500,000 (the "shares' purchase price increase").
The "shares' purchase price increase" applies if:
- Arcona Capital Real Estate Poland Sp. z o.o. refinances the secured bank loan BNP Paribas Polska Bank by December, 12 2022; or
- the Fund sells any of the 11 owned properties obtained through Arcona Capital Real Estate Poland Sp. z o.o. and Arcona Capital Real Estate Trio Sp. z o.o. (the acquisition of the 11 properties hereinafter mentioned as: ("RECE")); or
- the Fund sells any part of the shares of Arcona Real Estate Trio Sp. z o.o. by December, 12 2022.

The shares' purchase price will be increased:
- by the amount equal to 50% of the positive difference between (I) the net proceeds gained from the loan amount utilized to the Fund under the refinancing documents (net of any fees paid to the refinancing bank, legal costs, valuation costs, breakage costs to existing bank etc.), and (II) the outstanding amount of the secured bank loan; or
- on the event of the sale of the owned properties obtained through "RECE" or shares of Arcona Capital Real Estate Trio Sp. z o.o. the difference between (I) the net proceeds gained from the sale of any of the owned properties obtained through "RECE" or shares of Arcona Capital Real Estate Trio Sp. z o.o., and (II) the relevant part of the net consideration.

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

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

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

C. The Fund has a contingent liability towards Stichting Boyana to reverse the issuance of own shares in case the Fund has not reached agreement with Alpha Bank for the extension of the secured bank loan. At the same time the acquisition of Boyana Residence E.O.O.D. acquired by the Fund by the issuance of own shares, will be reversed. On February 25, 2020, the Fund announced it had reached an agreement with Alpha Bank (see also section 15.41). Therefore, with effect from February 25, 2020 the contingent liability no longer exists;

D. The Fund has a contingent liability to issue ordinary shares against an exercise price as mentioned below as a result of the outstanding warrants. The conditions are as follows:

Initial holder	Number of warrants	Date of issue	Expiration date	Required share price In €	Exercise price In €
SPDI	67,063	01-11-2019	01-11-2024	8.10	0.00
Stichting Boyana	77,201	05-12-2019	01-11-2024	8.10	0.00

The exercise date of the outstanding warrants is the trading day immediately following the 10th trading day on which the shares have traded on a regulated market (or system comparable to a regulated market) and for which the volume-weighted average price of a share was € 8.10 or higher (the "required share price"), provided that this warrant may not be exercised within a 12 months period following the issue date, unless a prospectus approved by the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten, the **AFM**) with respect to the warrants and / or the warrant shares is published by the Fund.

In case the conditions are met the warrant shares will be issued against an exercise price of € 0.00. The fair value of the warrants is nil. In case the conditions are met the warrant shares will be charged from the share premium or other freely distributable reserve to the issued capital.

The Statement of changes in warrants is as follows:

	2019 In pieces	**2018** In pieces
Balance as at 1 January	n.a.	n.a.
Granted during the financial period	144,264	n.a.
Forfeited during the financial period	-	n.a.
Expired during the financial period	-	n.a.
Balance as at 31 December	**144,264**	n.a.
Exercisable as at 31 December	**-**	**n.a.**

E. The Fund has a contingent liability for € 180,000 towards BNP Paribas Polska Bank. There is an obligation to refill the current Debt Service Reserve Account of € 300,000 (if drawn down by the bank) in its entirety plus € 180,000, so the total amount of the guarantee from the Fund is € 480,000.

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

15.23 GROSS RENTAL INCOME

15.23.1 General

The Group leases out its investment property. The group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. All gross rental income can be classified as operating lease income, with the exception of amortisation of lease incentives.

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 the relevant national Central Banks. New leases for a determined time are normally signed for a term of five years. All these lease contracts normally include at least a three-month deposit.

15.23.2 Analysis of gross rental income

	2019	**2018**
	In € 1,000	In € 1,000
Gross rental income collected / accrued	8,899	8,686
Amortisation lease incentives	-/- 24	13
	8,875	**8,699**

15.23.3 Analysis of gross rental income collected / accrued

	2019	**2018**
	In € 1,000	In € 1,000
Fixed lease payments	8,899	8,686
Variable lease payments	-	-
	8,899	**8,686**

15.23.4 Weighted average percentage of the vacant space of buildings (including underground)

Weighted to the fair value, the weighted average percentage of the vacant space of the buildings (including underground) in the portfolio as at Statement of Financial Position's date was 15.6% (2018: 20.1%).

15.23.5 Non-cancellable leases

The gross rental income receivable on account of non-cancellable leases related to the owned investment property, investment property under development and inventories as at 31 December of the relevant financial period is as follows (the future minimum gross rental income receivable in foreign currency has been translated at the average exchange rate used for the Consolidated Income Statement for the financial period):

	31-12-2019
	In € 1,000
Less than one year	6,304
One to two years	4,463
Two to three years	3,789
Three to four years	2,770
Four to five years	1,485
More than five years	1,514
	20,325

	31-12-2018
	In € 1,000
Less than one year	5,812
Between one and five years	12,091
More than five years	2,017
	19,920

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

15.24.1 General

As the Fund invoices service charges independently (or as principal) to the lessees on the basis of the leases entered into, such reimbursed service charges are shown separately in the Income Statement. The work associated with the service charges is carried out either by the Fund, or by third parties on a contract basis. Contracts for the performance of service work are normally entered into for a maximum period of six months. In addition, service charge expenses also include charges related to vacant units and / or other irrecoverable service charges due to contractual limits or insolvent tenants.

15.24.2 Analysis of property operating expenses

	2019	2018
	In € 1,000	In € 1,000
Property management	569	563
Asset management	658	646
Maintenance expenses in respect of investment properties	809	904
Taxes on investment properties and inventories	352	346
Land lease	-	182
Commission fees	114	69
Insurance premiums	41	41
Other property operating expenses	4	3
	2,547	**2,754**

15.24.3 Allocation of service charges and property operating expenses

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

	2019 In € 1,000	**2018** In € 1,000
For investment properties and inventories let	5,126	5,324
For investment properties and inventories not let	713	655
	5,839	**5,979**

15.24.4 Non-cancellable operating leases (not in scope of IFRS 16)

Non-cancellable operating leases of investment properties and inventories as at 31 December of the relevant financial period, which are not in scope of IFRS 16 are shown as follows (the future non-cancellable operating leases in foreign currency have been translated at the average exchange rate used for the Consolidated Income Statement for the financial period):

	31-12-2019 In € 1,000	**31-12-2018** In € 1,000
Less than 1 year	-	185
1 to 5 years	-	739
More than 5 years	-	2,008
	-	**2,932**

15.25 VALUATION RESULTS OF PROPERTIES

15.25.1 Analysis of valuation results of properties

	2019 In € 1,000	**2018** In € 1,000
Owned investment properties	162	-/- 1,336
Right-of-use assets	-/- 85	-
Owned investment properties held for sale	-/- 940	-
	-/- 863	**-/- 1,336**

15.25.2 Specification of valuation results of properties

	2019 In € 1,000	**2018** In € 1,000
Unrealised value adjustments booked in current year	-/- 863	-/- 1,336
Unrealised value adjustments booked in prior years	-	-
	-/- 863	**-/- 1,336**

15.26 VALUATION RESULTS OF INVESTMENT PROPERTY UNDER DEVELOPMENT

	2019 In € 1,000	2018 In € 1,000
Unrealised value adjustments booked in current year	-/- 42	-
Unrealised value adjustments booked in prior years	-	-
	-/- 42	**-**

15.27 NET RESULTS ON PROPERTIES

	2019 In € 1,000	2018 In € 1,000
Valuation gains	1,615	1,139
Valuation losses	-/- 2,520	-/- 2,475
	-/- 905	-/- 1,336
Costs on sale of properties	-	-
	-/- 905	**-/- 1,336**

15.28 FINANCIAL INCOME

	2019 In € 1,000	2018 In € 1,000
Release secured vendor loan Real Estate Central Europe AS	500	-
Realised currency results on net investments in group companies	47	139
Change in fair value of derivatives	22	-
Interest on trade receivables	4	47
Interest income on held bank balances and deposits	2	1
Other exchange and currency translation results	-	3
	575	**190**

The “Release secured vendor loan Real Estate Central Europe AS” for the amount of € 500,000 relates to the shares’ purchase price reduction for Arcona Capital Real Estate Trio Sp. z o.o. The shares’ purchase price reduction applied if Arcona Capital Real Estate Poland Sp. z o.o. was obliged to repay Tranche B of the secured bank loan (received from BNP Paribas Polska Bank for the amount of € 1,050,000) on or before the 3rd anniversary of the disbursement of Tranche B.
As at December 9, 2019 Tranche B of the secured bank loan from BNP Paribas Polska Bank was fully repaid. Simultaneously with the shares’ purchase price reduction indicated above, the vendor loan amount towards “RECE” (see section 15.14.10) was reduced by the same amount.

15.29 OTHER OPERATING INCOME

	2019 In € 1,000	2018 In € 1,000
Early termination of rent contracts	52	188
Penalty interest and fees	1	4
Other operating income	7	24
	60	**216**

15.30 ADMINISTRATIVE EXPENSES

15.30.1 Specification administrative expenses

	2019 In € 1,000	2018 In € 1,000
Fund Management fee	680	684
Performance-related remuneration	-	-
	680	**684**

15.30.2 Management fee

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

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

15.30.3 Specification Fund Management fee

	2019 In € 1,000	2018 In € 1,000
Management fee	1,338	1,330
Less: Asset Management fee:		
Arcona Capital Czech Republic s.r.o.	474	466
Arcona Capital Poland Sp. z o.o.	179	180
CEG South East Continent Unique Real Estate Management Limited	5	n.a.
	658[6]	646
Fund Management fee (Arcona Capital Fund Management B.V.)	**680**	**684**

15.30.4 Performance-related remuneration

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

The performance-related remuneration consists of three tiers:

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

[6] See also section 15.24.2 "Analysis of property operating expenses".

The performance-related remuneration will be charged annually in arrears and is budgeted and put aside on a three-monthly basis. This performance-related remuneration will not be due if the stock exchange price of the share plus the dividends distributed in the relevant financial period is lower than that of any preceding period for which the performance-related remuneration was deducted.

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

With regard to the financial period, the Managing Board is not entitled to performance-related remuneration.

15.31 OTHER OPERATING EXPENSES

15.31.1 Specification of other operating expenses

	2019 In € 1,000	2018 In € 1,000
Costs of service providers	867	956
Other operating expenses	324	289
	1,191	1,245
Costs of funding and acquisition	491	57
	1,682	**1,302**

15.31.2 Analysis of costs of service providers

	2019 In € 1,000	2018 In € 1,000
Accounting expenses	291	298
Audit fees	135	156
Consultancy fees	154	135
Marketing expenses	57	116
Custody fees	49	51
Appraisal expenses	35	41
Listing, Paying and Fund Agent fees	37	37
Supervisory Board fees	28	28
Insurance AIFMD	23	27
Supervisors' expenses	14	23
Bank costs	18	16
Court fees	-	2
Other costs of service providers	26	26
	867	**956**

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

- The “Accounting expenses” include the expenses in respect of bookkeeping, consolidation activities on a quarterly basis for results announcements and the determination of corresponding Net Asset Value (NAV), preparation of (Semi)-Annual Report and other activities to fulfill administrative requirements for the Fund and its subsidiaries;
- The “Audit fees” include the fees for the audit of the Consolidated Financial Statements and Parent Company Financial Statements, as well as audits of accounts of subsidiaries. The fees for the audit of the Consolidated Financial Statements and Parent Company Financial Statements 2019 (Deloitte Netherlands) are estimated at € 53,000. During the financial period audit fees related to prior years have been booked in an amount of € 7,000 negative. The fees audits of accounts of subsidiaries (Deloitte other countries) amounts € 89,000.
  Except for:
  - audit of the Consolidated Financial Statements and Parent Company Financial Statements, and
  - audits of accounts of subsidiaries, and
  - required description(s) relating to the proposed contribution in kind for the acquisition of all shares of Aisi Bela LLC and all shares of Boyana Residence E.O.O.D. (including shareholders’ loans and accrued interest shareholders’ loans), being payment in shares to be issued by the Fund,

  no services of Deloitte have been used. The fees with regard to the required description(s) for the total amount of € 31,000 are presented under “Costs of funding and acquisition” (see section 15.31.5).
- The “Consultancy fees”, including legal fees, relate mainly to consultancy fees for tax structuring;
- The “Custody fees” include the fees for operational activities by the AIFMD Depositary;
- The “Supervisors’ expenses” include expenses for supervision by the AFM and “De Nederlandsche Bank” (**DNB**);
- The “Other costs of service providers” include, among others, costs of press releases and Euronext Fund Services (**EFS**).

15.31.3 Analysis of Supervisory Board fees

	2019 In € 1,000	**2018** In € 1,000
H.H. Kloos RBA	14	14
B. Vos M.Sc.	14	14
	28	**28**

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

15.31.4 Analysis of other operating expenses

	2019 In € 1,000	**2018** In € 1,000
Change in provision for doubtful trade receivables	103	167
Non-refundable Value Added Tax	104	101
Irrecoverable trade receivables	109	15
Wages and salaries statutory Directors	8	6
	324	**289**

15.31.5 Analysis of costs of funding and acquisition

	2019 In € 1,000	2018 In € 1,000
Consultancy fees / legal fees	414	-
Due Diligence	77	57
	491	**57**

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

15.31.6 Transaction costs

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

Based on article 123:1.c of the Decree on Conduct of Business Supervision of Financial Undertakings under the Act of Financial Supervision (in Dutch: Besluit Gedragstoezicht Financiële ondernemingen Wft) the analysis of identifiable and quantifiable transaction costs on purchase and sale of investments during the financial period is disclosed. The analysis is as follows:

	2019 In € 1,000	2018 In € 1,000
Transaction costs on purchase of investments	-	-
Transaction costs on sale of investments	-	-
	-	**-**

15.31.7 Costs of lending financial instruments

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

15.31.8 Remuneration for orders on behalf of the Fund

Neither the Managing Board, the Directors of the Managing Board, the Fund, the Depositary of the Fund, nor parties affiliated with these parties, received any remuneration for performing assignments for the Fund, other than as described in section 15.30 “Administrative expenses” and 15.31 “other operating expenses” above.

15.31.9 Outsourcing expenses

The Managing Board of the Fund has in the ordinary course of business outsourced the accounting of the Fund to KroeseWevers Accountants B.V.

The related expenses are included in the section “Accounting expenses”, as indicated in section 15.31.2 “Analysis of costs of service providers”.

15.31.10 Comparison of actual costs with prospectus

	2019	**2019**	**2018**	**2018**
	Actual	Prospectus	Actual	Prospectus
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Costs of service providers	867,000	900,000	956,000	900,000

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

For the analysis of costs of service providers see section 15.31.2 "Analysis of costs of service providers".

15.32 PERSONNEL COSTS

The Fund does not employ any personnel, with the exception of statutory Directors of the Fund's subsidiaries. The statutory Directors receive a wage, which is specified in "Other operating expenses" (see section 15.31.4 "Analysis of other operating expenses").

15.33 FINANCIAL EXPENSES

	2019	**2018**
	In € 1,000	In € 1,000
Interest expense on secured bank loans	1,166	1,135
Interest expense on convertible bonds	329	348
Interest expense on lease liabilities	100	-
Interest expense on other loans and borrowings	375	167
Interest expense on derivatives	35	41
Change in fair value of derivatives	-	24
Withholding tax on loans due to shareholders and other group companies	18	16
Other exchange and currency translation results	23	-
Bank guarantee fund charges	13	13
Penalty interest on secured bank loans	5	4
Valuation losses on "Other investments"	1	1
Other financial expenses	6	8
	2,071	**1,757**

15.34 ONGOING CHARGES FIGURE

Based on article 123:1.l of the Decree on Conduct of Business Supervision of Financial Undertakings under the Act of Financial Supervision (in Dutch: Besluit Gedragstoezicht Financiële ondernemingen Wft) the Ongoing Charges Figure (**OCF**) is disclosed. The OCF is calculated by dividing the total expenses (including "Operating expenses") during the financial year by the average group equity of the Fund during the financial year. The total expenses include the expenses charged to the profit for the period as well as to group equity. They also include the "Operating expenses" of the investment properties and inventories. No net service charges are included in the total expenses, since these are fully covered by the service income from service fees and the fees part of the gross rental income. The expenses which are related to the issuance and the redemption of own ordinary shares, as far as these are covered by surcharges and reductions received, are not taken into consideration. Regular interest charges for loans contracted, as well as costs of investment transactions, are also not included in the calculation of the OCF

The average group equity is determined by the average of all calculated and published Net Asset Values (**NAV**'s).[7]

	2019	2018	2017	2016	2015
	In %	In %	In %	In %	In %
OCF	11.13	10.85	13.02	12.82	9.91

In 2019 the OCF increased as a result of a decrease of the total expenses (including "Other operating expenses") by about 4%, in conjunction with the increase of the average group equity by about 1%.

The total expenses also include non-regular costs, such as "Costs of funding and acquisition" (see section 15.31.5). Without these non-regular costs, the OCF would be 10.01% (2018: 10.72%).

15.35 INCOME TAX EXPENSE

15.35.1 Tax position

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

15.35.2 Income tax expense recognised in the Consolidated Income Statement

	2019	2018
	In € 1,000	In € 1,000
Current income tax expense		
Current year	216	82
Adjustments related to prior years	35	7
	251	89
Deferred income tax expense		
Origination and reversal of taxable temporary differences	15	144
Recognition of previously unrecognised tax losses	-/- 32	-/- 7
Recognition of previously unrecognised (derecognition of previously recognised) other taxable temporary differences	405	129
Change in tax rate	6	-/- 1
Adjustments related to prior years	-/- 221	-/- 11
	173	254
	424	**343**

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

15.35.3 Reconciliation of effective tax rate

	2019 In %	2019 In € 1,000	2018 In %	2018 In € 1,000
Profit before income tax		**517**		**146**
Tax using the Parent Company's domestic tax rate	25.0	129	25.0	36
Effect of tax rates in foreign jurisdictions	-/- 12.4	-/- 64	-/- 13.0	-/- 19
Change in tax rate	1.2	6	-/- 0.7	-/- 1
Tax effect of:				
Non-deductible expenses	37.1	192	60.9	89
Tax exempt revenues	-/- 19.0	-/- 98	-/- 47.4	-/- 69
Tax on phantom results	-/- 2.9	-/- 15	26.7	39
Current year losses for which no deferred tax asset is recognised	16.6	86	102.7	150
Recognition of previously unrecognised tax losses	-/- 6.0	-/- 31	-/- 4.8	-/- 7
Recognition of previously unrecognised (derecognition of previously recognised) other taxable temporary differences	78.4	405	88.2	129
Adjustments related to prior years	-/- 36.0	-/- 186	-/- 2.7	-/- 4
	82.0	**424**	**234.9**	**343**

15.35.4 Deferred income tax recognised directly in group equity

	2019 In € 1,000	2018 In € 1,000
Related to receivables from shareholders and other group companies	-/- 9	-/- 32

15.35.5 Applicable local Corporate Income Tax rates

	2022 In %	2021 In %	2020 In %	2019 In %	2018 In %
The Netherlands					
- Up to € 200,000	15.00	15.00	16.50	19.00	20.00
- As of € 200,000	21.70	21.70	25.00	25.00	25.00
Czech Republic	19.00	19.00	19.00	19.00	19.00
Slovakia	21.00	21.00	21.00	21.00	22.00
Poland					
- Regular	19.00	19.00	19.00	19.00	19.00
- Small taxpayers[8]	9.00	9.00	9.00	9.00	15.00
Ukraine	18.00	18.00	18.00	18.00	18.00
Bulgaria	10.00	10.00	10.00	10.00	10.00

[8] As of January 1, 2018 a reduced corporate income tax rate was introduced for so-called "small taxpayers". Small taxpayers are, for example, entities whose revenues, including Value Added Tax, in a given tax year did not exceed in the preceding tax year the PLN equivalent of € 1,200,000 and the ratio of income to revenues in a previous tax year does not exceed 33%. The reduced corporate income tax rate will not be available for entities created or involved in certain restructuring activities.

15.36 EARNINGS PER SHARE[9]

15.36.1 Calculation of "Basic earnings per share"

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

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

If the number of shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share and of the comparative figures is adjusted retrospectively.

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

	2019	**2018**
	In € 1,000	In € 1,000
Profit for the financial period	93	-/- 197

15.36.3 Weighted average number of outstanding shares (basic)

	2019	**2018**
	In pieces	In pieces
Issued shares as at 1 January	3,165,149	3,165,149
Effect on issued shares during the financial period	68,170	-
	3,233,319	**3,165,149**

15.36.4 Calculation of "Diluted earnings per share"

The "Diluted earnings per share" are calculated by dividing the profit for the period attributable to holders of shares, adjusted for costs relating to the convertible securities included in the profit for the period, by the weighted average number of shares during the financial period, adjusted for the maximum number of shares that could be converted during the financial period.

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

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

	2019	**2018**
	In € 1,000	In € 1,000
Profit for the period	93	-/- 197
Interest expense on convertible bonds (net of tax)	-	-
	93	**-/- 197**

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

15.36.6 Weighted average number of shares outstanding (diluted)

	2019 In pieces	2018 In pieces
Weighted average number of shares outstanding during the financial period (basic)	3,233,319	3,165,149
Effect on conversion of warrants	-	-
Effect on conversion of convertible bonds	-	-
	3,233,319	**3,165,149**

15.37 RISK MANAGEMENT

15.37.1 General

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

The Fund's investment activities result in exposure to various risks, as also defined in the prospectus.

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

The risks are summarized in the table below:

Risk Category	Risk *(policy)*	Paragraph	Risk Appetite	Impact	Likelihood
Strategy	Market *(mitigation)*	15.37.02	High	Medium	High
	Concentration *(avoidance)*	15.37.06	Low	Medium	Low
	Economic *(acceptance)*	15.37.08	High	High	High
Operational	Fraud *(avoidance)*	15.37.15	Low	Medium	Low
	Internal control *(mitigation)*	15.37.15	Low	Medium	Low
	Counterparty *(mitigation)*	15.37.15	Low	High	Low
	Integrity *(avoidance)*	15.37.19	Low	Medium	Low
Financial position	Currency *(mitigation / avoidance)*	15.37.03	Medium	Low	High
	Interest rate *(mitigation)*	15.37.04	Low	Medium	High
	Price *(acceptance)*	15.37.05	High	High	High
	Borrowed money *(avoidance)*	15.37.07	Low	High	Medium
	Credit (*mitigation)*	15.37.09	Low	Medium	Low
	Rent *(mitigation)*	15.37.10	Medium	Medium	High
	Debtor *(mitigation)*	15.37.11	Medium	Low	High
	Vacancy *(mitigation)*	15.37.12	Medium	Medium	High
	Liquidity *(avoidance)*	15.37.14	Low	High	Low
Financial reporting	Outsourcing *(avoidance)*	15.37.16	Low	Low	Low
Legal and compliance risk	Regulations *(mitigation)*	15.37.13	Low	Medium	Medium
	Tax *(mitigation/acceptance)*	15.37.16	Low	Medium	High
	Legal *(mitigation)*	15.37.18	Low	High	Medium

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

15.37.2 Market risk

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

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

Control of the market risk is determined largely by the Managing Board's investment policy, which is aimed at achieving investment results by purchasing investments that are assumed to have been undervalued and are expected to benefit from the further development of the Czech, Slovak, Polish, Ukrainian and Bulgarian economy. The market risk is managed on a day-to-day basis. The Fund's policy is *mitigation*. The impact is medium, the likelihood low. See also the "Sensitivity analysis" of the buildings (including underground) (section 15.2.10).

15.37.3 Currency risk

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

The Fund may invest in properties in countries where the Euro has not (yet) been implemented. There is a currency risk that the exchange rate fluctuates. The Fund has the option to mitigate the risk by using financial instruments to hedge the currency risk. The Fund also seeks to mitigate/avoid the risk by concluding rent contracts in euro.

The Fund invests in some property in currencies other than the functional currency (the Euro) used in these financial statements. At present, the currencies involved are:

- Czech Koruna (CZK);
- Polish Zloty (PLN);
- Ukrainian Hryvnia (UAH); and
- Bulgarian Lev (BGN).

Consequently the Fund is exposed to the risk that the exchange rate of the functional currency in relation to the foreign currency may develop in such a way that this has a negative impact on the value of the investment portfolio in foreign currency (see also the COVID-19 outlook chapter).

Taking into account the high costs involved and Management's expectation that the:

- EUR / CZK exchange rate;
- EUR / PLN exchange rate;
- EUR / UAH exchange rate; and
- EUR / BGN exchange rate

will continue to show relative stability over the long term, the Managing Board has opted not to hedge the currency risk by means of financial derivatives, such as forward contracts.

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

	31-12-2019	**31-12-2018**
	In %	In %
Czech Koruna (CZK)	13.2	12.6
Euro (EUR)	63.4	57.6
Polish Zloty (PLN)	18.9	29.8
Bulgarian Lev (BGN)	4.5	n.a.
	100.0	**100.0**

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

	Monetary assets 31-12-2019 In € 1,000	Monetary liabilities 31-12-2019 In € 1,000	Net exposure 31-12-2019 In € 1,000
Czech Koruna (CZK)	517	8,738	-/- 8,221
Euro (EUR)	2,211	43,152	-/- 40,941
Polish Zloty (PLN)	476	1,949	-/- 1,473
Bulgarian Lev (BGN)	202	173	29
Ukrainian Hryvnia (UAH)	-	87	-/- 87
	3,406	**54,099**	**-/- 50,693**

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

If the Euro had weakened by 5% in relation to one of the other currencies, with all variables held constant, net assets attributable to holders of redeemable shares per the Consolidated Income Statement would have decreased by the amounts shown below:

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Czech Koruna (CZK)	411	343
Polish Zloty (PLN)	74	-/- 11
Bulgarian Lev (BGN)	-/- 1	n.a.
Ukrainian Hryvnia	4	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, on the basis that all other variables remain constant.

15.37.4 Interest rate risk

General

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

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

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

	As at 31-12-2019					
	Nominal amount	**Average fixed interest rate**	**Termination date**	**Assets**	**Liabilities**	**Line item in the SFP where the hedging instrument is included**
	In € 1,000	In %		In € 1,000	In € 1,000	
Interest rate swap I	6,278	0.22	30-11-2021	-	73	Trade and other payables
Interest rate swap II	6,327	1.995	29-03-2024	13	-	Trade and other receivables
Interest rate cap I	1,785	4.50	30-11-2021	-	-	n.a.

	As at 31-12-2018					
	Nominal amount	**Average fixed interest rate**	**Termination date**	**Assets**	**Liabilities**	**Line item in the SFP where the hedging instrument is included**
	In € 1,000	In %		In € 1,000	In € 1,000	
Interest rate swap I	6,646	0.22	30-11-2021	-	82	Trade and other payables
Interest rate cap I	1,890	4.50	30-11-2021	-	-	n.a.

Exposure to interest rate risk

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

	As at 31-12-2019						
	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	-	-	-	-	-	4	4
Tax assets	-	-	-	-	-	144	144
Trade and other receivables	-	-	-	-	-	648	648
Prepayments and lease incentives	-	-	-	-	-	989	989
Cash and cash equivalents	2,743	-	-	-	-	3	2,746
Financial assets	**2,743**	**-**	**-**	**-**	**-**	**1,788**	**4,531**
Loans and borrowings	10,532	31,837	3,250	3,441	1,600	78	50,738
Effect of interest rate swaps	-/- 6,278	-/- 6,327	-	-	-	-	-/- 12,605
Tax liabilities	-	-	-	-	-	326	326
Trade and other payables	-	376	-	-	-	2,741	3,117
Deferred income and tenant deposits	-	-	-	-	-	744	744
Financial liabilities	**4,254**	**25,886**	**3,250**	**3,441**	**1,600**	**3,889**	**42,320**
Total interest sensitivity gap	**-/- 1,511**	**-/- 25,886**	**-/- 3,250**	**-/- 3,441**	**-/- 1,600**		**-/- 35,688**

	As at 31-12-2018						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	-	-	-	-	-	5	5
Tax assets	-	-	-	-	-	124	124
Trade and other receivables	-	-	-	-	-	724	724
Prepayments and lease incentives	-	-	-	-	-	542	542
Cash and cash equivalents	1,992	-	-	-	-	2	1,994
Financial assets	**1,992**	**-**	**-**	**-**	**-**	**1,397**	**3,389**
Loans and borrowings	9,734	24,083	3,056	8,123	-	-	44,996
Effect of interest rate swaps	-/- 6,646	-	-	-	-	-	-/- 6,646
Tax liabilities	-	-	-	-	-	108	108
Trade and other payables	-	-	-	-	-	1,632	1,632
Deferred income and tenant deposits	-	-	-	-	-	551	551
Financial liabilities	**3,088**	**24,083**	**3,056**	**8,123**	**-**	**2,291**	**40,639**
Total interest sensitivity gap	**-/- 1,096**	**-/- 24,083**	**-/- 3,056**	**-/- 8,123**	**-**		**-/- 36,358**

Fair value sensitivity analysis for fixed-rate instruments
An increase of 100 basis points in interest rates as at Statement of Financial Position's date would have decreased group equity and profit for the period by € 357,000 (2018: € 364,000).
A decrease of 100 basis points in interest rates as at Statement of Financial Position's date would have increased group equity and profit for the period by € 357,000 (2018: € 364,000).

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

Cash flow value sensitivity analysis for variable-rate instruments
A reasonably possible change of 100 basis points (bp) in interest rates as at Statement of Financial Position's date would have increased and / or decreased "Profit for the period" by the amounts shown below.

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

	31-12-2019	31-12-2019	31-12-2018	31-12-2018
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Variable rate instruments	-/- 191	70	-/- 154	88
Interest rate swaps	102	-/- 102	53	-/- 53
Cash flow sensitivity (net)	**-/- 89**	**-/- 32**	**-/- 101**	**35**

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

	31-12-2019	31-12-2018
	In %	In %
Weighted average interest rate of loans and borrowings	4.23	3.30

The Fund's policy is *mitigation.* The impact of interest rate risk is medium, the likelihood of the risk is high.

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

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

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

Since the Fund's properties are stated at fair value, with both realised and unrealised value adjustments being recognised directly in the Income Statement, a change in market conditions impacts directly on the Fund's investment result. The price risk is managed by the Fund by constructing a portfolio such that optimum diversification across sectors and markets is achieved. The Fund's risk policy towards price risk is *Acceptance.* The impact of this risk is high, the likelihood is also high.

For the sensitivity analysis of the buildings (including underground), see section 15.2.10 "Sensitivity analysis".

15.37.6 Concentration risk

The concentration risk is the risk that can occur if the Fund has a large concentration of investments in certain regions or types of properties or if the Fund depends on a limited number of large tenants. To reduce this risk, investments of the Fund 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. The Fund's policy towards this risk is *Avoidance.* The impact of this risk is medium, the likelihood is low.

15.37.7 Risk associated with investing with borrowed money

The risk associated with investing with borrowed money lies in the fact that shareholders might lose their investment because the lender has a priority call on the proceeds of realisation. The investments are indeed used as a security for the bank loans. However, this risk is limited to the equity within the borrower subsidiary as there is no cross collateralisation and no parent entity guarantee. If the "Loan to Value" (LTV) ratio is too high according to the bank covenants it is possible that the Fund needs to sell property to improve LTV. The Fund manages this risk by keeping the LTV below 60%. The impact of this risk is high, the likelihood is medium.

15.37.8 Economic risk

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

15.37.9 Counterpart risk (credit risk)

The credit risk can be defined as the risk of a counterparty being unable to fulfil its obligation to the Fund associated with monetary assets. The Fund has a credit policy and the counterpart risk is monitored and controlled on a continuous basis. The risk is presumed to be low, given the short settlement period of most of such monetary assets. The Fund does business with various parties; the most important are banks, tenants and the local administrators of the properties. The Fund will mitigate this risk by regular contact with, and continuous risk assessment of, these counterparties. The Fund's policy towards this risk is *Mitigation.* The impact of the counterpart risk is medium, the likelihood low.

The carrying amount of monetary assets best represents the maximum credit risk exposure at the Statement of Financial Position's date. As this date, the Fund's monetary assets exposed to credit risk amounted to the following, related to the Fund's net assets attributable to the holders of redeemable ordinary and registered shares:

	31-12-2019	**31-12-2019**	**31-12-2018**	**31-12-2018**
	In € 1,000	In %	In € 1,000	In %
Tax assets [10]	12	0.0	6	0.0
Trade and other receivables	648	1.3	724	1.8
Cash and cash equivalents	2,746	5.8	1,994	4.9
	3,406	**7.1**	**2,724**	**6.7**

Other than the above-mentioned items, there were no significant concentrations of credit risk to counterparties as at Statement of Financial Position's date or comparative figures. No individual financial investment exceeded 10% of the net assets attributable to the holders of redeemable ordinary and registered shares either as at Statement of Financial Position's date or comparative figures.

[10] Exclusive of Corporate Income Tax.

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

	As at 31-12-2019					
	Current (not past due) In € 1,000	**Until 1 month past due** In € 1,000	**1 until 3 months past due** In € 1,000	**3 months until 1 year past due** In € 1,000	**More than 1 year past due** In € 1,000	**Total** In € 1,000
Gross monetary assets						
Tax assets[11]	12	-	-	-	-	12
Trade and other receivables	129	296	41	209	814	1,488
Cash and cash equivalents	2,746	-	-	-	-	2,746
	2,887	**296**	**41**	**209**	**814**	**4,246**
Impairment of monetary assets						
Tax assets	-	-	-	-	-	-
Trade and other receivables	2	2	3	145	689	841
Cash and cash equivalents	-	-	-	-	-	-
	2	**2**	**3**	**145**	**689**	**841**
Net monetary assets						
Tax assets [10]	12	-	-	-	-	12
Trade and other receivables	127	294	38	64	125	648
Cash and cash equivalents	2,746	-	-	-	-	2,746
	2,885	**294**	**38**	**64**	**125**	**3,405**

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

[11] Exclusive of Corporate Income Tax (CIT).

The impairment with regard to “Trade and other receivables” fully relates to “Trade receivables”. For further details with regard to this amount see section 15.7 “Trade and other receivables” in the “Notes to the Consolidated Financial Statements”. The following table sets out the pledges of the Fund’s financial assets.

	As at December 31, 2019		
	Guarantee deposits from tenants	**Other pledge**	**Total**
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	174	-	174
Prepayments and lease incentives	92	-	92
	266	**-**	**266**

	As at December 31, 2018		
	Guarantee deposits from tenants	**Other pledge**	**Total**
	In € 1,000	In € 1,000	In € 1,000
Trade and other receivables	252	-	252

15.37.10 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. The Fund’s policy towards the risk is *Mitigation.* The impact of the rent risk is medium, the likelihood is high.

15.37.11 Debtor risk

Debtor risk is the risk that arises from the possibility that a specific counterparty is unable to meet its obligations to the Fund. The policy of the Fund is to reduce the default risk by applying a capital adequacy ratio to (potential) tenants and by ensuring a diverse tenant base across industries (e.g. Financial Services, Communications, Healthcare, Technology, Government, Transportation & Logistics) so that an exposure to certain sectors is limited. The Fund’s policy towards this risk is *Mitigation*. The impact of this risk is low, the likelihood high.

15.37.12 Vacancy risk

The occupancy of properties may decrease by lease termination or bankruptcy of tenants. This risk is mitigated and most effectively managed by the Fund by active local asset management and by a regular programme of capital investment at asset level. See section 15.23.4 for information about non-cancellable leases. The Fund’s policy towards this risk is *Mitigation.* The impact of this risk is medium, the likelihood is high.

15.37.13 Risks with regard to regulations

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

15.37.14 Liquidity risk

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

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

The following table shows the contractual, undiscounted cash flows of the Fund's monetary liabilities. The "Loans and borrowings" include the payable interest. The payable interest is calculated by using the weighted average interest rate of "Loans and borrowings" at Statement of Financial Position's date.

	As at December 31, 2019						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Non-derivative liabilities							
Tax liabilities[12]	243	-	-	-	-	-	243
Loans & borrowings	2,455	5,045	11,721	33,804	1,849	-	54,874
Trade and other payables	2,876	168	-	-	-	-	3,044
	5,574	5,213	11,721	33,804	1,849	-	58,161
Derivative liabilities							
Interest rate swaps	3	7	30	33	-	-	73
Monetary liabilities	**5,577**	**5,220**	**11,751**	**33,837**	**1,849**	**-**	**58,234**

	As at December 31, 2018						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Non-derivative liabilities							
Tax liabilities	91	8	-	-	-	-	99
Loans & borrowings	158	7,793	11,924	28,257	-	-	48,132
Trade and other payables	1,234	270	46	-	-	-	1,550
	1,483	8,071	11,970	28,257	-	-	49,781
Derivative liabilities							
Interest rate swaps	7	6	32	37	-	-	82
Monetary liabilities	**1,490**	**8,077**	**12,002**	**28,294**	**-**	**-**	**49,863**

Weighted remaining maturity of loans and borrowings

The main part of the financial liabilities represents "Loans and borrowings". As at Statement of Financial Position's date the weighted remaining maturity of "Loans and borrowings" is as follows:

	31-12-2019	**31-12-2018**
	In years	In years
Weighted remaining maturity of loans and borrowings	3.11	1.73

[12] Exclusive of Corporate Income Tax.

Withdrawable credit facilities

As at Statement of Financial Position's date the withdrawable credit facilities of the Fund are as follows:

	31-12-2019	**31-12-2018**
	In € 1,000	In € 1,000
Withdrawable credit facilities	250	2,500

The Fund's policy towards this risk is *Avoidance.* The Fund works with budgets where the debt service obligation towards banks is carefully monitored. The impact of this risk can be high, the likelihood low.

15.37.15 Operational risk

Operational risk is the risk of losses coming from failed internal processes, people or systems or from external operational events. Examples of operational risk incidents are: fraud, claims, losses, errors, violation of laws and system failure. During the financial period no material operational risks materialised. The Fund's policy towards operational risks is *Avoidance* and *Mitigation.* The Fund for example does not tolerate fraud, executes an extensive Supplier Due Diligence/Know Your Customer analysis for service contracts and for transactions and requires Supervisory Board approval for the purchase or sale of property. The impact of these risks is medium, the likelihood low.

15.37.16 Tax risk

Tax risk is the risk associated with possible changes in tax laws or changing interpretations and effects of government policy and regulation. The Fund's policy towards this risk is *Mitigation / Acceptance.* The Fund tries to mitigate this risk by using local specialists on regulation and taxation. The impact of this risk is low, the likelihood medium.

15.37.17 Outsourcing risk

Risk of outsourcing activities brings with it the risk that the counterparty does not fulfil its obligations, despite agreements. The Fund periodically assesses the compliance of the agreements and takes action as it deems necessary. The Fund's policy towards this risk is *Avoidance*. The impact and likelihood are low.

15.37.18 Legal risk

Legal risk is the risk associated with possible changes in legislation or changing interpretations. In normal times legislative changes are proposed by governments and made subject to comment by interested parties before finally being passed into law. This enables drafting errors and unintended consequences to be identified and removed and market participants to prepare themselves carefully for the impact of such changes. The COVID-19 pandemic has led to a wave of emergency legislation from governments across the region in which the Fund invests. This legislation has not been subject to the usual consultation and review processes. As a result, there is a significantly increased risk that such legislation will impact negatively on the interests of the Fund and its subsidiaries. In particular, there is a risk that cancellation or deferment of lease obligations, ostensibly to help retail tenants affected by the pandemic, will lead to a long-term diminution of value in some of the Fund´s properties. The Managing Board will carefully assess all such legislation and seek to mitigate its negative effects to the fullest extent possible by active asset management and by specific legal action. The Fund's policy is therefore *Mitigation*. The impact can be high, the likelihood medium.

15.37.19 Integrity risk

Within organizations there is a risk that people harm organizations by committing fraud or theft. The Managing Board therefore evaluates the reliability and integrity of its staff. All staff in key positions employed the Managing Board will be screened by "Pre-Employment Screening of Dutch Securities Institute" (DSI). The Fund's policy towards the integrity risk is *Avoidance*. The impact of the risk is medium, the likelihood low.

15.37.20 Offsetting financial assets and financial liabilities

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

15.38 DISCLOSURES LEASES

15.38.1 Impacts as at Statement of Financial Position's date

The following table present the impacts of the application of IFRS 16 as at Statement of Financial Position's date:

	31-12-2019
	In € 1,000
Right-of-use assets	1,584
Total assets	**1,584**
Non-current lease liabilities	1,429
Current lease liabilities	171
Total liabilities	**1,600**

For the specification and statement of changes of right of use assets is referred to section 15.2.7 and 15.2.8.

For the statement of changes, analysis and maturity analysis undiscounted cash flows of lease liabilities is referred to section 15.14.7 to 15.14.19.

15.38.2 Amounts recognised in Consolidated Income Statement

The following table present the impacts of the application of IFRS 16 in the Consolidated Income Statement 2019:

	31-12-2019
	In € 1,000
Valuation losses of right-of-use assets	85
Interest expense on lease liabilities	100
Exchange and currency translation losses of lease liabilities	16
	201

15.38.3 Amounts recognised in Cash Flow Statement

The following table present the impacts of the application of IFRS 16 in the Cash Flow Statement 2019:

	31-12-2019
	In € 1,000
Payment of lease liabilities	185

15.38.4 Analysis of lease payments

	31-12-2019
	In € 1,000
Fixed lease payments	185
Variable lease payments	-
	185

15.39 DISCLOSURES CASH FLOW STATEMENT

15.39.1 Changes in cash flows arising from investing activities

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

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

Investing activities	Cash changes In € 1,000	Non-cash changes In € 1,000	Total 2019 In € 1,000
Acquisitions / additions of properties	-/- 512	-/- 6,165	-/- 6,677
Acquisitions / additions of investment property under development	-	-/- 3,016	-/- 3,016
Acquisitions / additions of inventories	-	-/- 2,823	-/- 2,823
Acquisitions / additions of assets held for sale	-/- 73	-	-/- 73
Fair value adjustments of properties	-	-/- 863	-/- 863
Fair value adjustments of investment property under development	-	-/- 42	-/- 42
Fair value adjustments of other investments	-	-/- 1	-/- 1
Effect of changes in exchange rate of properties	-	213	213
Effect of changes in exchange rate of property under development	-	2	2
	-/- 585	**-/- 12,695**	**-/- 13,280**

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

15.39.2 Changes in cash flows arising from financing activities

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

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

Financing activities	Cash changes	Non-cash changes	Total 2019
	In € 1,000	In € 1,000	In € 1,000
Proceeds from secured bank loans	5,024	2,280	7,304
Proceeds from other long-term liabilities	2,500	828	3,328
Repayments of secured bank loans	-/- 3,064	-	-/- 3,064
Repayments of convertible bonds	-/- 1,070	-	-/- 1,070
Repayments of other long-term liabilities	-/- 2,000	-/- 500	-/- 2,500
Repayments of lease liabilities	-/- 185	-	-/- 185
Distributions to shareholders	-/- 1,108	-	-/- 1,108
Amortisation flat fee	-	35	36
Accrued interest of convertible bonds	-	43	43
Accrued interest of lease liabilities	-	100	100
Effect of change accounting principles lease liabilities	-	1,669	1,669
Effect of changes in exchange rates of secured bank loans	-	102	102
Effect of changes in exchange rates of lease liabilities	-	16	16
	97	**4,573**	**4,670**

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

15.40 RELATED PARTIES

15.40.1 Identity of related parties

For the Fund the following categories of related parties were identified during the financial period:

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

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

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

A. The Managing Board decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Czech Republic, s.r.o. for the amount of € 474,000 (2018: € 466,000);
B. The Managing Board decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Poland Sp. z o.o. for the amount of € 179,000 (2018: € 180,000).

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

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

The remuneration for the Managing Board is described in section 15.30 “Administrative expenses”.

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 15.31.3 “Analysis of Supervisory Board fees” and 15.31.4 “Analysis of other operating expenses”.

15.40.3 Specification major investors[13]

	Type of share	Directly real voting rights In %	Indirectly real voting rights In %	Directly potential voting rights In %	Total In %
H.M. van Heijst	Ordinary shares	3.95	14.52[14]	n.a.	18.47
	Convertible bonds	n.a.	n.a.	6.07	6.07
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

The voting rights are based on information in the Register of substantial holdings and gross short positions of the AFM, as mentioned as at Statement of Financial Position’s date.

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

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

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

Name of major investor	Kind of transaction	2019 Amount of transaction during financial period In € 1,000	31-12-2019 Outstanding amount (face value) In € 1,000
H.M. van Heijst	Payable interest private unsecured loan	111	-
H.M. van Heijst	Providing convertible bonds	-	2,000
H.M. van Heijst	Payable interest convertible bonds	185	22

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

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

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

Name of other related party	Kind of transaction	Other information	2019 Amount of transaction during financial period In € 1,000	31-12-2019 Outstanding amount In € 1,000
Arcona Capital Czech Republic s.r.o.	Asset Management	-	474	-
Arcona Capital Poland Sp. z o.o.	Asset Management	-	179	-
			653	
Arcona Capital Czech Republic s.r.o.	Advisory services	-	33	-
Several	Rental income	268 m^2	52	-
Statutory directors	Wages and salaries	-	8	-

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

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

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

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

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

Yellow Properties, s.r.o. v likvidaci is a Czech limited company which undertook a property development. As at Statement of Financial Position's date all properties are sold (December 31, 2018: all properties are sold). The company was formally liquidated on March 30, 2020.

15.40.7 Agreements with related parties

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

15.40.8 Loans from third parties

During the financial period the Fund has entered into loan agreements with Florijn Investments B.V. and Mr C.J. Bogerd. Both parties are not related parties to the Fund or the Managing Board. However, they are investors in other funds managed by the Managing Board.

15.41 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE

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

A. On February 25, 2020 the Fund announced it had reached an agreement with Alpha Bank for the extension of the secured bank loan for the recently acquired Boyana Residence Project in Bulgaria. This meets the requirements that the Fund had set for the definitive takeover of the project. The shares and warrants that the Fund had given to the Boyana Foundation (**Stichting Boyana**) pending the granting of the secured bank loan have been transferred to SPDI.

B. On February 25, 2020 the Fund announced it had agreed the sale of a block of 8 apartments (including 17 parking places) within the Boyana project in Sofia, Bulgaria, for the total amount of € 1,000,000. The proceeds will be used for the part repayment of the secured bank loan with Alpha Bank (including accrued interest).

C. By press release on 17 March 2020 the Fund updated stakeholders on the potential impact of the COVID-19 pandemic on the Fund´s operations. The update summarized the Fund´s tenancy base and its vulnerability to virus-related trading restrictions, the current status of the Fund´s debt obligations and the progress being made to sell non-core assets in Slovakia and Poland.

D. On March 30, 2020 the property Graniczna 80-82, Kalisz was sold for PLN 4,350,000 (€ 945,000), which was PLN 650,000 (€ 230,000) below the December 31 2019 value reported in 15.12.1.

E. The Fund had a 5% share interest in the entity Yellow Properties, which undertook a successful residential development in Prague between 2013 and 2016. On March 31, 2020 Yellow Properties was deleted from the local commercial register, thus concluding the liquidation process (see also 15.39.6).

F. As a response to the COVID-19 pandemic, government restrictions on retail, educational and economic activity were progressively introduced across the CEE region during the latter weeks of March 2020 (lockdown). Based on initial trading data from the portfolio after two weeks of lockdown and rental receipts from tenants for April/Q2 2020 the Managing Board made an analysis of the potential impact of the pandemic on the Fund´s ability to continue as a "going concern". The conclusion was that there is no material uncertainty as to the ability of the Fund to continue as a "going concern" in 2020. The analysis considered three scenarios, namely a "worse-case" scenario, a "central-case" scenario and a "best-case" scenario. More information about the three scenarios can be found in paragraph 5.6 Outlook and further in the Report of the Management Board.

In all three scenarios, the Fund is able to meet its debt service payment obligations in 2020. In the Czech Republic, the government has stipulated that interest and amortization payments on bank loans may be deferred at the request of the borrower, without creating a covenant breach. We anticipate similar measures will be put in place shortly in the other countries in which the Fund invests. The main local subsidiaries of the Fund (in Poland, Czech Republic and Slovakia) also retain a reserve of three months debt service payments in separate accounts which can be used to support regular payments as required.

The Fund is scheduled to refinance a further portion of its loans in 2020 (€ 12.6 million). For one loan in Poland (€ 6.0 million) the financing bank (DNB Nord Bank) has indicated that it is prepared temporarily to extend the loan in view of the current market circumstances. Talks with the bank about the extension conditions are ongoing. As the Fund repaid part of this loan in 2016, DNB Nord Bank does not currently test the covenants in place. Three further loans of € 6.7 million in total will expire at the end of this year. The Fund plans to repay these loans from the proceeds of the envisaged sales from the portfolio in Košice (Slovakia). The Fund plans to sell up to five assets in Košice in the coming months. Following a formal marketing campaign and the receipt of several offers for all or some of these assets, a preferred bidder has now been selected and a formal Letter of Intent is expected to be signed with this party in April 2020. If this sale ultimately does not progress, the Fund can decide to sell more liquid assets or seek to refinance the loans with other parties. In a worst case scenario, the Fund would need to arrange with the lenders to extend these loans.

The Fund has an overall loan-to-value ratio of approximately 50% (including loans at fund level). The bank loan-to-value ratio is 42.5%. The loan-to-value ratios of the local entities are still well below the requirements set by the banks and therefore offer sufficient scope to absorb substantial declines in the market values of the properties, should these occur.

In the Czech Republic, the market value of the portfolio can fall by 29% or CZK 130.6 million (€ 5.1 million) before the LTV covenant of Sberbank CZ is breached. In Slovakia, the market values have room to fall by 23% or € 8.7 million before the LTV covenant of Slovenska Sporitelna is breached. In Poland, the LTV covenant of BNP Paribas would be breached if the market value (currently € 17.3 million) were to fall by circa. € 5.3 million (31%). The DNB Nord Bank LTV covenant of 75% would be breached if the market value of the Maris asset were to fall by € 1.1 million or 12%. The assumption in these calculations is that the local entities do not make any instalments on the respective loans of the four banks

Bank	LTV Covenant In %	2019 In %
Sberbank CZ	70	49
Slovenska Sporitelna	45	35
BNP Paribas	65	45
DNB Nord Bank	75	66
Alpha Bank	n.a.	28

Lower income receipts in the portfolio will certainly have a negative impact on the debt service coverage ratio (DSCR). Each bank loan has covenants for the DSCR. The covenants for the DSCR in the Czech Republic (Sberbank CZ) and Slovakia (Slovenska Sporitelna) are currently being met with a reasonable positive margin. The Sberbank CZ DSCR should, even in the worst-case scenario (1.16), remain above the minimum level of 1.10.

In Slovakia the DSCR would drop to 1.21 in the ” worst-case” scenario. In the course of the year the Fund expects to be able to lower the DSCR by making capital repayments from the proceeds of sales. This would enable the Fund to meet the Slovenska Sporitelna DSCR even in the worst-case scenario. However, if needed, additional measures, such as the postponement of capital expenditures, can also be taken.

For the loan from BNP Paribas in Poland, all covenants are currently being met. In the event that rental income declines further due to the effects of the COVID-19 pandemic, the DSCR covenant may be breached. However, as the Fund expects to be able to continue to make both interest and amortization payments on the loan (possibly by utilizing some funds from the Debt Service Reserve Account), the Management Board anticipates the bank will be willing to grant a waiver for this breach.

As stated above, DNB Nord Bank does not test covenants on its € 6.0 million loan to the Fund subsidiary in Poland holding the Maris asset. The Fund expects to meet full debt service payment obligations on this loan during 2020.

Bank	DSCR Covenant In %	2019 In %
Sberbank CZ	1.10	1.23
Slovenska Sporitelna	1.25	1.44
BNP Paribas	1.20	1.20
DNB Nord Bank	1.10	1.10
Alpha Bank	n.r.	n.r.

Based on the above and the analyses made in the management report, the Managing Board is of the opinion that there is no material uncertainty as to the ability of the Fund to continue as a “going concern“ in 2020. However, in the event a covenant of a bank loan is breached and a waiver cannot be agreed, the banks could charge penalty fees or higher interest rates or the Managing Board could be required to sell liquid assets. Such penalties or ‘forced sales’ could destroy value and lead to falls in NAV per share.

G. The Fund plans to sell up to five assets in Košice (Slovakia) in the coming months. Following a formal marketing campaign and the receipt of several offers for all or some of these assets, a preferred bidder has now been selected and a formal Letter of Intent is expected to be signed with this party in April 2020.

H. On 20 April 2020 the Fund agreed with its biggest tenant, AT&T, a 2-year extension of their lease in the Letna 45 property in Kosice to 30 April 2025 and an expansion of their leased area by

750m², to 6,555 m². The agreement increases the annual rental income from the property by €57,000.

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

PARENT COMPANY FINANCIAL STATEMENTS 2019

16 PARENT COMPANY BALANCE SHEET

After proposal result appropriation	***Notes***	**31-12-2019** In € 1,000	**31-12-2018** In € 1,000
Investments			
Investments in group companies	*19.1*	40,318	33,741
Receivables from group companies	*19.2*	17,886	18,753
		58,204	**52,494**
Receivables			
Other receivables	*19.4*	1,296	318
Deferred expenses	*19.5*	223	4
		1,519	**322**
Other assets			
Cash at bank	*19.8*	398	207
Total assets		**60,121**	**53,023**
Shareholders' equity	*19.9*		
Issued capital	*19.10*	18,794	15,826
Share premium	*19.11*	19,310	15,350
Revaluation reserve	*19.12*	7,059	7,661
Reserve currency translation differences	*19.13*	2,204	2,136
Reserve investments in group companies	*19.14*	6,778	4,911
Equity component convertible bonds	*19.15*	144	210
Retained earnings	*19.16*	-/- 6,289	-/- 5,183
		48,000	**40,911**
Provisions			
Deferred tax liabilities	*19.17*	-	56
Long-term liabilities			
Convertible bonds	*19.18*	3,441	3,412
Private loans	*19.19*	-	4,710
		3,441	**8,122**
Current liabilities			
Convertible bonds	*19.18*	-	1,056
Private loans	*19.19*	6,710	2,000
Tax liabilities	*19.20*	18	8
Other liabilities	*19.21*	244	19
Accruals	*19.22*	1,708	851
Total current liabilities		**8,680**	**3,934**
Total shareholders' equity and liabilities		**60,121**	**53,023**

17 PARENT COMPANY PROFIT AND LOSS ACCOUNT

	Notes	2019 In € 1,000	2018 In € 1,000
Income from investments			
Interest	*19.25*	953	960
Realised valuation results of investments			
Receivables from group companies	*19.26*	47	139
Unrealised valuation results of investments			
Investments in group companies	*19.27*	882	496
Other operating income	*19.28*	502	-
Total operating income		**2,384**	**1,595**
Administrative expenses	*19.29*	680	684
Other operating expenses	*19.30*	956	583
Interest expenses	*19.32*	702	525
Total expenses		**2,338**	**1,792**
Result before income tax		**46**	**-/- 197**
Income tax expense	*19.33*	-/- 47	-
Result after income tax		**93**	**-/- 197**

18 ACCOUNTING PRINCIPLES PARENT COMPANY FINANCIAL STATEMENTS

18.1 GENERAL

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

18.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Parent Company Financial Statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code (Titel 9, Boek 2 van het Burgerlijk Wetboek). For the purpose of determining the principles of valuation of assets and liabilities and the determination of results for its Parent Company Financial Statements, the Fund makes use of the option offered in Book 2, article 2:362 (8) of the Dutch Civil Code. This means that the principles of valuation of assets and liabilities and determination of results (hereinafter referred to as the “principles of valuation”) of the Fund’s Parent Company Financial Statements are identical to those that have been applied for the Consolidated Financial Statements. In this context investment in group companies, on which significant influence is exercised, are valued at Net Asset Value. The Consolidated Financial Statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board (“IASB”) and accepted by the European Union (hereinafter referred to as “EU-IFRS”). Reference is made to sections 13.5 to 13.28 inclusive for a description of these principles.

18.3 BASIS OF PREPARATION OF THE PARENT COMPANY FINANCIAL STATEMENTS

18.3.1 Investments in group companies

Investments in group companies in which the Fund either exercises voting control or effective management responsibility are valued at Net Asset Value. The initial recognition in the accounts and valuations at balance sheet dates is made at Net Asset Value. The value is adjusted with the share of the Fund in the results of the group company, based on the principles for determining results as applied in the Consolidated Financial Statements and with the share in the other movements in equity of the group company with effect from the date on which control commences.

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 foreign group companies are translated into Euros at the exchange rates at the dates of the transactions. For practical reasons, the average monthly exchange rate for the financial period are used to approximate the exchange rates at the dates of the transactions, as long as the exchange rates have not fluctuated significantly.

18.3.2 Receivables from group companies

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

18.3.3 Share premium

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

18.3.4 Revaluation reserve

The legal “Revaluation reserve” comprises the cumulative unrealised positive net change in the fair value of the properties held by the investments in group companies (“Investment property”, “Investment property under development” as well as investment properties classified as “Assets held for sale”), less the related deferred tax liabilities. The deferred tax liabilities are deducted in accordance with the principles of valuation for deferred taxes.
In case of sale of property the cumulative unrealised positive net change in the fair value of the property sold, as well as the related deferred tax liabilities, are no longer stated in the “Revaluation reserve” but recognised under “Retained earnings”.

18.3.5 Reserve currency translation differences

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

18.3.6 Reserve investments in group companies

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

The reserve will be reduced by:

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

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

18.3.7 Equity component convertible bonds

This reserve contains the equity component of issued convertible bonds. The equity component is calculated at date of issue. The equity component of a compound financial instrument is not remeasured. The equity component is calculated as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

The equity component will be transferred to the “Retained earnings” at the date of redemption or conversion of the convertible bond.

18.3.8 Result from investments in group companies

The share of the results from investments in group companies comprises the Fund’s share in the results of the group companies, including the revaluation results of the assets held by the group companies. The result from investments in group companies has been determined on the basis of the principles of valuation adopted by the Fund. Results from transactions between the Fund and the group companies, as well as between the group companies themselves, are recognised insofar as they are realised. If the group companies have been acquired in the course of the financial period, the Fund accounts for the results from investments in group with effect from the date on which control commenced.

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

As the Fund makes use of the option provided in Book 2, article 2:362 (8) of the Dutch Civil Code, the size of the Group equity (in the Consolidated Statement of Financial Position) and the shareholders‘ equity (in the Parent Company Balance Sheet) is identical.

Although the equity in the Consolidated Statement of Financial Position comprises “Group equity”, the composition of the equity (in the Consolidated Statement of Financial Position) and the shareholders‘ equity (in the Parent Company Balance Sheet) is not identical.

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

19 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

19.1 INVESTMENTS IN GROUP COMPANIES

19.1.1 Analysis of investments in group companies

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Arcona Capital RE Bohemia s.r.o.	5,458	4,661
Arcona Capital RE Slovakia s.r.o.	18,891	18,225
Arcona Capital Real Estate Poland Sp. z o.o.	3,075	4,130
Arcona Capital Real Estate Trio Sp. z o.o.	6,167	6,056
Arcona Real Estate B.V.	791	669
Aisi Bela LLC	3,880	n.a.
Boyana Residence E.O.O.D.	2,055	n.a.
	40,318	**33,741**

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

19.1.2 Statement of changes in investments in group companies

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	33,741	33,674
Acquisitions	6,017	-
Share in result of group companies	882	496
Dividends received	-/- 390	-/- 396
Exchange rate differences	68	-/- 33
Balance as at 31 December	**40,318**	**33,741**

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

19.1.3 Security

As at balance sheet date the following securities were provided:

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

For more information on the pledges to credit institutions and bank covenants see section 15.14.4.

19.2 RECEIVABLES FROM GROUP COMPANIES

19.2.1 Analysis of receivables from group companies

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Loan to Arcona Capital RE Bohemia s.r.o.	2,987	4,537
Loan to Arcona Capital RE Slovakia s.r.o.	2,380	5,537
Loan to Arcona Capital Real Estate Poland Sp. z o.o.	7,939	6,432
Loan to Arcona Real Estate B.V.	2,671	2,247
Loan to Boyana Residence E.O.O.D.	1,909	n.a.
	17,886	**18,753**

As at balance sheet date the weighted average interest rate on all “Receivables from group companies” is 5.71% per annum (December 31, 2018: 5.22% per annum).

19.2.2 Statement of changes in receivables from group companies

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	18,753	20,219
Additions as a result of acquisitions	1,909	-
Loans advanced	2,249	1,477
Redemption on loans advanced	-/- 5,063	-/- 2,915
Exchange rate differences	38	-/- 28
Balance as at 31 December	**17,886**	**18,753**

19.3 OTHER FINANCIAL INVESTMENTS

19.3.1 Analysis of other financial investments

Name of other investment	**Proportion of shares held 31-12-2019** In %	**Proportion of shares held 31-12-2018** In %
Eastern European Property Fund Limited	Sold	< 0.1

19.3.2 Statement of changes in other financial investments

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	-	-
Disposals	-	-
Balance as at 31 December	**-**	**-**

19.4 OTHER RECEIVABLES

This relates to other receivables with a payment term within one year.

19.4.1 Analysis of other receivables

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Interest on receivables from group companies	1,102	318
Receivables SPDI	194	n.a.
	1,296	**318**

For the explanation of “Receivables SPDI” see section 15.7.2.

19.4.2 Specification of interest on receivables from group companies

	2019	2018
	In € 1,000	In € 1,000
Interest on receivables from Arcona Capital RE Bohemia s.r.o.	208	86
Interest on receivables from Arcona Capital RE Slovakia s.r.o.	196	232
Interest on receivables from Boyana Residence E.O.O.D.	698	n.a.
	1,102	**318**

19.5 DEFERRED EXPENSES

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

	31-12-2019	31-12-2018
	In € 1,000	In € 1,000
Prepayments	223	4

€ 219,000 of the prepayment amounts are acquisition-related costs (e.g. advisory costs, legal fees and costs of due diligence) for assets of SPDI, which are expected to be acquired during 2020.

19.6 RECOGNISED DEFERRED TAXES

19.6.1 Specification of recognised deferred taxes

	Recognised deferred tax assets In € 1,000	Recognised deferred tax liabilities In € 1,000	Total 2019 In € 1,000
Receivables from group companies	-	47	-/- 47
Tax losses (carried forward)	47	-	47
Deferred taxes before set-off	47	47	-
Set-off deferred taxes	-/- 47	-/- 47	-
	-	**-**	**-**

	Recognised deferred tax assets In € 1,000	Recognised deferred tax liabilities In € 1,000	Total 2018 In € 1,000
Receivables group companies	-	56	-/- 56
Set-off deferred taxes	-	-	-
	-	**56**	**-/- 56**

19.6.2 Analysis of recognised deferred taxes

	Will expire 31-12-2019 In € 1,000	Will never expire 31-12-2019 In € 1,000	Total 31-12-2019 In € 1,000
Receivables from group companies	-	-/- 47	-/- 47
Tax losses (carried forward)	47	-	47
	47	**-/- 47**	**-**

	Will expire 31-12-2018 In € 1,000	Will never expire 31-12-2018 In € 1,000	Total 31-12-2018 In € 1,000
Receivables from group companies	-	-/- 56	-/- 56

19.6.3 Analysis of recognised tax losses (carried forward)

	2019 In € 1,000	2018 In € 1,000
Expires in 2020	47	-
Will never expire	-	-
Balance as at 31 December	**47**	**-**

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

19.6.4 Statement of changes in recognised deferred taxes

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	-/- 56	-/- 88
Additions / withdrawals	56	32
Balance as at 31 December	**-**	**-/- 56**

19.7 UNRECOGNISED DEFERRED TAXES

19.7.1 Specification of unrecognised deferred taxes

	Unrecognised deferred tax assets In € 1,000	Unrecognised deferred tax liabilities In € 1,000	Total 2019 In € 1,000
Tax losses (carried forward)	863	-	863

	Unrecognised deferred tax assets In € 1,000	Unrecognised deferred tax liabilities In € 1,000	Total 2018 In € 1,000
Tax losses (carried forward)	952	-	952

19.7.2 Analysis of unrecognised deferred taxes

	Will expire 31-12-2019 In € 1,000	Will never expire 31-12-2019 In € 1,000	Total 31-12-2019 In € 1,000
Tax losses (carried forward)	863	-	863

	Will expire 31-12-2018 In € 1,000	Will never expire 31-12-2018 In € 1,000	Total 31-12-2018 In € 1,000
Tax losses (carried forward)	952	-	952

19.7.3 Analysis of unrecognised tax losses (carried forward)

	2019 In € 1,000	2018 In € 1,000
Expires in 2020	19	75
Expires in 2022	82	95
Expires in 2023	51	59
Expires in 2024	32	37
Expires in 2025	390	354
Expires in 2026	153	176
Expires in 2027	136	156
Subtotal will expire	863	952
Will never expire	-	-
Balance as at 31 December	**863**	**952**

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

19.7.4 Statement of changes in unrecognised deferred taxes

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	952	805
Adjustments related to prior years	-	-/- 9
Additions / withdrawals	42	156
Change in tax rate	-/- 131	-
Balance as at 31 December	**863**	**952**

19.8 CASH AT BANK

Cash at bank is entirely at the free disposal of the Fund.

19.9 SHAREHOLDERS' EQUITY

19.9.1 Statement of changes in shareholders' equity

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve currency translation differences In € 1,000	Reserve investments in group companies In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Share-holders' equity In € 1,000
Balance as at January 1, 2019	15,826	15,350	7,661	2,136	4,911	210	-/- 5,183	40,911
Result after income tax	-	-	-	-	-	-	93	93
Change in revaluation reserve	-	-	-/- 602	-	-	-	602	-
Change in reserve currency translation differences	-	-	-	68	-	-	-	68
Change in reserve investments in group companies	-	-	-	-	1,867	-	-/- 1,867	-
Change in equity component convertible bonds	-	-	-	-	-	-/- 66	66	-
Own shares issued	2,968	5,068	-	-	-	-	-	8,036
Distributions to shareholders	-	-/- 1,108	-	-	-	-	-	-/- 1,108
Balance as at December 31, 2019	**18,794**	**19,310**	**7,059**	**2,204**	**6,778**	**144**	**-/- 6,289**	**48,000**
Balance as at January 1, 2018	15,826	16,110	7,196	2,304	4,177	266	-/- 3,843	42,036
Result after income tax	-	-	-	-	-	-	-/- 197	-/- 197
Change in revaluation reserve	-	-	465	-	-	-	-/- 465	-
Change in reserve currency translation differences	-	-	-	-/- 168	-	-	-	-/- 168
Change in reserve investments in group companies	-	-	-	-	734	-	-/- 734	-
Change in equity component convertible bonds	-	-	-	-	-	-/- 56	56	-
Distributions to shareholders	-	-/- 760	-	-	-	-	-	-/- 760
Balance as at December 31, 2018	**15,826**	**15,350**	**7,661**	**2,136**	**4,911**	**210**	**-/- 5,183**	**40,911**

19.10 ISSUED CAPITAL

19.10.1 Analysis of issued capital

	31-12-2019 In pieces	**31-12-2019** In € 1,000	**31-12-2018** In pieces	**31-12-2018** In € 1,000
Ordinary shares (at € 5.00 each)	3,731,692	18,659	3,138,158	15,691
Registered shares (at € 5.00 each)	26,991	135	26,991	135
Priority shares (at € 5.00 each)	1	-	1	-
Issued capital	**3,758,684**	**18,794**	**3,165,150**	**15,826**

19.10.2 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.

	2019	2019	2018	2018
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	3,138,158	15,691	3,138,158	15,691
Issued for share-based payments	593,534	2,968	-	-
Balance in issue as at 31 December fully paid	**3,731,692**	**18,659**	**3,138,158**	**15,691**

19.10.3 Registered shares

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

	2019	2019	2018	2018
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	26,991	135	26,991	135
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**26,991**	**135**	**26,991**	**135**

19.10.4 Priority shares

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

	2019	2019	2018	2018
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1	-	1	-
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**1**	**-**	**1**	**-**

19.10.5 Analysis of authorised share capital

	31-12-2019	31-12-2019	31-12-2018	31-12-2018
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	4,999,999	25,000	4,999,999	25,000
Priority shares (at € 5.00 each)	1	-	1	-
Authorised share capital	**5,000,000**	**25,000**	**5,000,000**	**25,000**

19.10.6 Sharebased payments

During the financial period the Fund acquired the following subsidiaries (“Investments in group companies”), through share-based payments:

- Aisi Bela LLC: issuance of 277,943 ordinary shares for a total amount of € 3,970,000;
- Boyana Residence E.O.O.D.: issuance of 120,091 ordinary shares for a total amount of € 1,547,000.

During the financial period the Fund acquired the following loans to subsidiaries (“Receivables from group companies”), through share-based payments:

- Loan to Boyana Residence E.O.O.D.: beside the acquisition of subsidiaries the Fund also acquired a loan to Boyana Residence E.O.O.D. (“Receivables from group companies”) through a share-based payment. For the acquired loan to Boyana Residence E.O.O.D. the Fund issued 195,500 ordinary shares for a total amount of € 2,519,000.

For a specification of the subsidiaries´ assets acquired and liabilities assumed reference is made to section 15.1.3.

19.11 SHARE PREMIUM

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	15,350	16,110
Share premium on own shares issued	5,068	-
Distributions to shareholders	-/- 1,108	-/- 760
Balance as at 31 December	**19,310**	**15,350**

The paid-up share premium for tax purposes as at December 31, 2019 was € 19,310,000 (December 31, 2018: € 15,350,000).

19.12 REVALUATION RESERVE

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	7,661	7,196
Addition to / reduction on (-) change in fair value during the financial period	-/- 602	465
Balance as at 31 December	**7,059**	**7,661**

19.13 RESERVE CURRENCY TRANSLATION DIFFERENCES

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	2,136	2,304
Realised currency results on net investments	-/- 47	-/- 139
Unrealised currency results on net investments	115	-/- 29
Balance as at 31 December	**2,204**	**2,136**

19.14 RESERVE INVESTMENTS IN GROUP COMPANIES

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	4,911	4,177
Additions	1,867	734
Balance as at 31 December	**6,778**	**4,911**

19.15 EQUITY COMPONENT CONVERTIBLE BONDS

This reserve comprises the amount allocated to the equity component for the convertible bonds as issued by the Fund (see section 15.14.5 “Analysis of convertible bonds”).

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	210	266
Reductions in connection with redemptions of convertible bonds	-/- 66	-/- 56
Balance as at 31 December	**144**	**210**

19.16 RETAINED EARNINGS

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	-/- 5,183	-/- 3,843
Profit for the period	93	-/- 197
	-/- 5,090	-/- 4,040
Change in revaluation reserve	602	-/- 465
Change in reserve investments in group companies	-/- 1,867	-/- 734
Change in equity component convertible bonds	66	56
Balance as at 31 December	**-/- 6,289**	**-/- 5,183**

19.17 DEFERRED TAX LIABILITIES

For the specification and analysis of the recognised and unrecognised deferred tax liabilities see section 19.6 to 19.7.

19.18 CONVERTIBLE BONDS

For the analysis, statement of changes and valuation of the convertible bonds see section 15.14.5 and 15.14.6.

19.18.1 Maturity analysis of convertible bonds

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Less than 1 year	-	1,056
1 to 5 years	3,441	3,412
More than 5 years	-	-
	3,441	**4,468**

19.19 PRIVATE LOANS

19.19.1 Analysis of private loans

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Secured vendor loan Real Estate Central Europe AS	4,210	4,710
Unsecured loan H.M. van Heijst	-	2,000
Unsecured loan Florijn Investments B.V.	2,000	n.a.
Unsecured loan C.J. Bogerd	500	n.a.
	6,710	**6,710**

19.19.2 Statement of changes in private loans

	2019 In € 1,000	2018 In € 1,000
Balance as at 1 January	6,710	6,710
Loans advanced	2,500	-
Redemptions	-/- 2,500	-
Balance as at 31 December	**6,710**	**6,710**

For the conditions of the private loans see section 15.14.12.

19.19.3 Maturity analysis of private loans

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Less than 1 year	6,710	2,000
1 to 5 years	-	4,710
More than 5 years	-	-
	6,710	**6,710**

19.20 TAX LIABILITIES

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Value Added Tax (VAT)	18	8

19.21 OTHER LIABILITIES

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

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Trade payables	244	19

19.22 ACCRUALS

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

	31-12-2019 In € 1,000	31-12-2018 In € 1,000
Administrative expenses	595	641
Other operating expenses	214	153
Interest payables	124	57
Secured bank loan Alpha Bank to be taken over	666	n.a.
Interest payables secured bank loan Alpha Bank to be taken over	109	n.a.
	1,708	**851**

The “Secured bank loan Alpha Bank te be taken over” and “Interest payables secured bank loan Alpha Bank to be taken over” relates to the acquired subsidiary Boyana Residence E.O.O.D. (for further information see section 15.14.9).

19.23 NON-CONTINGENT LIABILITIES

As at balance sheet date the Fund was not subject to any contractual obligation concerning for example investments or other non-contingent liabilities that require settlement in a future financial period.

19.24 CONTINGENT LIABILITIES

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

A. The Fund has a contingent liability towards the sellers of RECE Progress Sp. z o.o. (currently named: Arcona Capital Real Estate Trio Sp. z o.o.) for the maximum amount of € 1,500,000 (the “shares’ purchase price increase”). For more information see section 15.19.
B. The Fund has a contingent liability towards Stichting Boyana to reverse the issuance of own shares in case the Fund has not reached agreement with Alpha Bank for the extension of the secured bank loan. At the same time the acquisition of Boyana Residence E.O.O.D., acquired by the Fund by the issuance of own shares, will be reversed. On February 25, 2020, the Fund announced it had reached an agreement with Alpha Bank (see also section 15.40). Therefore, with effect from February 25, 2020 the contingent liability no longer exists;
C. The Fund has a contingent liability to issue ordinary shares arising from the outstanding warrants. For more information see section 15.22.

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

19.25 INCOME FROM INVESTMENTS

The income from investments is the interest from receivables from group companies. The specification is as follows:

	2019 In € 1,000	2018 In € 1,000
Arcona Capital RE Bohemia s.r.o.	205	243
Arcona Capital RE Slovakia s.r.o.	196	232
Arcona Capital Real Estate Poland Sp. z o.o.	394	354
Arcona Real Estate B.V.	151	131
Boyana Residence E.O.O.D.	7	n.a.
	953	**960**

19.26 REALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2019 In € 1,000	2018 In € 1,000
Realised currency results Arcona Capital RE Bohemia s.r.o.	47	139

19.27 UNREALISED VALUATION RESULTS OF INVESTMENTS

The unrealised valuation results of investments contain the share in the results from investments in group companies. The specification is as follows:

	2019 In € 1,000	2018 In € 1,000
Arcona Capital RE Bohemia s.r.o.	732	221
Arcona Capital RE Slovakia s.r.o.	666	1,300
Arcona Capital Real Estate Poland Sp. z o.o.	-/- 1,056	-/- 1,216
Arcona Capital Real Estate Trio Sp. z o.o.	502	15
Arcona Real Estate B.V.	122	176
Aisi Bela LLC	-/- 92	n.a.
Boyana Residence E.O.O.D.	8	n.a.
	882	**496**

19.28 OTHER OPERATING INCOME

	2019 In € 1,000	2018 In € 1,000
Release secured vendor loan Real Estate Central Europe AS	500	-
Other exchange and currency translation results	2	-
	502	**-**

the “Release secured vendor loan Real Estate Central Europe AS” for the amount of € 500,000 relates to the shares’ purchase price reduction for Arcona Capital Real Estate Trio Sp. z o.o. (see also section 15.28).

19.29 ADMINISTRATIVE EXPENSES

For the remuneration of the Managing Board see section 15.30 “Administrative expenses”.

19.30 OTHER OPERATING EXPENSES

19.30.1 Specification of other operating expenses

	2019 In € 1,000	2018 In € 1,000
Costs of service providers	465	526
Costs of funding and acquisition	491	57
	956	**583**

19.30.2 Analysis of costs of service providers

	2019 In € 1,000	2018 In € 1,000
Consultancy fees	60	27
Accounting expenses	141	138
Audit fees	46	72
Supervisory Board fees	28	28
Marketing expenses	57	117
Custody fees	49	51
Listing, Paying and Fund Agent fees	37	37
Supervisors’ expenses	14	23
Insurance AIFMD	23	27
Other costs of service providers	10	6
	465	**526**

19.30.3 Analysis of Supervisory Board fees

For the analysis of the Supervisory Board fees see section 15.31.3 “Analysis of Supervisory Board fees”.

19.30.4 Analysis of costs of funding and acquisition

For the analysis of the cost of funding and acquisition see section 15.31.5 “Analysis of funding and acquisition”.

19.31 PERSONNEL COSTS

The Fund does not employ any personnel (2018: nil).

19.32 INTEREST EXPENSES

	2019 In € 1,000	2018 In € 1,000
Interest expenses on convertible bonds	329	348
Interest expenses on private loans	371	167
Other exchange and currency translation results	-	6
Other interest expenses	2	4
	702	**525**

19.33 INCOME TAX EXPENSE

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

19.33.1 Income tax expense recognised in the parent company profit and loss account

	2019 In € 1,000	2018 In € 1,000
Current income tax expense		
Current year	-	-
Adjustments related to prior years	-	-
	-	-
Deferred income tax expense		
Origination and reversal of taxable temporary differences	-/- 12	-
Recognition of previously unrecognised tax losses	-/- 41	-
Recognition of previously unrecognised (derecognition of previously recognised) other taxable temporary differences	-	-
Change in tax rate	6	-
Adjustments related to prior years	-	-
	-/- 47	-
	-/- 47	**-**

19.33.2 Deferred income tax recognised directly in shareholders' equity

	2019 In € 1,000	2018 In € 1,000
Related to receivables from group companies	-/- 9	-/- 32

19.35 RELATED PARTIES

19.35.1 Identity of related parties

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

I. Managers in key positions, meaning the Management Board and Supervisory Board;

II. Major investors (more than 20% of voting rights);

III. All organisational entities within the group designated as Arcona Capital (AC);

IV. Investment trusts, investment funds and other investment companies which are managed by an entity belonging to Arcona Capital;

V. Investments undertaken by Arcona Capital, in which Arcona Capital has significant influence (more than 20% of voting rights).

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

For the transactions with and / or interest of managers in key positions see section 15.40.2.

19.35.3 Specification major investors[15]

For the specifications of major investors see section 15.39.3.

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

For the transactions with and / or interests of major investors see section 15.39.4.

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

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

A. Dividends received from group companies, as described in section 19.1.2 “Statement of changes in investments in group companies”;

B. Loans advanced to and redemption on loans advanced to receivables from group companies, as described in section 19.2 “Receivables from group companies”.

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

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

19.35.7 Loans from third parties

During the financial period the Fund has entered into loan agreements with Florijn Investments B.V.and Mr C.J. Bogerd. Neither party is a related party to the Fund or its manager. However, they are investors in other funds managed by the Manager.

19.36 PROPOSAL FOR THE PARENT COMPANY RESULT APPROPRIATION

The Parent Company´s result for the financial period amounts to € 93,000. Recognising the mandatory:

- net release of € 602,000 from the “Revaluation reserve”; and
- net addition of € 1,867,000 to the “Reserve investments in group companies”; and
- net release of € 66,000 from the “Equity component convertible bonds;

the remaining loss for the financial period was € 1,106,000. It is proposed to the General Meeting of Shareholders to deduct the whole of the remaining loss for the financial period from the “Retained earnings”.

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

[15] Major Investors: more than 20% voting rights.

19.37 DETERMINING OF PARENT COMPANY RESULT FOR THE PREVIOUS FINANCIAL PERIOD

During the General Meeting of Shareholders (GM) of the Fund dated May 21, 2019, the GM approved the result appropriation proposal of the Managing Board as mentioned in the Annual Report of the previous year.

The GM also approved the proposal of the Priority for a final distribution to the shareholders in the amount of € 0.25 per ordinary and registered share (for further information see section 15.13.2).

19.38 EVENTS AFTER BALANCE SHEET DATE

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

A. On February 25, 2020 the Fund announced it had reached an agreement with Alpha Bank for the extension of the secured bank loan for the recently acquired Boyana Residence Project in Bulgaria. This meets the requirements that the Fund had set for the definitive takeover of the project. The shares and warrants that the Fund had given to the Boyana Foundation (Stichting Boyana) pending the granting of the secured bank loan have been transferred to SPDI.

B. On February 25, 2020 the Fund announced it had agreed the sale of a block of 8 apartments (including 17 parking places) within the Boyana project in Sofia, Bulgaria, for the total amount of € 1,000,000. The proceeds will be used for the part repayment of the secured bank loan with Alpha Bank (including accrued interest).

C. By press release on 17 March 2020 the Fund updated stakeholders on the potential impact of the COVID-19 pandemic on the Fund´s operations. The update summarized the Fund´s tenancy base and its vulnerability to virus-related trading restrictions, the current status of the Fund´s debt obligations and the progress being made to sell non-core assets in Slovakia and Poland.

D. On March 30, 2020 the property Graniczna 80-82, Kalisz was sold for PLN 4,350,000 (€ 945,000), which was PLN 650,000 (€ 230,000) below the December 31 2019 value reported in 15.12.1.

E. The Fund had a 5% share interest in the entity Yellow Properties, which undertook a successful residential development in Prague between 2013 and 2016. On March 31, 2020 Yellow Properties was deleted from the local commercial register, thus concluding the liquidation process (see also 15.39.6).

F. As a response to the COVID-19 pandemic, government restrictions on retail, educational and economic activity were progressively introduced across the CEE region during the latter weeks of March 2020 (lockdown). Based on initial trading data from the portfolio after two weeks of lockdown and rental receipts from tenants for April/Q2 2020 the Managing Board made an analysis of the potential impact of the pandemic on the Fund´s ability to continue as a "going concern". The conclusion was that there is no material uncertainty as to the ability of the Fund to continue as a "going concern" in 2020. The analysis considered three scenarios, namely a "worse-case" scenario, a "central-case" scenario and a "best-case" scenario. More information about the three scenarios can be found in paragraph 5.6 Outlook and further in the Report of the Management Board. For a detailed description of COVID-19 impact see 15.41F.

G. The Fund plans to sell up to five assets in Košice (Slovakia) in the coming months. Following a formal marketing campaign and the receipt of several offers for all or some of these assets, a preferred bidder has now been selected and a formal Letter of Intent is expected to be signed with this party in April 2020.

H. On 20 April 2020 the Fund agreed with its biggest tenant, AT&T, a 2-year extension of their lease in the Letna 45 property in Kosice to 30 April 2025 and an expansion of their leased area by

750m², to 6,555 m². The agreement increases the annual rental income from the property by €57,000.

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

Amsterdam, April 28, 2020

The Managing Board:

Arcona Capital Fund Management B.V.
On behalf of,

G.St.J. Barker LLB FRICS	P.H.J. Mars M.Sc.	H.H. Visscher
Managing Director	*Managing Director*	*Managing Director*

The Supervisory Board:

H.H. Kloos RBA	B. Vos M.Sc.
Chairman	

20 OTHER INFORMATION

20.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION

In accordance with Article 28 of the Articles of Association dated September 21, 2016, profits are determined and distributed as follows:

28.1 From the profit earned in a financial period in so far as possible a dividend is first distributed on the priority share, the amount of which dividend is equal to seven per cent (7%) on an annual basis, calculated on the nominal value of the priority share. No further distributions are made on the priority share.

28.2 The priority shareholder determines annually what part of the profit remaining after application of article 28.1 above is added to the reserves.

28.3 It is the prerogative of the general meeting of shareholders to allocate the profit remaining after application of articles 28.1 and 28.2 above.

28.4 Distribution of profit occurs after adoption of the financial statements evidencing that this is permitted.

28.5 The priority shareholder may resolve to make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a Parent Company reserve.

28.6 Distributions on shares may only take place up to a maximum of the amount of the distributable shareholders' equity.

28.7 Unless the body that decides on distribution determines another time, distributions on shares are payable immediately after declaration.

28.8 In calculating the amount of any distribution on shares the shares held by the Parent Company in its own capital are not included.

20.2 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION

On January 24, 2006 Arcona Capital Fund Management B.V. obtained a permit from 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 January 1, 2007 to act as the management company of the Fund.

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

20.3 PERSONAL INTERESTS

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Parent Company, except for B. Vos M.Sc. who had 4,400 ordinary shares (December 31, 2018: 4,400) in private possession and 4,562 ordinary shares (December 31, 2018: 4,562) in possession through Bas Vos B.V.

As at balance sheet date Arcona Capital GmbH held 0 registered shares (December 31, 2018: 26,991) in the Fund. G.St.J. Barker LLB FRICS and T.K. Rauh are the ultimate beneficial owners (UBOs) of Arcona Capital GmbH.

20.4 SPECIAL CONTROLLING RIGHTS

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

- To determine the number of members of the Managing Board and Supervisory Board;
- To make binding nominations for appointment of the members of the Managing Board and the members of the Supervisory Board;
- To make the proposal to the General Meeting of Shareholders to suspense or dismiss a Managing Board member and / or a Supervisory Board member;
- To make the proposal to the Supervisory Board for the remuneration of the members of the Supervisory Board;
- To determine which part of the profits remaining after priority dividend (see also section 20.1) shall be reserved;
- To make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a Parent Company reserve;
- To make the proposal to the General Meeting of Shareholders to amend the Articles of Association of the Parent Company;
- To make the proposal to the General Meeting of Shareholders for statutory merger or statutory demerger of the Parent Company;
- To make the proposal to the General Meeting of Shareholders for dissolution of the Parent Company.

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

- Reduction of the issued share capital.

20.5 INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2019 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2019 of Arcona Property Fund N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Arcona Property Fund N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

- The accompanying company financial statements give a true and fair view of the financial position of Arcona Property Fund N.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2019.

2. The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2019.

2. The company profit and loss account for 2019.

3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Arcona Property Fund N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 920.000. The materiality is based on 1% of Investment Property. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 46.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Arcona Property Fund N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Arcona Property Fund N.V..

Our group audit mainly focused on significant group entities in Czech Republic, Slovakia, Poland, Ukraine and Bulgaria, making up 100% of total revenues and 100% of total investment properties.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by component auditors from other Deloitte network firms. Where the work was performed by components auditors, we determined the level of involvement we needed to have in the audit work at those components so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. For each component we determined whether we require an audit of their complete financial information or whether other procedures would be sufficient.

For the group entities in Czech Republic, Slovakia and Poland we determined that a full audit of the financial information was required. For the components in the Ukraine and Bulgaria we performed specific audit procedures.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Emphasis of the impact of the coronavirus

The coronavirus also impacts Arcona Property Fund N.V. Management's plans to deal with these events or circumstances are included in the notes in paragraph 13.3 on page 64 and paragraph 15.41.F on page 157 of the financial statements. Management also indicates that it is currently not possible for them to properly estimate the impact of the coronavirus on the financial performance and health of Arcona Property Fund N.V. Our opinion is not modified in respect of this matter.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Valuation of investment properties</u>

Key audit matter:

The valuation of the investment property contains an inherent estimation uncertainty. Due to the significance of the account balances and the estimation uncertainty we consider this as a key audit matter.

How our audit addressed the matter:

Based on the underlying external appraisal reports we have verified the value of the investment property.

We have critically reviewed relevant assumptions and recent retail sector developments influencing the fair value and involved our internal valuations experts in challenging valuations of the external appraisers. We have additionally engaged internal property experts to review a selection of the investment property.

We have likewise reconciled the rental data applied with the financial accounting records. On the basis of IAS 40, we have reviewed the fair value concept as applied by the appraisers.

We have performed an additional test on the reliability of the estimation by comparing the valuation with the revenues effectively realized upon disposal and by analyzing any differences.

<u>Acquistion of investment properties</u>

Key audit matter:

Due to the size of the acquisition and the complexity of processing these acquisitions under EU-IFRS we consider this as a key audit matter.

How our audit addressed the matter:

Based on the underlying contracts, deeds of transfer and other relevant documentation, we have audited the acquisitions of investment property. In addition, we have established the correctness of the authorization for each of the transactions. Furthermore we have verified that the transaction is processed in accordance with relevant EU-IFRS-standards with respect of the accounting of acquisition of assets.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

In addition to the financial statements and our auditor's report thereon, the annual accounts contain other information that consists of:

- Management Board's Report.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.
- Foreword from the managing board.
- Arcona Property Fund in brief.
- APF Key figures.
- Pre-advice of the supervisory board.
- The real estate portfolio.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the supervisory board as auditor of Arcona Property Fund N.V. on May 18, 2017, as of the audit for the year 2017 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is

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responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 28, 2020

Deloitte Accountants B.V.

Initial for identification purposes:

J. Holland

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