ARCONA CAPITAL

ARCONA PROPERTY FUND N.V.

ANNUAL REPORT 2016

1 ARCONA PROPERTY FUND N.V.

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

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

Office Address
Hogehilweg 17 - 4e-etage
NL-1101 CB Amsterdam
Tel: +31(0)20 82 04 720
E-Mail: info@arconacapital.com
Website: www.arconapropertyfund.nl

Correspondence Address
P.O. Box 211
7400 AE Deventer
the Netherlands

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

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

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

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

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

Arcona Capital Fund Management B.V. currently has the following directors:
G.St.J. Barker LLB FRICS
P.H.J. Mars M.Sc.
H.H. Visscher (per 21 December 2016)

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

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

Listing and Paying Agent
NIBC Markets N.V.
Nieuwezijds Voorburgwal 162
1012 SJ Amsterdam
the Netherlands

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

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

Financial Calender 2017

Publication of trading update of 1st quarter 2017	10 May 2017
General Meeting of Shareholders	18 May 2017
Publication of semi-annual report 2017	30 August 2017
Publication of trading update of 3rd quarter 2017	8 November 2017

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

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

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

CONTENTS

1 FOREWORD FROM THE MANAGEMENT

During 2016, Arcona Property Fund expanded successfully into the retail sector in Poland through the acquisition of a portfolio of 8 neighbourhood shopping centres. A further 3 neighbourhood shopping centres were acquired in February 2017. This is the first significant step in an expansion programme which will see the Fund ultimately increase in size to € 500 million and roll out its geographical coverage to up to ten countries across the region.

Underlying operational performance continued to improve, with asset values increasing, vacancy rates falling and earnings growth accelerating. Enhancements to the overall portfolio from the Polish acquisition should maintain these positive trends during 2017 as the new properties are integrated into the portfolio.

A refinancing of the Slovak assets in August 2016 reduced debt service costs on the Fund's biggest sub-portfolio and extended the average unexpired loan term on the portfolio, achieving a weighted remaining maturity of 3.51 years as at end 2016. In parallel, agreement was reached with a number of the Fund's major tenants (AT&T, KROS) to extend their lease terms by between 5 and 8 years, significantly de-risking the tenancy base.

The full distribution to shareholders in 2016 was 35 cents per share, up from 30 cents in 2015. To continue the trend of increases in annual distribution, and reflecting the increase in total issued shares from 1.44 million to 3.17 million during 2016, Managing board will be recommending a distribution in shares charged to the share premium reserve, whereby 32 shares Arcona Property Fund N.V. entitle to one new share of Arcona Property Fund N.V..

2 ARCONA PROPERTY FUND IN BRIEF

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

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

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

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

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

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

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

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

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

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

Expansion of the Fund will be primarily undertaken through portfolio acquisitions. The Fund Manager is currently tracking several additional portfolio sales of this type, which would fit the above strategy, mainly in the out-of-town retail sector in the Czech Republic and Poland.

Five assets (in Prague and Kosice), which currently make a relatively low contribution to the net operating income of the Fund, will be sold out of the portfolio within the next two years.

The current portfolio in the Czech Republic and Slovakia is characterised by office properties with poor insulation and energy conservation ratings (reflecting the date and style of construction). An intensive programme of capital investment into the existing portfolio is focussing on improving energy efficiency, e.g. boiler upgrades, window replacements and façade insulation. This programme will utilise EU Funding programmes which can contribute up to 50% of the capital costs.

With the completion of the restructuring phase in March 2015 the Fund is now fully focused on a growth phase. The Fund is executing its growth strategy by focussing on the following:

Portfolio acquisitions in targeted sectors
The Funds aims to 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 aims to continue building on its track record of operational excellence established during its restructuring phase, in particular by continuing 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 2016: 49.3% including the outstanding convertible bonds), although a Loan-to-Value percentage of up to 60% is possible.

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

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

Corporate Governance
Clarity and transparency in supervision and accounting is considered by the Fund to be the cornerstone of good management and entrepreneurship. The Fund aims for a sound system of corporate governance, with

its strategy and investment objectives clearly defined and its operations effectively monitored by management, supervisory board and independent external parties.

Fund governance

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

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

Portfolio and historical returns

As at 31 December 2016, the Fund's real estate portfolio comprised 22 properties, located in two cities in the Czech Republic, three cities in Slovakia and seven cities in Poland. The majority of the rentable space 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 current 22 properties as at 31 December 2016 was € 74.81 million, a 40.8% increase compared to € 53.27 million for the portfolio of 14 properties ultimo 2015.

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

	2016*	2015*	2014	2013	2012
Return (in %)	** -/- 1.3	2.3	-/-0.9	-/-3.2	2.9

** including shareholder distributions*

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

3 KEY FIGURES

Balance sheet statement (x € 1,000)

	2016	2015	2014	2013	2012	2011
Investment properties	74,806	53,272	52,080	57,068	59,830	63,973
Other non-current assets	1,548	1,523	837	1,609	2,278	2,683
Current assets	7,598	1,408	5,719	2,030	2,394	2,412
Total assets	**83,952**	**56,203**	**58,636**	**60,707**	**64,502**	**69,068**
Shareholders' equity	36,452	28,569	28,554	26,814	26,471	23,670
Deferred tax liabilities	4,177	4,271	4,004	4,709	4,956	4,018
Other non-current liabilities	25,195	21,010	22,183	9,023	10,783	32,935
Current liabilities	18,128	2,353	3,895	20,161	22,292	8,445
Total equity and liabilities	**83,952**	**56,203**	**58,636**	**60,707**	**64,502**	**69,068**
Loan-to-Value (in %)	49.3	41.0	46.6	47.5	49.3	57.9

Profit and Loss statement (x € 1,000)

	2016	2015	2014	2013	2012	2011
Direct result before tax	-/- 325	707	801	1,450	1,081	1,019
Indirect result before tax	-/- 208	-/- 6	-/- 96	-/- 1,446	147	-/- 6,151
Total result before tax	**-/- 533**	**701**	**705**	**4**	**1,228**	**-/- 5,132**
Income tax expense	-/- 241	263	-/- 419	137	809	-/- 499
Total result after tax	**-/- 292**	**438**	**1,124**	**-/- 133**	**419**	**-/- 4,633**
Occupancy (in %)	80.7	78.0	75.0	73.7	75.3	79.0
Rentable area (in m^2)	100,673	80,754	91,727	109,335	108,969	117,239

Issued capital

	2016	2015	2014	2013	2012	2011
Ultimo outstanding shares	3,165,149	1,438,704	1,438,704	1,339,707	1,285,725	1,180,943
Total result per share (in €)	-/- 0.14	0.25	0.64	-/- 0.08	0.26	-/- 3.11

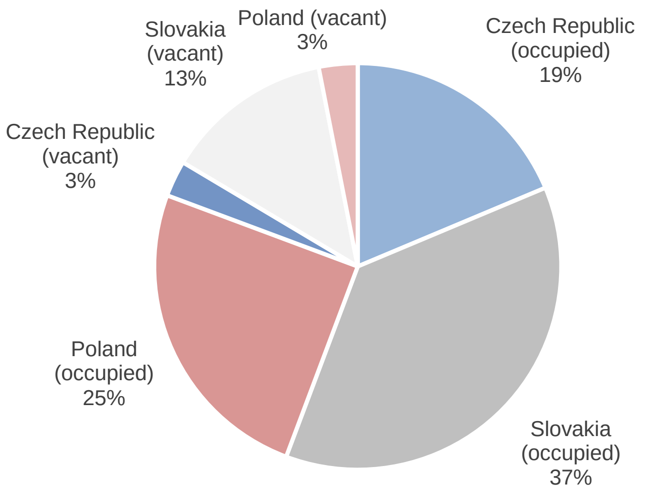
Data per share

	2016	2015	2014	2013	2012	2011
(Interim-) dividend	*n.a.	0.35	0.30	-	-	-
NAV conform EPRA	11.69	20.30	20.24	20.42	21.09	20.49
Avg. monthly turnover (in €)	102,192	387,413	163,926	284,227	233,308	55,647
Highest price	8.15	9.51	7.05	7.96	10.16	5.52
Lowest price	5.00	6.84	5.87	5.93	5.52	5.52
Ultimo price	5.40	8.35	6.96	6.99	7.82	5.52

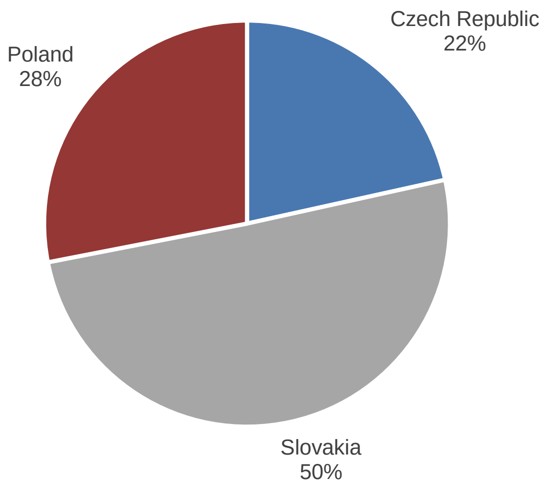
** distribution in shares charged to the share premium reserve, whereby 32 shares Arcona Property Fund N.V. entitle to one new share of Arcona Property Fund N.V..*

KEY GRAPHICS

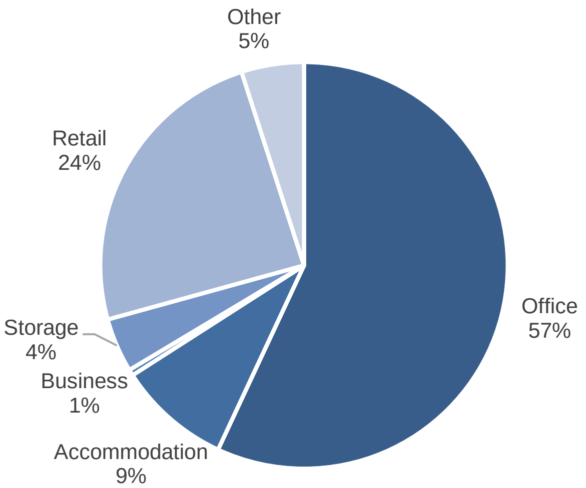
Portfolio occupation rate per country



Fair value per country real estate portfolio



The use of space within the total real estate portfolio



4 PRE-ADVICE OF THE SUPERVISORY BOARD

To the general meeting of shareholders
This annual report of the Arcona Property Fund N.V. (the Fund) has been prepared by the Managing Board. This report contains the financial statements for the period from 1 January to 31 December 2016.The financial statements are audited and have been approved by KPMG Accountants N.V. The auditor's report is presented on pages 121 - 126. The Supervisory Board has received notice of this approval.
The Supervisory Board recommends the financial statements for the year 2016 to the General Meeting for approval. The proposal by the Managing Board is to distribute shares charged to the share premium reserve, whereby 32 shares Arcona Property Fund N.V. entitle to one new share of Arcona Property Fund N.V..

Meetings and activities of the Supervisory Board
During 2016, the Supervisory Board had 5 meetings. During these meetings, the Supervisory Board discussed the (administrative) organization, the investment strategy, the commercial strategy and financial reporting. These meetings were attended by the Managing Board.

Change of accountant
In anticipation of a statutory auditor change, Management conducted a competitive bidding process in 2016 for the selection of a new auditor. The General Meeting of Shareholders will be asked to commission Deloitte Accountants from the year 2017 to carry out the examination of the financial statements.

Dividend policy and proposal closing distribution 2016 for share holders
As of the reporting year the dividend policy is to achieve an annual 8% dividend yield within a period of two to four 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, from 2017 onwards, 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 2016
In line with the prevailing dividend policy Arcona Property Fund N.V. proposes a distribution in shares charged to the share premium reserve, whereby 32 shares Arcona Property Fund N.V. entitle to one new share of Arcona Property Fund N.V..

Finally
The Supervisory Board would like to express in this appreciation for the efforts made during the year by the management and staff.

Amsterdam, 6 April 2017

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

5 REPORT OF THE MANAGEMENT BOARD

The Management Board hereby presents the annual report of 2016 of Arcona Property Fund N.V. (the Fund). The reporting period is from 1 January 2016 to 31 December 2016.

5.1 SUMMARY OF EVENTS DURING 2016

Table 2 – Total Return on share price and Net Asset Value during 2016

	Based on share price		Based on NAV	
	In €	In %	In €	In %
Start period	**8.15		*11.84	
End period	5.40		11.69	
Return	-/- 2.75		-/- 0.15	
Distribution to share holders	0.25			
Total Return	**-/- 2.50**	**-/- 30.7**	**-/- 0.15**	**-/- 1.3**

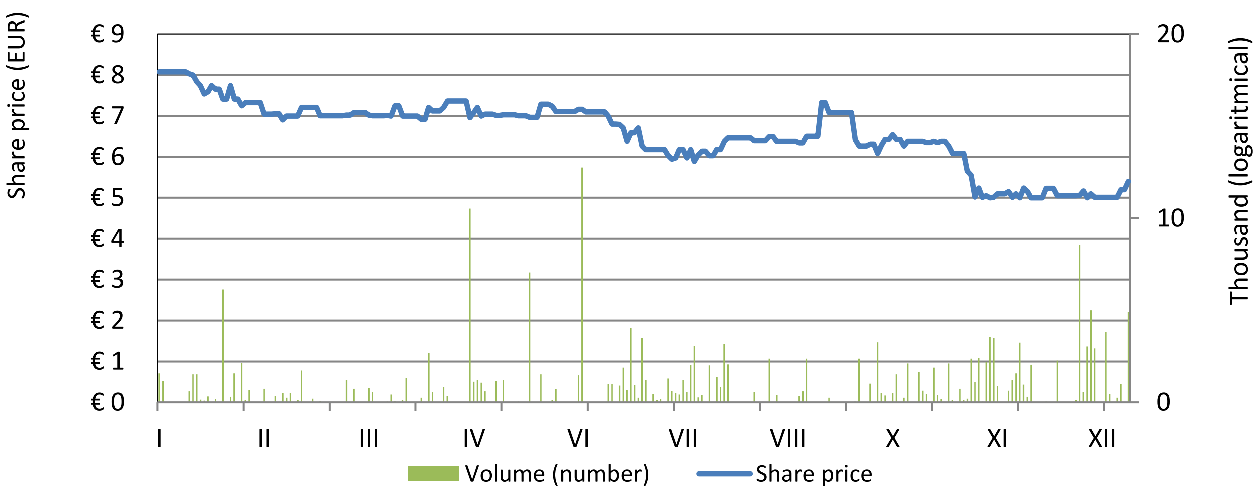
* recalculated comparative NAV per share considering the share issue, compensated for 1,726,445 shares x € 5.00 (share issue) and 1,438,704 shares x € 0.25 (distribution to shareholders)

** On 31 October 2016 the fund launched a rights issue. The share price at the start of the period has been adjusted based on the issue of these new shares.

5.1.1 DEVELOPMENTS DURING 2016

Key events during the reporting period were the capital raise and the acquisition of the Polish retail portfolio. The annual bank debt service increased from € 1.80 million to € 2.62 million and the total LTV ratio increased from 41.0% to 49.3%. The weighted occupancy over the reporting period increased from 78.0% to 80.7%. The annual net rental and related income increased to € 3.02 million as at 31 December 2016 (€ 2.92 million in 2015) (see also chapter 8). The net asset value increased by € 7.99 million to € 36.56 million. The Fund concluded the period with a net asset value (NAV) per share of € 11.69 at 31 December 2016 (figure 1). During the same period the price per share on the stock exchange decreased by 33.7% from € 8.15 to € 5.40. The change in comparable NAV per share was the net result of three components: the rights issue of 1,726,445 shares, the operational result, the higher property valuation and exchange rate movements.

Figure 1 –Development of the Fund's stock market price per share during 2016



The following events took place during the reporting period:

New rental agreement with KROS in Zilina (8 April 2016)
The Fund agreed a lease extension to 2025 in its office building in Zilina in Slovakia with the main tenant KROS. The rented area was increased by 520 m^2 on the top floor to 2,251 m^2 in total. This rental contract generates more than € 150,000 annually and increases the property occupancy in Zilina by 5% to 79%. This development reflects the strategy of the Fund to secure its larger tenants for a longer period of time.

Publication of Annual Report 2015 (28 April 2016)
The Annual Report 2015 published on 28 April 2016 showed that the Fund realized in 2015 a profit after tax of € 0.70 million (2014: € 0.70 million). The profit in 2015 was affected by one-off costs related to the planned acquisition in Poland. The fair value of the real estate portfolio increased by 2.3%, the occupancy rate increased by 3% to 78% and the senior debt loan-to-value improved.

Name change Fund Manager (29 April 2016)
The manager of the Fund changed its name from Palmer Capital Fondsenbeheer B.V. to Arcona Capital Fund Management B.V. The name change is related to an adjustment in shareholder structure on holding level and the rebranding of Palmer Capital in Continental Europe to Arcona Capital.

New rental agreement with AT&T in Letna 45 in Kosice (12 May 2016)
The Fund agreed a long-term lease in Letna 45 in Kosice with the main tenant AT&T. The new lease now runs to 2020 and has extension options of in total 9 years. The new long-term lease for 5,358 m^2 offers the Fund more security, by contracting the solvent tenant AT&T for the largest property in the portfolio. This will contribute positively to the long-term performance of the building.

Publication of the Q1 figures 2016 (25 May 2016)
The figures of Q1 2016 showed that the Fund realized in Q1 2016 a profit after tax of € 258,000, which is € 115,000 more than the same period in 2015. The gross rental income for the period increased to € 1.47 million, 2.6% higher than the same period of the previous year.

General Meeting of Shareholders (21 June 2016)
On 21 June 2016 the General Meeting of Shareholders adopted the annual accounts of 2015 and approved the proposal to distribute € 0.25 per share for the year 2015 in addition to the € 0.10 per share interim distribution in 2015. During the General Meeting a change of Statutes approving the name change to Arcona Property Fund N.V. and an increase of authorized share capital was also adopted by the shareholders.

Real estate portfolio valuation (30 June 2016)
On 30 June 2016, the management of the Fund reassessed the property portfolio values at € 53.33 million. This reconfirms the external valuation as at end 2015, but includes capital expenses during the reporting period. For more detailed information see the consolidated financial statements.

Update acquisition Polish retail portfolio (29 July 2016)
In July the management of the Fund announced that the previously publicized acquisition of 11 shopping centers in Poland had been delayed. Obtaining local bank financing during the summer lasted longer than expected. Nevertheless, the Fund expects to complete the acquisition in the second half of the year.

Slovak real estate portfolio refinanced (29 August 2016)
In August the Fund refinanced the Slovak real estate portfolio by concluding a new financing with Slovenská Sporiteľňa. With the new loan of up to € 13.4 million the bank loan of € 10.9 million at Tatra Banka is repaid. The annual interest expense (2.45% = 3M EURIBOR + 2.45%) of the new loan is approximately € 100,000 lower and the new bank covenants are more favorable for the Fund.

New name of the Fund (21 September 2016)
On the General Meeting of Shareholders on 21 June 2016 an amendment and change of name of the Fund was decided. As of 21 September 2016 the new name of the Fund is Arcona Property Fund N.V. The Euronext Amsterdam ISIN code remains unchanged (NL0006311706), the new ticker code is ARCPF.

The Fund obtains AFM approval for Registration Document (19 October 2016)
For the planned acquisition of 11 retail shopping centers in Poland, the Fund received approval from the Financial Markets Authority (AFM) for its filed Registration Document.

Conditions of the claim emission (31 October 2016)
The Fund announces the terms of the € 8.6 million rights issue. The rights issue is fully guaranteed. As previously announced, the proceeds of the rights issue, the issuing of convertible bonds of € 3.5 million, a loan from Raiffeisen Bank Polska of € 10.5 million and a vendor loan of € 4.7 million will be used to acquire 11 retail centers in Poland.

Polish retail portfolio acquisition (12 December 2016)
The Fund signed the agreement for the acquisition of the first eight retail centers in Poland. The net acquisition costs are € 21.2 million. The acquisition brings the portfolio diversification benefits and significant improvements to income and cost ratios. The remain three will be bought during the first quarter of 2017.

External valuation of property portfolio (30 December 2016)
The Fund implemented the updated external valuation of the property portfolio. The fair value of the twenty-two-property portfolio as at 31 December 2016 is € 74.81 million (2015: € 53.27 million | fourteen properties).

5.1.2 NET ASSET VALUE PER SHARE AND SHARE PRICE DEVELOPMENT

The following tables shows the development of the Fund's Net Asset Value during the period 1 January 2016 to 31 December 2016.

Table 3 – Comparative statement of the NAV per share

	31-12-2016	**31-12-2015** Adjusted for comparison	**31-12-2015**
Shareholders' equity (in € 1,000)	36,452	36,842	28,569
50% of the deferred tax liabilities concerning revaluation gains on investment property (in € 1,000)	560	636	636
Shareholders equity in accordance with EPRA (in €1,000)	37,012	37,478	29,205
Number of ordinary shares in issue	3,165,149	3,165,149	1,438,704
Adjusted EPRA-NAV (in €)	**11.69**	**11.84**	**20.30**
Return on NAV YTD (in %)*	-/- 1.3		2.3

** including the shareholder distributions*

Table 4 – Development of the share price per quarter in 2016

Quarter	Opening price Start of quarter in €	Closing price End of quarter in €	Volume pieces
1st Quarter 2016	8.15	7.25	26,312
2nd Quarter 2016	7.00	6.71	57,301
3rd Quarter 2016	6.50	6.42	39,738
4th Quarter 2016	6.55	5.40	71,799
Average per quarter			*48,788*

The above table shows an average trading volume of 1,394 shares per trading day during 2016. The stock price traded at the end of 2016 at € 5.40, which represents a 54% discount to the net asset value.

5.2 FUND STRATEGY AND OBJECTIVE

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

Distributions to shareholders recommenced in 2015 and have increased progressively.. The acquisition of the Polish retail portfolio has grown the Fund by 48% and improved diversification across countries and sectors. Further steps to grow the Fund in accordance with the detailed strategy as set out below are in full progress.

The Fund objectives are:

- Increasing the dividend yield to 8% per year over a period of two to four years.
- Long-term fund size of € 500 million with approximately 30 to 50 assets.
  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 (Romania, Bulgaria, Serbia, Croatia, Hungary and Turkey): 30% (€ 150 million)
- Purchases of modern high-yielding real estate in the region by acquiring portfolios or individual properties.
- Loan to value between 45% - 50% (including convertible bonds).

5.3 DIVIDEND POLICY

The Fund aims to achieve a dividend yield of 8% on share price within a period of two to four years. For 2014, the Fund distributed € 0.30 per share in cash. For 2015, the Fund distributed € 0.10 per share as an interim distribution in 2015 and € 0.25 per share in cash on 28 September 2016, a total of € 0.35 per share for the year. Considering the reporting year included a capital raise and acquisition of Polish retail real estate at the end of this period, the result has been influenced by material one-off costs (see also 12.57). This and considering the operational income related to the Polish acquisition in December 2016 did not had time to contribute significant from operational income the Managing board decides for a share distribution. For 2016, during which the volume of shares in issue increased from 1,438,704 to 3,165,149, the Managing Board has recommended a distribution in shares charged to the share premium reserve, whereby 32 shares Arcona Property Fund N.V. entitle to one new share of Arcona Property Fund N.V..

5.4 OUTLOOK

During 2016, the Fund achieved considerable improvements in occupancy levels and a significant expansion of the portfolio. As the majority of costs related to the Polish acquisition and the capital raise were taken as exceptional charges in 2016, the Fund should benefit from the expanded portfolio immediately, demonstrating a strong positive effect on bottom-line Fund performance in 2017 and beyond. Accordingly, the Managing board expects the expanded portfolio to deliver an operational profit of €1.9 million in 2017, up from € 0.75 million. (before exceptional items) in 2016.

The Management intends to pursue opportunities to grow the Fund substantially, to generate and sustain share price growth and further enhance levels of distributions to shareholders. Significant growth in assets under management is also necessary to improve the trading liquidity of the Fund's stock.

5.5 FINANCIAL RESULT

5.5.1 BALANCE

Table 5 – Balance statement

	31-12-2016	**31-12-2015**
	in € 1,000	in € 1,000
Investment property	74,806	53,272
Non-current assets	1,548	1,523
Current assets	7,598	1,408
Total assets	**83,952**	**56,203**
Shareholders' equity	36,452	28,569
Deferred tax liabilities	4,177	4,271
Long-term loans and borrowings	25,195	21,010
Total current liabilities	18,128	2,353
Total shareholders' equity and liabilities	**83,952**	**56,203**

The € 21.53 million change in "Investment property" is related to acquisition of the retail portfolio of 8 retail assets in Poland, the fair value adjustment of the portfolio value and a reclassification of part of the investment property "VUP" in Brno as an asset held for sale. See also 12.24.2.

"Non-current assets" increased due to more deferred tax assets (see 12.27).

The increase in "Current assets" relates to the €4,93 million VAT receivables (see 12.28).

Shareholders' equity increased due to the share issue for the acquisition of the Polish retail portfolio (€ 8.632 million, see 12.33).

The increase in "Total current liabilities" relates in particular to the short-term VAT loan from Raiffeisen Polbank (for the amount of € 4,873,000) and the tranche A and B of the Raiffeisen Polbank loan (see 12.40 "Interest bearing loans and borrowings") for from the acquisition of the eight Polish real estate assets at 12 December 2016. Considering as at statement of financial position's date the shareholders' equity of Arcona Capital Real Estate Poland Sp. Z.o.o. (ACREP) was minus € 0.085 million, the bank loan is still classified as short-term. The negative equity relates to the one-off costs for the acquisition of part of the Polish retail portfolio. The Managing Board plans to convert part of the existing shareholders loan into shareholders' equity, after which the bank loan will be reclassified as long-term.

The increase in "Long-term loans and borrowings" of € 4.19 million results to the additional convertible bonds related to the Polish acquisition during 2016 and the refinancing of the Slovak bank loan by Slovenska Sporitelna bank.

5.5.2 RESULT

The profit for 2016 after tax (see table 6 and chapter 8) amounted -/- € 0.29 million (2015: € 0.44 million) and can be divided into direct result and the indirect result. A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in chapter 7 and in the following paragraphs.

Table 6 – Overview of result

€ 1,000	**1-1-2016 until 31-12-2016**	**1-1-2015 until 31-12-2015** like-for-like	**Change in** € 1,000
Direct result before tax	-/- 325	707	-/- 1,032
Indirect result before tax	-/- 208	-/- 6	-/- 202
Result before tax	**-/- 533**	**701**	**-/- 1,234**
Tax	241	-/- 263	504
Result after tax	**-/- 292**	**438**	**-/- 730**

The decrease of the *direct result* before tax in the amount of € 1,03 million, is largely due to one-off costs related to the capital raise and acquisition of the Polish properties. The direct result before tax without the € 1,073,000 one-off costs is € 748.000.

The net *indirect result* of -/- € 208,000 is related to the acquisition costs of the Polish real estate portfolio (see 12.50). For more information about the property valuations see 12.24.1.

Ongoing Charges Figure
In 2016 the Ongoing Charges Figure (OCF) increased as a result of an increase of the total expenses (including “Operating expenses”) of about 35%, set against an increase of average shareholders’ equity of about 5%. The total expenses also include costs related to the “Capital raise” and “Due diligence” for the acquisition of the Polish retail portfolio. Without these costs the OCF would be 9.32% (31 December 2015: 8.84%) (see also 12.60).

Table 7 – Ongoing Charge Figure

	2016 in %	**2015** in %	**2014** in %	**2013** in %
Ongoing Charges Figure	12.82***	9.91**	10.65*	10.24

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

****** Without the “Polish acquisition and the capital raise” costs the OCF figure would be 8.84%.

******* Without the “Polish acquisition and the capital raise” costs the OCF figure would be 9.32%.

Fund operating expenses
The total fund operating expenses of € 2.28 million contain € 1.07 million incidental expenses related to the Capital raise and Due diligence. The “Capital raise” costs include consultancy fees and audit fees for the “Registration Document” and “Securities Note”, as well a success fee for the Listing and Paying Agent for the “capital raise” for acquisition of the Polish investment portfolio. The “Consultancy fees”, including legal fees, relate mainly to consultancy fees with regard to the tax structuring of the planned acquisition of the Polish investment portfolio. The “Due diligence” relates to technical, valuation and legal due diligence for the planned acquisition of the Polish investment portfolio. See also 12.56 and 12.57.

Financial expenses

The financial expenses of € 1.37 million (2015: € 0.98 million), contain € 0.15 million incidental expenses related to underwriting / commitment fee for the capital raise. € 0.13 million is related to change in fair value of derivatives (see 11 and 12.59). € 0.98 million is related to interest expense on loans and convertible bonds. The rest relates to other financial expenses that can be seen at 12.59 (“Financial Expenses”).

5.5.3 CASH FLOW

The net cash flow of the Fund after operating, investment and financing activities was € 742,000 (2015: -/- € 53,000). The table below provides a summary of the cash flow (see chapter 11).

Table 8 – Consolidated cash flow statement

	2016	**2015**
	in € 1,000	in € 1,000
Cash flow from operating activities	-/- 5,489	215
Cash flow from investing activities	-/- 21,969	3,050
Cash flow from financing activities	28,200	-/- 3,318
Net increase / decrease (-/-) in cash and cash equivalents	**742**	**-/- 53**

The “Cash flow from operating activities” is impacted by the change in trade and other receivables, relating to a temporary € 4.87 million VAT loan for the Polish acquisition.

The “Cash flow from investing activities” concerns the expense of € 21.94 million for the acquisition of eight retail assets in Poland.

The “Cash flow from financing activities” concerns the net proceeds from issuing of share capital (€ 8.63 million), of convertible bonds (€ 3.50 million), new loans and borrowings (€ 17.56 million), the repayment of loans and borrowings (€ 1.13 million) and distributions to shareholders.

See chapter 8 for more information (“Consolidated statement of cash flow”).

Table 9 – Statement of recognised income and expense

	2016	**2015**
	in € 1,000	in € 1,000
Equity component convertible bonds	144	56
Foreign currency translation differences on net investment in group companies	-/- 272	135
Income tax on foreign currency translation differences on net investments in group companies	-	-/- 25
Income tax on equity component convertible bonds	31	-/- 14
	-/- 241	96
Net gain/ (loss) recognised directly in equity	**-/- 97**	**152**
Profit for the period	-/- 292	438
Total recognised income and expense for the period	**-/- 389**	**590**

The total interest-bearing loans and borrowings increased net by € 19.66 million during the period to € 41.82 million. The total Loan to Value at 31 December 2016 was 49.3% (31 December 2015 : 41.0%).

5.5.4 BANK LOANS

Table 10 – Overview of interest-bearing loans and borrowings

	31-12-2016	31-12-2015
	in € 1,000	in € 1,000
Secured bank loans	19,268	18,556
Convertible bonds	5,786	2,395
Subtotal	**25,054**	**20,951**
Other long-term liabilities	67	59
Total long-term interest-bearing loans and borrowings	**25,121**	**21,010**
Current portion of secured bank loans *	16,702	1,154
Total short-term interest-bearing loans and borrowings	**16,702**	**1,154**
Total interest-bearing loans and borrowings	**41,823**	**22,164**
Debt Service**	**2,617**	**1,799**

** see 12.40.1 "Analysis of interest-bearing loans and borrowings"*

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

Table 11 – Overview of secured bank loans

	31-12-2016	31-12-2015
	in € 1,000	in € 1,000
Tatra Banka, a.s.	-	10,002
Slovenská sporiteľňa, a.s.	11,483	-
Sberbank, a.s.	7,785	8,554
Raiffeisen Polbank	-	-
Total long-term interest-bearing loans and borrowings	**19,268**	**18,556**
Tatra Banka, a.s.	-	788
Slovenská sporiteľňa, a.s.	919	-
Sberbank, a.s.	380	366
Raiffeisen Polbank*	10,530	-
Subtotal	**11,829**	**1,154**
Raiffeisen Polbank (VAT loan)	4,873	-
Total short-term secured bank loans	**16,702**	**1,154**
Total secured bank loans	**35,970**	**19,710**

** see 12.40.1 "Analysis of interest-bearing loans and borrowings"*

Over the past twelve months the total loan-to-value ratio (LTV) of the portfolio has increased from 41.0% to 49.3% (see also 12.40). Management intends to maintain the total LTV-ratio of the portfolio in the range 40% – 50%, although a Loan-to-Value percentage of up to 60% is possible. At the end of the reporting period the bank loans had an average maturity of 3.51 years and a weighted average interest rate of 3.58% (see 12.63.4 and 12.63.14). At the same time the convertible bonds had an average maturity of 3.61 years and a weighted average interest rate of 6.29%.

See section 12.40.3 ("Pledges to banks and bank covenants") for more information on statement of financial position's date with the secured bank loans.

5.5.5 CURRENCY EXCHANGE RATE

The Czech Koruna (CZK) stayed flat against the Euro during 2016. On 31 December 2015 the exchange rate was EUR/CZK 27.023 and on 31 December 2016 EUR/CZK 27.021 (see 12.7.5). Since the investments in the Czech Republic are in local currency, currency risk is present. The net exposure to the CZK is 8.9% of the total Fund assets. The Management Board has decided not to hedge the currency risk as within the Czech part of the portfolio both income and costs are in CZK. All lease agreements in the Czech Republic are in CZK. All bank loans in the Czech Republic are also in CZK, which effectively hedges some of the currency risk within the portfolio.

The Polish Zloty (PLN) depreciated by -/- 3.4% against the Euro during 2016. On 31 December 2015 the exchange rate was EUR/PLN 4.2639 and on 31 December 2016 EUR/PLN 4.4103 (see 12.7.5). Since the investments in Poland are in Euro, no material currency risk is present. The net exposure to the PLN is 0.0% of the total Fund assets. Most lease agreements in Poland are in EUR. All bank loans in Poland are also in EUR, which effectively hedges some of the currency risk within the portfolio.

See also 12.62.3 ('*Currency risk*') for more.

5.6 DEVELOPMENTS IN THE MARKET AND PORTFOLIO

On balance, we are positive about the prospects for the real estate markets in which the Fund is active. We consider there are some risks to yield levels, especially for prime product, but strong momentum in consumption in particular should continue to propel GDP growth, service sector growth and underpin rents in the retail and office sectors. On the financing side, we sense funding rates are beginning to increase, which will limit the scope for further capital growth in certain sectors.

5.6.1 ECONOMIC BACKGROUND AND REAL ESTATE MARKET

In 2016, trading volume reached € 11.8 billion in property investment markets across Poland, Czech Republic, Slovakia, Hungary, Bulgaria and Romania, according to a research report by Colliers International. The report presents a positive outlook for the CEE real estate markets in 2017 but also mentions risks to yield levels to consider. Consumption and wages are expected to stay buoyant, indicated by sentiment surveys and rising inflation rates. Strong GDP growth across the CEE region has been led by consumption so far in this cycle but with strong support from the export sector. The low levels of the region's currencies, even against a relatively weak EUR, have created competitive labour conditions. The anticipated exit from the current intervention regime by the Czech National Bank during 2017 should, however, lead to an appreciation of the Czech Crown against the Euro which will have short term positive consequences for the Fund.

The Czech real estate investment market recorded strong levels of activity in 2016, with a traded volume of € 3.6 billion. The retail sector was the dominant sector with 50% of transactions, followed with 25% of transactions in the office sector. We anticipate yield compression will slow during 2017, especially for prime product, and the gap between prime and secondary yields may narrow.

The traded volume in the Slovak real estate investment market exceeded € 870 million in 2016, much higher than the same period of the previous year. Most investment activity was concentrated in the Bratislava region, with the retail sector dominating. International interest in the market remains limited, particularly in the regions, and local players maintain a dominant role.

In the Polish market over € 4.7 billion was invested in commercial property in 2016, a substantial increase in comparison to the same period of the previous year. Office investment in regional cities accounted for almost 60% of all office sector transactions closed in 2016. The retail market gained a 48% share of overall investment, followed by the office market accounting for 40% and 12% for the industrial sector. Political concerns had been expected, at the start of the year, to weigh on the market but this proved not to be the case, with both domestic and international purchasers increasing their allocations to Poland.

5.6.2 ACQUISITION OF THE POLISH RETAIL PORTFOLIO

On 12 December 2016 the Fund completed the acquisitions of eight of the eleven retail centres it plans to acquire from RECE Poland. The acquisition of the remaining three was completed on 2 March 2017. The total lettable area amounts to 22.897 m^2. The majority of the available space is rented by major supermarket chains including Piotr I Pawel, Biedronka and Tesco. The purchase of the complete portfolio is financed by a loan from Raiffeisen Polbank for € 10.5 million, share capital of € 8.6 million, convertible bonds of € 3.5 million and a vendor loan of € 4.7 million.

The acquisition of the Polish retail portfolio is an important first step in the implementation of the Fund's ambitious growth strategy. The acquisition significantly increases the Fund's gross asset value, provides a meaningful diversification into Poland and into the retail sector and substantially improves operational cost and income ratios. The table below provides a comparison of the Fund before and after the acquisition.

Table 12 – Comparative statement of fund ratios before and after the Polish acquisition

	Before acquistion	After acquisition 8 Polish assets	After acquisition 11 Polish assets
Fund size (in € m)	57.5	83.9	90.1
Number of assets	14	22	25
Occupancy	78.2%	80.7%	81.9%
Geographical distribution	70.0% Slovakia 30.0% Czech Republic 0.0% Poland	50.9% Slovakia 21.0% Czech Republic 28.1% Poland	46.5% Slovakia 19.5% Czech Republic 34.0% Poland
Sector distribution	73% Offices 5% Retail 22% Other	52.5% Offices 31.7% Retail 15.8% Other	49.0% Offices 35.0% Retail 16.0% Other

Through the acquisition, the gross asset value of the Fund increases by 48% and net operating income increases by 63.0% (from € 2.92 million to € 4.76 million). Fund level costs increase by ca. 24% (from € 835,000 to € 1,035,000).

5.6.3 REAL ESTATE PORTFOLIO DEVELOPMENT

Table 13 – Comparative statement of the real estate portfolio

	31-12-2016	31-12-2015	change	%
Fair value (in € 1,000)	74,806	53,272	21,534	40.4
Number of properties	22	14	8	57.1
Rentable area (in m²)	100,673	80,754	19,919	24.7
Occupancy* (in %)	80.7	78.0	2.7	3.5

* weighted based on fair value

Table 14 – Statement of changes in investment properties

	2016	2015
	in € 1,000	in € 1,000
Balance as at 1 January	**53,272**	**52,080**
Purchases and additions	21,944	511
Exchange rate differences	1	402
Fair value adjustments	-/- 208	279
Balance as at 31 December (including assets held for sale)	**75,009**	**53,272**
Reclassification	-/- 203	-
Balance as at 31 December	**74,806**	**53,272**

The "Purchases and additions" during 2016 are the eight Polish retail properties.

The "Reclassification" for the amount of € 203,000 relates to part of the investment property "VUP (Brno)", which has been reclassified as at 31 December 2016 from "Investment property" (see also section 12.24).

Table 15 – Comparative statement of real estate income within portfolio

	2016	2015	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	5,841	5,688	153	+ 2.7%
Service cost income	784	743	41	+ 5.5%
Total income	**6,625**	**6,431**	**194**	**+ 3.0%**
Service costs	-/- 1,951	-/- 1,946	-/- 5	+ 0.3%
Operational costs	-/- 1,653	-/- 1,563	-/- 90	+ 5.8%
Net rental income	**3,021**	**2,922**	**99**	**+ 3.4%**

The increase in net rental income in the amount of € 99,000 is due to the increase in occupancy within the Czech portfolio during the year and the additional income from the Polish portfolio with effect from 12 December 2016.

Table 16 – Comparative statement of real estate income within like-for-like portfolio

	2016	2015	Change	Change
	in € 1,000	in € 1,000	in € 1,000	In %
Gross rental income	5,748	5,688	60	+ 1.1%
Service cost income	766	743	23	+ 3.1%
Total income	**6,514**	**6,431**	**83**	**+ 1.3%**
Service costs	-/- 1,942	-/- 1,946	4	-/- 0.2%
Operational costs	-/- 1,644	-/- 1,563	-/- 81	+ 5.2%
Net rental income	**2,928**	**2,922**	**6**	**+ 0.2%**

Like-for-like the net rental income increased by € 6,000 and relates to the fourteen properties in the portfolio at ultimo 2015. The like-for-like net rental income of € 2.93 million from the portfolio is 0.2% higher compared to the same period in the previous year (€ 2.92 million). This increase is related to the occupancy increase in the portfolio and the service costs increase related to additional repair and maintenance costs.

5.7 RISK MANAGEMENT

For a description of the main risks and uncertainties, we refer to the Risk paragraph 12.63 and the notes to the consolidated financial statements.

5.8 CORPORATE GOVERNANCE

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

5.9 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL

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

Amsterdam, 6 April 2017

The management, 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 (as of 21 December 2016)

6 THE REAL ESTATE PORTFOLIO

As at 31 December 2016 the Fund's portfolio comprised twenty-two properties. The following section gives an overview of each property in the portfolio. The properties are located in three Central European countries: five in the Czech Republic, nine in Slovakia and eight in Poland. All these countries currently have strong economic fundamentals.

6.1 THE REAL ESTATE PORTFOLIO IN POLAND

The Fund portfolio as at 31 December 2016 comprises eight retail centre properties across Poland. The portfolio generally consists of modern A class retail centres located in secondary Polish cities. The properties are all multi tenanted and are primarily used as retail accommodation. The main characteristics of each property are briefly summarised below:

Laubitza 8, Inowroclaw (Laubitza)	
Type	Retail
Rentable Surface (in m²)	1,763
Occupation Rate (in %)	91.5
Fair value (in € m)	2.381

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 1,763 m² of total lettable area and 41 parking spaces situated at the east, south and west sides of the property. The building is of steel frame construction on reinforced concrete foundations with walls covered with large-size YTONG blocks. The roof of steel construction is covered with metal trapezoid sheet and rock wool. The convenience shopping centre is finished with suspended ceilings, tiles on the floor, skylights and painted walls.

800-lecia Inowroclawia 27, Inowroclaw (Lecia)	
Type	Retail
Rentable Surface (in m²)	2,549
Occupation Rate (in %)	94.5
Fair value (in € m)	3.569

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

1 Krzemowa, Gdansk (Krzemowa)

Type	Retail
Rentable Surface (in m²)	1,573
Occupation Rate (in %)	100.0
Fair value (in € m)	2.930

Gdańsk – Sopot-Gdynia (750,000 inhabitants) conurbation is located in the northern part of Poland, on the Baltic coast. The property is situated in the southern part of Gdańsk, within the city's most densely populated

40 district, Chelm (50,000 inhabitants). To the north-east it borders the Srodmiescie district, home of the medieval old town. To the west and east, it adjoins the residential districts of Orunia, Ujescicko Lostowice, Wzgórze Mickiewicza and Siedlce.

Surrounded by multifamily residential buildings, the property benefits from high volumes of passing traffic, with Gdansk's city centre reachable by car within less than 10 minutes.

The site, which is freehold, has two entry points, provides 46 parking spaces and extends to 5,122m².

1 Plutona, Glogow (Plutona)

Type	Retail
Rentable Surface (in m²)	1,825
Occupation Rate (in %)	100.0
Fair value (in € m)	1.799

Glogow is a developing medium-sized town in the south-east part of Poland, with a current population of nearly 70,000. The property is located in the city's largest housing estate, Kopernik, with a population of 22,500. High-rise residential buildings dominate the property's direct surroundings. Direct access to the car park is on the eastern side of the site, from Plutonowa Street, which connects the property to the main road, Galileusza Street. This nearby road junction is served by bus lines, allowing convenient access to the retail centre by public transport. There is a parking area with 62 parking places.

The plot extends to 5,367 m².

82 Kalinkowa, Grudziadz (Kalinkowa)

Type	Retail
Rentable Surface (in m²)	2,558
Occupation Rate (in %)	95.3
Fair value (in € m)	3.015

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 8,215 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 agreement was renewed on 27 February 2015 for a period of 3 years. The parking area overall has 126 parking places.

137 Wajska Polskiego, Piotrkow Trybunalski (Wajska)

Type	Retail
Rentable Surface (in m²)	2,643
Occupation Rate (in %)	94.9
Fair value (in € m)	3.932

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.

6 Wolnosci, Slupsk (Wolnosci)

Type	Retail
Rentable Surface (in m²)	1,872
Occupation Rate (in %)	99.6
Fair value (in € m)	1.353

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.

80-82 Graniczna, Kalisz (Kalisz)

Type	Retail
Rentable Surface (in m²)	3,070
Occupation Rate (in %)	0.0
Fair value (in € m)	2.006

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

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

6.2 THE REAL ESTATE PORTFOLIO IN THE CZECH REPUBLIC

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

Sujanovo nam.3, Brno (VUP)	
Type	Office & Storage
Rentable Surface (in m²)	5,023
Occupation Rate (main building) (in %)	91.0
Fair value (in € m)	2.226

This administrative complex is located 1,200 meters southeast of the Brno city centre, in a commercial and residential area. The accessibility by car and public transport is excellent. The total gross area is 6,077 m². During the previous reporting period the light manufacturing space located behind the main building was sold.

Na Zertvach 34, Prague 8 (Palmovka)	
Type	Office
Rentable Surface (in m²)	2,187
Occupation Rate (in %)	98.3
Fair value (in € m)	3.357

The modern office building is located in Prague near the Palmovka metro station in a fast developing area on the border of the Prague districts of Karlin, Libeň and Vysočany. The total rentable area is 2,187 m². The accessibility by road is good and by public transport excellent. The building dates from 1998-1999 and has 28 underground parking spaces.

Prvniho pluku 621, Prague 8 (Karlin)	
Type	Office
Rentable Surface (in m²)	3,228
Occupation Rate (in %)	98.3
Fair value (in € m)	4.013

This office complex contains two adjoining buildings. It is located in Karlin, Prague 8. One of the buildings was recently refurbished to modern standard and the other building was constructed in 2002. Both buildings have four floors. The total rentable space (predominantly office space) is 3,228 m². There is sufficient parking capacity, with 35 parking spaces in the courtyard.

Politickych veznu 10, Prague 1 (Newton House)

Type	Office
Rentable Surface (in m²)	2,374
Occupation Rate (in %)	89.2
Fair value (in € m)	4.878

This representative office building is located in Prague's city centre, near Wenceslas Square. The main building has eight floors. The total rentable space is 2,374 m². The whole complex has partly been reconstructed with additional parking spaces. The property is close to the Wilsonova arterial road through Prague city centre and within 5 minutes' walk of the central railway station.

Drahobejlova 27, Prague 8 (Drahobejlova)

Type	Office
Rentable Surface (in m²)	2,387
Occupation Rate (in %)	94.1
Fair value (in € m)	1.855

This office building, originally a 1930's industrial building, is located in the lively mixed-use Vysočany district of Prague close to the O² hockey stadium. The total interior rentable area is 2,387 m² in the current layout. Although it was reconstructed in 2000 as an administrative building, it does not meet all modern market requirements for this property class. It has, however, excellent public transport connections and interesting potential for conversion to residential use (lofts) which Management is now investigating in detail.

6.3 THE REAL ESTATE PORTFOLIO IN SLOVAKIA

The Fund portfolio comprises nine 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 %)	73.3
Fair value (in € m)	4.302

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.

Gemerská 3, Kosiče (Gemerská)

Type	Office
Rentable Surface (in m²)	4,523
Occupation Rate (in %)	50,8
Fair value (in € m)	1.433

This C-class 1970's administrative building is prominently located on one of the main roads into the centre of Košice, near the 55,000 m² Cassovia retail park. The total rentable space is 4,523 m². The building is easily accessible by car and by public transport. There is a controlled-access parking lot with 88 parking spaces available.

Krivá 18, Kosiče (Krivá 18)

Type	Office
Rentable Surface (in m²)	6,058
Occupation Rate (in %)	64.4
Fair value (in € m)	2.812

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

Pražská 4, Kosiče (Pražská 4)

Type	Office
Rentable Surface (in m²)	6,088
Occupation Rate (in %)	62.5
Fair value (in € m)	2.619

The two administrative ten floor buildings are located in the residential area Terasa, approximately 1,5 km west from the historical centre of Košice. The premises can be used for office, business and accommodation purposes. The total space of Pražská 4 is 7,670 m² of which 6,088 m² is rentable. There are 71 parking spaces available.

Pražská 2, Kosiče (Pražská 2)

Type	Office
Rentable Surface (in m²)	6,024
Occupation Rate (in %)	75.8
Fair value (in € m)	2.650

The two administrative ten floor buildings are located in the residential area Terasa, approximately 1.5 km west from the historical centre of Košice. The premises can be used for office, business and accommodation purposes. The total space of Pražská 2 is 7,723 m² of which 6,024 m² is rentable.

Krivá 23, Kosiče (Krivá 23)

Type	Office
Rentable Surface (in m²)	7,318
Occupation Rate	69.9
Fair value (in € m)	3.263

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

Letná 45, Kosiče (Letná) CHECK PHOTO

Type	Office
Rentable Surface (in m²)	11,229
Occupation Rate (in %)	86.2
Fair value (in € m)	10.110

This office building (the biggest in the portfolio) is prominently situated on Festival Square, approx. 1 km north west from the historical centre of Košice. There is an ongoing refurbishment programme to increase accessibility, aesthetics and tenant facilities. The total rentable space is 11,229 m². The building is easily accessible by car or public transport as it is near the outer city ring road. There are 70 parking places and 14 garages available.

Kysucká 16, Kosiče (Kosmalt)

Type	Office/hostel
Rentable Surface (in m²)	10,712
Occupation Rate (in %)	62.5
Fair value (in € m)	6.171

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.

A. Rudnayova 21, Žilina (Vural)

Type	Office
Rentable Surface (in m²)	9,825
Occupation Rate (in %)	79.4
Fair value (in € m)	4.348

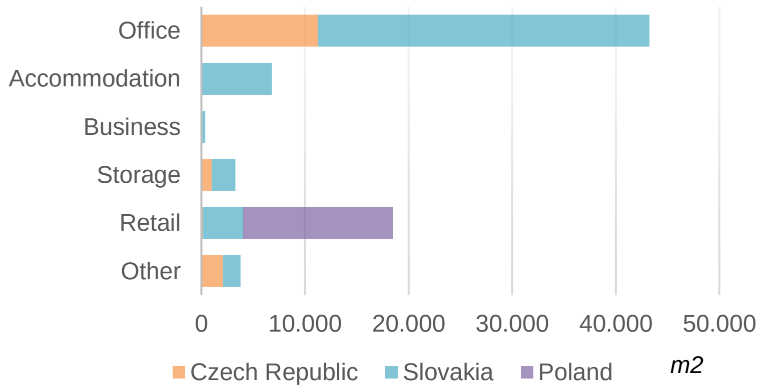
This is a relatively large office building on a 6,200 m² plot. It is located in an accessible location in Žilina. The building is well recognized in the local office market (telecom company T-Com, software company Kros). There is sufficient parking, currently over 100 spaces with possibilities to expand.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

6.4 PORTFOLIO OVERVIEW

OVERVIEW OF BUSINESS CATEGORIES: GROSS AREA IN M²

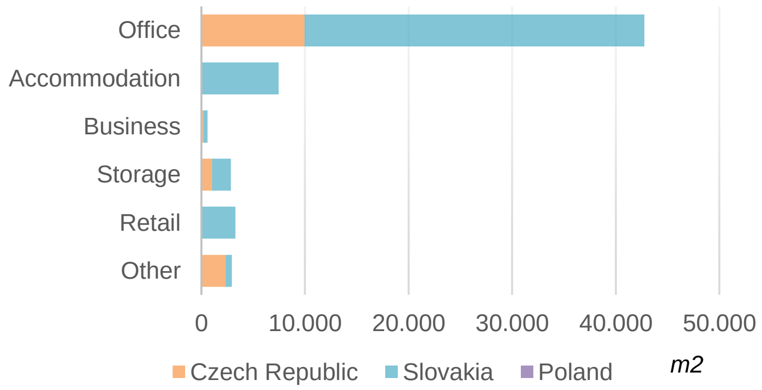
2016

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



2015

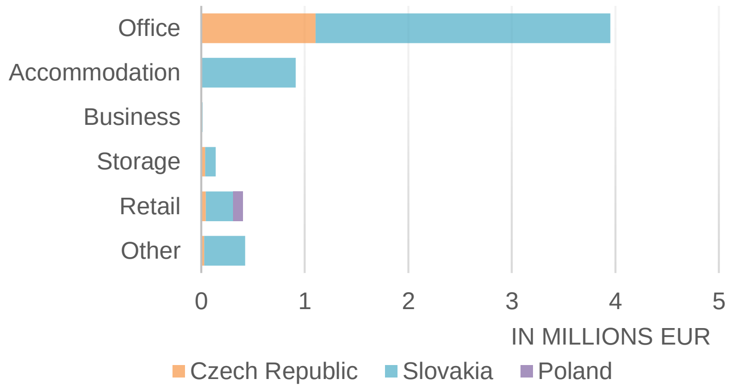
	Office	Accom-modation	Business	Storage	Retail	Other	Vacant area	Non-rentable area	Gross area
Czech Republic	9,967	64	177	1,017	50	2,340	1,607	4,807	**15,222**
Slovakia	32,791	7,397	409	1,835	3,238	603	19,259	23,626	**65,532**
Poland	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	**0**
Total	**42,758**	**7,461**	**586**	**2,852**	**3,288**	**2,943**	**20,866**	**28,433**	**80,754**



Overview of business categories: gross rental income

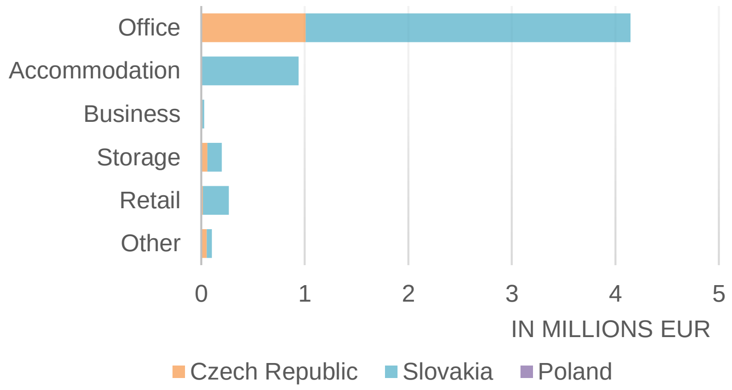
2016

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



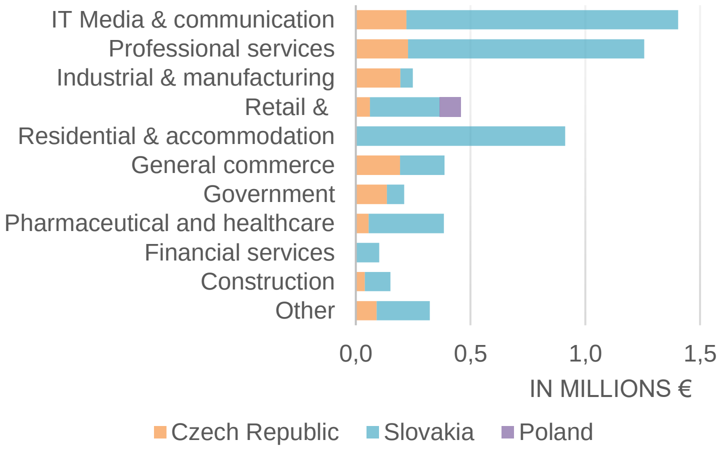
2015

In € 1,000	Office	Accom-modation	Business	Storage	Retail	Other	Total
Czech Republic	1,008	2	9	58	17	54	**1,148**
Slovakia	3,138	940	21	141	251	49	**4,540**
Poland	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	**0**
Total	**4,146**	**942**	**30**	**199**	**268**	**103**	**5,688**

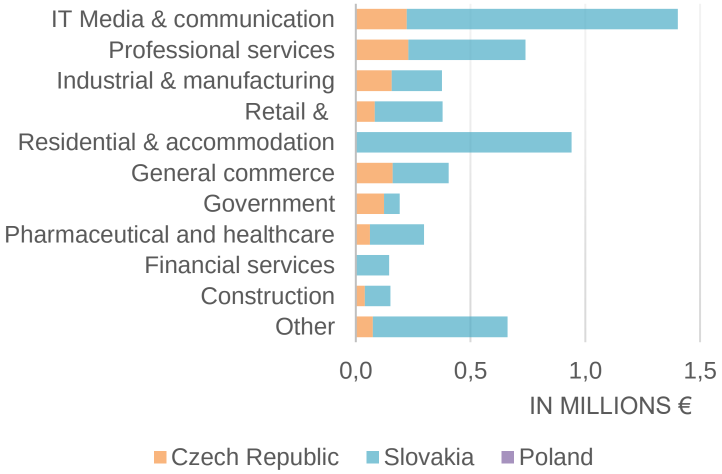


OVERVIEW OF TENANT CATEGORIES: GROSS RENTAL INCOME

2016



2015



CONSOLIDATED FINANCIAL STATEMENTS 2016

7 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

After proposal result appropriation	***Notes***	**31-12-2016** In € 1,000	**31-12-2015** In € 1,000
Assets			
Investment property	*12.24*	74,806	53,272
Other investments	*12.25*	20	76
Deferred tax assets	*12.27*	891	710
Cash and cash equivalents	*12.29*	637	737
Total non-current assets		**76,354**	**54,795**
Other investments	*12.25*	70	-
Trade and other receivables	*12.28*	5,557	485
Cash and cash equivalents	*12.29*	1,766	923
Assets held for sale	*12.30*	203	-
Income tax receivable	*12.31*	2	-
Total current assets		**7,598**	**1,408**
Total assets		**83,952**	**56,203**
Shareholders' equity[1]	*12.32*		
Issued capital	*12.33*	15,826	7,194
Share premium	*12.34*	16,426	16,786
Revaluation reserve	*12.35*	4,524	4,157
Reserve for currency translation differences	*12.36*	1,973	2,245
Equity component convertible bonds	*12.37*	266	91
Retained earnings	*12.38*	-/- 2,563	-/- 1,904
Total shareholders' equity (attributable to parent company shareholders)		**36,452**	**28,569**
Liabilities			
Interest-bearing loans and borrowings	*12.40*	25,121	21,010
Deferred tax liabilities	*12.41*	4,177	4,271
Trade and other payables		74	-
Total non-current liabilities		**29,372**	**25,281**
Interest-bearing loans and borrowings	*12.40*	16,702	1,154
Trade and other payables	*12.42*	1,426	1,195
Income tax payable	*12.43*	-	4
Total current liabilities		**18,128**	**2,353**
Total liabilities		**47,500**	**27,634**
Total shareholders' equity and liabilities		**83,952**	**56,203**

[1] Group equity

8 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		In € 1,000	In € 1,000
Gross rental income	*12.48*	5,841	5,688
Service charge income		784	743
Service charge expenses	*12.49*	-/- 1,951	-/- 1,946
Property operating expenses	*12.49*	-/- 1,653	-/- 1,563
Net rental and related income		**3,021**	**2,922**
Valuation results of properties	*12.50*	-/- 208	4,458
Results on disposals of properties	*12.51*	-	-/- 4,464
Net results on properties	*12.52*	**-/- 208**	**-/- 6**
Financial income	*12.54*	285	99
Other operating income	*12.55*	14	5
Other income		299	104
Total income		**3,112**	**3,020**
Administrative expenses	*12.56*	439	400
Other operating expenses	*12.57*	1,840	940
		2,279	**1,340**
Net operating result before financial expenses		**833**	**1,680**
Financial expenses	*12.59*	1,366	979
Profit before income tax		**-/- 533**	**701**
Income tax expense	*12.61*	241	-/- 263
Profit for the period		**-/- 292**	**438**
Attributable to:			
Parent company shareholders		-/- 292	438
Profit for the period		**-/- 292**	**438**
Basic earnings per (ordinary and registered) share (€)	*12.62.1*	-/- 0.14	0.25
Diluted earnings per (ordinary and registered) share (€)	*12.62.4*	-/- 0.14	0.25

9 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** In € 1,000	**2015** In € 1,000
Items never reclassified subsequently to profit or loss:			
Equity component convertible bonds		144	56
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences on net investment in group companies		-/- 272	135
Income tax on foreign currency translation differences on net investments in group companies		-	-/- 25
Income tax on equity component convertible bonds		31	-/- 14
		-/- 241	96
Net gain / loss (-/-) recognised directly in shareholders' equity		**-/- 97**	**152**
Profit for the period	*8*	-/- 292	438
Total comprehensive income for the period		**-/- 389**	**590**
Attributable to:			
Parent company shareholders		-/- 389	590
Total comprehensive income for the period		**-/- 389**	**590**

10 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Issued capital	Share premium	Revaluation reserve	Reserve for currency translation differences	Equity component convertible bonds	Retained earnings	Total share-holders' equity
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January 2016	7,194	16,786	4,157	2,245	91	-/- 1,904	28,569
Total comprehensive income	-	-	367	-/- 272	175	-/- 659	-/- 389
Own shares issued	8,632	-	-	-	-	-	8,632
Distributions to shareholders	-	-/- 360	-	-	-	-	-/- 360
Balance as at 31 December 2016	**15,826**	**16,426**	**4,524**	**1,973**	**266**	**-/- 2,563**	**36,452**
Balance as at 1 January 2015	7,194	17,361	4,004	2,135	49	-/- 2,189	28,554
Total comprehensive income	-	-	153	110	42	285	590
Distributions to shareholders	-	-/- 575	-	-	-	-	-/- 575
Balance as at 31 December 2015	**7,194**	**16,786**	**4,157**	**2,245**	**91**	**-/- 1,904**	**28,569**

11 CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** In € 1,000	**2015** In € 1,000
Cash flow from operating activities			
Profit for the period	*8*	-/- 292	438
Adjustments for:			
Net valuation gains / losses on properties[2]	*12.52*	208	-/- 235
Net valuation gains / losses on derivatives		-/- 132	-
Exchange and currency translation results		-	-/- 40
Financial income	*12.54*	-/- 285	-/- 99
Financial expenses	*12.59*	1,366	979[3]
Income tax expense		-/- 241	288
Changes in:			
Change in trade and other receivables		-/- 5,064	19
Change in trade and other payables		260	-/- 200
Cash generated from operating activities		**-/- 4,180**	**1,150**
Interest received		-	4
Interest paid		-/- 1,298	-/- 936
Income tax paid		-/- 11	-/- 3
Net cash from / used in (-/-) operating activities		**-/- 5,489**	**215**
Cash flow from investing activities			
Proceeds from the sale of properties		-	3,529
Proceeds from the sale of other investments		35	-
Dividend received from other investments		10	32
Acquisition of / additions to properties		-/- 21,944	-/- 511
Acquisitions of other investments		-/- 70	-
Net cash from / used in (-/-) investing activities		**-/- 21,969**	**3,050**
Cash flow from financing activities			
Proceeds from the issue of share capital		8,632	-
Proceeds from the issue of convertible bonds		3,500	1,420
Proceeds from loans and borrowings		17,557	48
Repayments of loans and borrowings		-/- 1,129	-/- 4,211
Distributions to shareholders		-/- 360	-/- 575
Net cash from / used in (-/-) financing activities		**28,200**	**-/- 3,318**
Net increase / decrease (-/-) in cash and cash equivalents		742	-/- 53
Cash and cash equivalents as at 1 January		1,660	1,692
Effect of exchange and currency translation result on cash held		1	21
Cash and cash equivalents as at 31 December	*12.29*	**2,403**	**1,660**

[2] Transaction costs and transfer tax excluded.
[3] € 15,000 reclassified from "Net valuation gains / losses on other investments".

12 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.1 GENERAL

At Palmer Capital Emerging Europe Property Fund N.V.'s Annual General Meeting of Shareholders (AGM) dated 21th of June 2016, the GM approved the proposal of the Managing Board to change the name of the Fund to Arcona Property Fund N.V. By a notarial deed executed before Mr. H.J. Portengen, civil law notary in Rotterdam on 21st of September 2016 the name of the Fund has been changed to Arcona Property Fund N.V.

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

The Fund is registered in Amsterdam (the Netherlands), Hogehilweg 17 and is entered in the Trade Register of the Chamber of Commerce under number 08110094.

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

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

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

12.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

12.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS

The Fund has applied the significant accounting principles as set out in section 12.2 to 12.22. The Managing Board authorised the consolidated financial statements for issue on 6 April 2017.

As at 31 December 2016, shareholders' equity of the Fund is positive. As stated in the liquidity forecast up to end-2017, the current cash position is sufficient to cover budgeted costs. Based on these assumptions, the Managing Board is of the opinion that the Fund is able to continue as a going concern. Therefore these consolidated financial statements are based on assumptions of going concern.

12.4 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

12.4.1 General

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

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

12.4.2 Judgements, estimates and assumptions

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

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

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

12.4.3 Measurement of fair value

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

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

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

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

- 12.8.3 and 12.44: "Financial instruments";
- 12.9.2: "Investment property";
- 12.14.2: "Assets held for sale".

12.4.4 New standards and interpretations not yet applied

A number of new standards, changes to standards and interpretations have only taken effect after 1st of January 2017 and therefore have not been applied to this 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 not have material effect on its results and financial position.

IFRS 9 Financial Instruments, effective 1 January 2018

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

12.5 BASIS OF CONSOLIDATION

12.5.1 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 that entity and has the ability to affect those returns through its power over that entity.

The financial figures of subsidiaries have been included in the consolidated financial statements with effect from the date on which control commences until the date that control ceases.

12.5.2 Consolidated subsidiaries

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

Company	Registered office	Country of incorporation	Holding as at 31-12-2016 In %	Holding as at 31-12-2015 In %
Arcona Capital RE Bohemia, s.r.o.	Prague	Czech	100.0	100.0
Arcona Capital RE Slovakia ,s.r.o.	Bratislava	Slovakia	100.0	100.0
Arcona Capital Real Estate Poland Sp. z.o.o.	Warsaw	Poland	100.0	100.0

12.5.3 Elimination of transactions on consolidation

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

12.6 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 12.18.6), 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 “Bank overdrafts”. Cash flows in foreign currencies are converted at the exchange rate applicable on settlements date. Transactions without settlement in cash are not recognised in the consolidated statement of cash flow.

12.7 CURRENCY

12.7.1 Functional and presentation currency

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

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

12.7.2 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.

12.7.3 Financial statements of foreign activities

The assets and liabilities of foreign operations and fair-value adjustments arising on consolidation are translated into Euros at the exchange rate applicable on the statement of financial position’s date. The income and expenses of foreign operations are translated into Euros at the average monthly exchange rate for the period. Foreign currency translation differences arising on translation are taken through the other comprehensive income as a separate component of equity.

12.7.4 Net investment in foreign activities

Foreign currency translation differences resulting from translation of the net investment in foreign activities, and the associated hedging transactions, are recognised in the “Reserve for currency translation differences”. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation will be recognised in the income statement.

12.7.5 Used exchange rates for consolidated statement of financial position

	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-122012
Czech Koruna (EUR / CZK)	27.0210	27.02300	27.73500	27.42700	25.15100
% change	*0.0%*	*2.6%*	*-/- 1.1%*	*-/- 9.0%*	*2.5%*
Polish Zloty (EUR / PLN)	4.41030	4.26390	4.27320	4.15430	4.07400
% change	*-/- 3.4%*	*0.2%*	*-/- 2.9%*	*-/- 2.0%*	*8.6%*
Pound Sterling (EUR / GBP)	0.85618	0.73395	0.77890	0.83370	0.81610
% change	*-/- 16.7%*	*5.8%*	*6.6%*	*-/- 2.2%*	*2.3%*

Source: European Central Bank (ECB)

12.7.6 Used average exchange rates for consolidated income statement

	2016	2015	2014	2013	2012
Czech Koruna (EUR / CZK)	27.0423	27.2695	27.5505	26.0125	25.1364
Polish Zloty (EUR / PLN)	4.3744	4.2613	n.a.	n.a.	n.a.

12.8 FINANCIAL INSTRUMENTS

12.8.1 General

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

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

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

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

Loans and receivables are measured at amortised cost.

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

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

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

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

12.8.2 Recognition and measurement

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

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

12.8.3 Measurement of fair value

Yellow Properties, s.r.o.

The fair value of Yellow Properties, s.r.o. is based on the Fund's stake in the equity of Yellow Properties, s.r.o., as presented in its annual account 2016. The equity of Yellow Properties, s.ro. consists for about 98% of "Cash and cash equivalents, since the development property of Yellow Properties is sold in previous years.

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

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

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

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

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

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

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

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

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

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

12.9 INVESTMENT PROPERTY

12.9.1 General

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

12.9.2 Measurement of fair value

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow or capitalisation projections. Valuations are performed as per reporting date 31 December. External valuations are performed by an external, independent appraiser with relevant recognised qualifications and recent experience with the location and the type of property. The valuations have been made in accordance with the appropriate sections of the current Valuation Standards contained within the RICS Valuation standards. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Considering the type of investment property Level 3 fair value hierarchy is applied for all real estate assets in the portfolio.

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

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

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

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

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

12.9.3 Analysis of Yield factor per property category

No.	Property category	Yield factor 2016[4] in %	Yield factor 2015 in %
A	Office B$^+$-class	7.50 – 8.50	8.00 - 9.00
B	Office B$^-$-class	9.25 – 11.50	9.75 - 14.00
C	Office / business B / C-class	12.75 – 14.50	12.50
D	Retail B-class	8.51 – 10.00	n.a.

Where necessary the following is reflected in the valuation:

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

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

12.10 OTHER INVESTMENTS

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

12.11 DEFERRED TAX ASSETS

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

[4] The yield factor 2015 and 2016 are in accordance with the specification to the external independent appraiser.

12.12 TRADE AND OTHER RECEIVABLES

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

12.13 CASH AND CASH EQUIVALENTS

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

12.14 ASSETS HELD FOR SALE

12.14.1 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 complete the plan must have been initiated. The sale should be completed within one year from the date of classification.

12.14.2 Measurement of fair value

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less cost of disposal, except for investment property. Investment property held for sale is measured in accordance with section 12.9 "Investment property". Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Fund's other 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 profit or loss.

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

12.15 IMPAIRMENT

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

12.16 SHAREHOLDERS' EQUITY

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

12.17 LIABILITIES

12.17.1 Interest-bearing loans and borrowings

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

12.17.2 Provisions

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

12.17.3 Deferred tax liabilities

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

12.17.4 Income tax payable

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

12.17.5 Trade and other payables

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

12.18 INCOME

12.18.1 Gross rental income

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

Rent-free periods and investments made or allowances granted to tenants by the company ("lease incentives") are allocated on a linear basis over the lease term. The lease term consists of the period until the first break option for the tenants, which period can be extended by management with the expected prolongation of the leases.
In determining the property at fair value capitalised lease incentives are adjusted for the valuation results, to avoid double counting.

12.18.2 Service charge income and service charge expenses

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

12.18.3 Property operating expenses

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

12.18.4 Valuation results of properties

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

12.18.5 Results on disposals of properties

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

12.18.6 Financial income

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

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

12.18.7 Other operating income

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

12.19 EXPENSES

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

12.20 FINANCIAL EXPENSES

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

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

12.21 INCOME TAX EXPENSE

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

12.21.1 Tax on profits

The tax on profits is recognised in the income statement.

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

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

12.21.2 Deferred tax assets

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

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

12.21.3 Deferred tax liabilities

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

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

12.22 SEGMENT REPORTING

12.22.1 General

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

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

Given the Fund's management decision-making structure and internal reporting structure each property is indicated as an operating segment. The properties held during the financial period (current period and / or previous period), as mentioned in section 12.24.1 "Analysis of investment properties", as well as section 12.30.1 "Analysis of assets held for sale" are taken into account in the segment reporting overviews.
The following segment reporting overviews are given for each property:

A. Overview of segment result (net operating income), apportioned to the 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 segment assets (see section 12.24.1 "Analysis of investment properties", as well as section 12.30.1 "Analysis of assets held for sale").

12.22.2 The Fund's geographic categories

The Fund distinguishes the following geographic categories:

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

The following segmentation criteria are used:

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

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

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

12.22.3 Overview of segment result (overview A)

Property (in € 1,000)	Gross rental Income 2016	Gross rental Income 2015	Service charge income 2016	Service charge income 2015	Service charge expenses 2016	Service charge expenses 2015	Property operating expenses 2016	Property operating expenses 2015	Net rental & related income 2016	Net rental & related income 2015	Results on disposals of properties 2016	Results on disposals of properties 2015	Valuation results of properties 2016	Valuation results of properties 2015	Total segment result 2016	Total segment result 2015
Czech Republic:																
Drahobejlova	151	102	86	63	-/- 95	-/- 58	-/- 53	-/- 49	89	58	-	-/- 29	61	74	150	103
Palmovka	261	250	100	99	-/- 77	-/- 72	-/- 63	-/- 75	221	202	-	-/- 1	131	44	352	245
Karlin	345	298	131	114	-/- 112	-/- 94	-/- 100	-/- 107	264	211	-	-	209	61	473	272
GiTy	n.a.	65	n.a.	48	n.a.	-/- 67	n.a.	-/- 15	n.a.	31	n.a.	-/- 4,414	n.a.	4,129	n.a.	-/- 254
VUP	203	191	168	157	-/- 145	-/- 139	-/- 81	-/- 92	145	117	-	-/- 6	12	-/- 117	157	-/- 6
Newton House	257	242	114	116	-/- 98	-/- 97	-/- 79	-/- 91	194	170	-	-/- 14	155	-/- 18	349	138
Total CZECH REPUBLIC	**1,217**	**1,148**	**599**	**597**	**-/- 527**	**-/- 527**	**-/- 376**	**-/- 429**	**913**	**789**	**-**	**-/- 4,464**	**568**	**4,173**	**1,481**	**498**
Slovakia:																
Záhradnicka	322	279	7	6	-/- 75	-/- 73	-/- 89	-/- 83	165	129	-	-	67	110	232	239
Pražská 2	388	403	9	10	-/- 158	-/- 159	-/- 101	-/- 93	138	161	-	-	14	-/- 112	152	49
Pražská 4	326	323	5	3	-/- 110	-/- 109	-/- 88	-/- 81	133	136	-	-	61	19	194	155
Krivá 18	362	366	5	4	-/- 112	-/- 112	-/- 91	-/- 90	164	168	-	-	-/- 573	63	-/- 409	231
Krivá 23	396	384	7	6	-/- 121	-/- 121	-/- 113	-/- 100	169	169	-	-	227	-/- 2	396	167
Gemerská	198	195	8	6	-/- 107	-/- 116	-/- 64	-/- 59	35	26	-	-	-/- 27	-/- 198	8	-/- 172
Letná	1,195	1,256	20	16	-/- 155	-/- 154	-/- 289	-/- 251	771	867	-	-	144	35	915	902
Vural	466	443	95	84	-/- 227	-/- 222	-/- 153	-/- 132	181	173	-	-	-/- 243	100	-/- 62	273
Kosmalt	878	891	11	11	-/- 350	-/- 353	-/- 280	-/- 245	259	304	-	-	-/- 250	270	9	574
Total SLOVAKIA	**4,531**	**4,540**	**167**	**146**	**-/- 1,415**	**-/- 1,419**	**-/- 1,268**	**-/- 1,134**	**2,015**	**2,133**	**-**	**-**	**-/- 580**	**285**	**1,435**	**2,418**
SUB TOTAL (transfer)	**5,748**	**5,688**	**766**	**743**	**-/- 1,942**	**-/- 1,946**	**-/- 1,644**	**-/- 1,563**	**2,928**	**2,922**	**-**	**-/- 4,464**	**-/- 12**	**4,458**	**2,916**	**2,916**

Property (in € 1,000)	Gross rental Income 2016	Gross rental Income 2015	Service charge income 2016	Service charge income 2015	Service charge expenses 2016	Service charge expenses 2015	Property operating expenses 2016	Property operating expenses 2015	Net rental & related income 2016	Net rental & related income 2015	Results on disposals of properties 2016	Results on disposals of properties 2015	Valuation results of properties 2016	Valuation results of properties 2015	Total segment result 2016	Total segment result 2015
SUB TOTAL (transfer)	**5,748**	**5,688**	**766**	**743**	**-/- 1,942**	**-/- 1,946**	**-/- 1,644**	**-/- 1,563**	**2,928**	**2,922**	**-**	**-/- 4,464**	**-/- 12**	**4,458**	**2,916**	**2,916**
Poland:																
Laubitza 8	9	n.a.	2	n.a.	-/- 1	n.a.	-/- 1	n.a.	9	n.a.	-	n.a.	-/- 130	n.a.	-/- 121	n.a.
800-lecia Inowroclawia 27	22	n.a.	4	n.a.	-/- 1	n.a.	-/- 2	n.a.	23	n.a.	-	n.a.	-/- 377	n.a.	-/- 354	n.a.
Krzemowa 1	13	n.a.	3	n.a.	-	n.a.	-/- 1	n.a.	15	n.a.	-	n.a.	548	n.a.	563	n.a.
Plutona 1	10	n.a.	-	n.a.	-/- 2	n.a.	-/- 1	n.a.	7	n.a.	-	n.a.	95	n.a.	102	n.a.
Kalinkowa 82	12	n.a.	3	n.a.	-	n.a.	-/- 1	n.a.	14	n.a.	-	n.a.	-/- 164	n.a.	-/- 150	n.a.
Wojska Polskiego 137	19	n.a.	4	n.a.	-/- 3	n.a.	-/- 1	n.a.	19	n.a.	-	n.a.	-/- 35	n.a.	-/- 16	n.a.
Wolnosci 6	8	n.a.	2	n.a.	-/- 2	n.a.	-/- 1	n.a.	7	n.a.	-	n.a.	80	n.a.	87	n.a.
Graniczna 80-82	-	n.a.	-	n.a.	-	n.a.	-/- 1	n.a.	-/- 1	n.a.	-	n.a.	-/- 213	n.a.	-/- 214	n.a.
Total POLAND[5]	**93**	**n.a.**	**18**	**n.a.**	**-/- 9**	**n.a.**	**-/- 9**	**n.a.**	**93**	**n.a.**	**-**	**n.a.**	**-/- 196**	**n.a.**	**-/- 103**	**n.a.**
GRAND TOTAL	**5,841**	**5,688**	**784**	**743**	**-/- 1,951**	**-/- 1,946**	**-/- 1,653**	**-/- 1,563**	**3,021**	**2,922**	**-**	**-/- 4,464**	**-/- 208**	**4,458**	**2,813**	**2,916**

[5] Concerns segment result as of date of acquisition investment portfolio (12 December 2016).

12.22.4 Reconciliation segment result with profit for the period

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

	2016 in € 1,000	2015 in € 1,000
Total segment result (overview A)	2,813	2,916
Unallocated income	299	104
Unallocated expenses	-/- 3,645	-/- 2,319
Profit before income tax	-/- 533	701
Income tax expense	241	-/- 263
Profit for the period	**-/- 292**	**438**

12.22.5 Major tenants

The Fund has one tenant (2015: one) with a gross rental income more than 10% (i.e. € 757,000 (2015: € 822,000)) of the Fund's total gross rental income. This tenant is a tenant in Letná (2015: Letná).

12.22.6 Overview of geographic assets and liabilities (overview B)

Assets	Czech Republic		Slovakia		Poland		The Netherlands		Other countries		Total assets	
In € 1,000	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Investment property	16,113	15,702	37,708	37,570	20,985	-	-	-	-	-	74,806	53,272
Other investments	20	76	-	-	-	-	-	-	70	-	90	76
Deferred tax assets	387	199	276	464	228	23		24	-	-	891	710
Trade and other receivables	99	154	360	285	5,093	41	5	5	-	-	5,557	485
Cash and cash equivalents	818	697	641	826	191	-	753	137	-	-	2,403	1,660
Assets held for sale	203	-	-	-	-	-	-	-	-	-	203	-
Income tax receivable	-		2		-		-		-	-	2	-
Total geographic assets	**17,640**	**16,828**	**38,987**	**39,145**	**26,497**	**64**	**758**	**166**	**70**	**-**	**83,952**	**56,203**
Liabilities												
Interest bearing loans & borrowings	8,165	8,520	12,469	11,249	15,403	-	5,786	2,395	-	-	41,823	22,164
Deferred tax liabilities	578	510	3,442	3,712	132	-	25	49	-	-	4,177	4,271
Trade and other payables	292	336	378	398	315	125	515	336	-	-	1,500	1,195
Income tax payable	-	-	-	4	-	-	-	-	-	-	-	4
Total geographic liabilities	**9,035**	**9,366**	**16,289**	**15,363**	**15,850**	**125**	**6,326**	**2,780**	**-**	**-**	**47,500**	**27,634**
Geographic assets less geographic liabilities	**8,605**	**7,462**	**22,698**	**23,782**	**10,647**	**-/- 61**	**-/- 5,568**	**-/- 2,614**	**70**	**-**	**36,452**	**28,569**

12.23 ACQUISITION OF SUBSIDIARIES

During the financial period the Fund acquired no subsidiaries.

12.24 INVESTMENT PROPERTY

12.24.1 Analysis of investment properties

No.	Name of properties	Address	Fair value 31-12-2016 In € 1,000	Fair value 31-12-2015 In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o.				
1	Drahobejlova	Drahobejlova 27, Prague	1,854	1,786
2	Palmovka	Na Žertvách 34, Prague	3,354	3,223
3	Karlin	Prvního Pluku 621/8a, Prague	4,010	3,795
4	VUP	Šujanovo náměsti 3, Brno	2,021	2,204
5	Newton House	Politických Vězňu 10, Prague	4,874	4,694
In ownership of Arcona Capital RE Slovakia s.r.o.				
6	Záhradnicka	Záhradnícka 46, Bratislava	4,302	4,210
7	Pražská 2	Pražská 2, Košice	2,650	2,630
8	Pražská 4	Pražská 4, Košice	2,619	2,520
9	Krivá 18	Krivá 18, Košice	2,812	3,140
10	Krivá 23	Krivá 23, Košice	3,263	3,020
11	Gemerská	Gemerská 3, Košice	1,433	1,460
12	Letná	Letná 45, Košice	10,110	9,940
13	Vural	Alexandra Rudnaya 21, Žilina	4,348	4,310
14	Kosmalt	Kysucká 16, Košice	6,171	6,340
In ownership of Arcona Capital Real Estate Poland Sp. z.o.o.				
15	Laubitza	Laubitza 8, Inowroclaw	2,381	n.a.
16	Lecia Inowroclawia	800-lecia Inowroclawia 27, Inowroclaw	3,569	n.a.
17	Krzemowa	Krzemowa 1, Gdansk	2,930	n.a.
18	Plutona	Plutona 1, Glogow	1,799	n.a.
19	Kalinkowa	Kalinkowa 82, Grudziadz	3,015	n.a.
20	Wojska Polsiekgo	Wojska Polskiego 137, Piotrkow Trybunalski	3,932	n.a.
21	Wolnosci	Wolnosci 6, Slupsk	1,353	n.a.
22	Graniczna	Graniczna 80-82, Kalisz	2,006	n.a.
	Total fair value		**74,806**	**53,272**

12.24.2 Statement of changes in investment properties

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	53,272	52,080
Purchases and additions	21,944	511
Fair value adjustments	-/- 208	279
Exchange rate differences	1	402
Reclassification (to “Assets held for sale”)	-/- 203	-
Balance as at 31 December	**74,806**	**53,272**

The “Reclassification” for the amount of € 203,000 negative relates to a part of the investment property “VUP”, which has been reclassified as at 31 December 2016 to “Assets held for sale”(see also section 12.30).

12.24.3 Valuation of investment properties

The investment properties, stated under section 12.24.1 “Analysis of investment properties”, were valued by an external, independent appraiser as at 31 December of the reporting year. The valuations are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The fair values of the investment properties are primarily derived using the hard-core and top-slice method. All investment properties are valued at fair value.

12.24.4 Transactions (investment property) with related parties

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

12.24.5 Sensitivity analysis

The appraisal of the portfolio implies an average weighted Reversion Yield of 11.3% (31 December 2015: 14.2%).

In case the yields used for the appraisals of investment properties on 31 December 2016 had been 50 basis points higher, the value of the investment properties would have decreased by 0.6% (31 December 2015: 0.6%). In this situation, the shareholders’ equity would have been € 332,000 lower (31 December 2015: € 245,000 lower).

In case the yields used for the appraisals of investment properties on 31 December 2016 had been 50 basis points lower, the value of the investment properties would have increased by 0.6% (31 December 2015: 0.6%). In this situation, the shareholders’ equity would have been € 336,000 higher (31 December 2015: € 248,000 higher).

A sensitivity analysis with possible changes in Yield and Estimated Rental Value[6] (ERV) result in the following changes in portfolio value:

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

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

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

12.25 OTHER INVESTMENTS

12.25.1 Specification of other investments

	Principal of investment		Interest	Interest rate
	In 1,000	In € 1,000	In %	In %
Yellow Properties, s.r.o.	CZK 279	36	5.0	n.a.
Eastern European Property Fund Limited	GBP -	-	< 0.1	n.a.
Loan Real Estate Central Europe Holding ApS	EUR 70	70	n.a.	1.0

12.25.2 Analysis of other investments

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Non-current part of other investments	20	76
Current part of other investments	70	-
	90	**76**

On 24 March 2017 the Fund has received an amount of EUR 70,000 regarding the loan Real Estate Central Europe Holding ApS.

12.25.3 Statement of changes in other investments

	Yellow Properties, s.r.o.	EEPFL[7]	Loan RECE Holding ApS[8]	Total 2016	Total 2015
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January	76	-	-	76	89
Purchases / Loans advanced	-	-	70	70	-
Exchange rate differences	-	-	-	-	2
Fair value adjustments	-/- 21	-	-	-/- 21	-/- 15
Sales / redemptions	-/- 35	-	-	-/- 35	-
Balance as at 31 December	**20**	**-**	**70**	**90**	**76**

The fair value adjustments to Yellow Properties, s.r.o. are negative as a result of the dividend received by the Fund from Yellow Properties, s.r.o., which is recognised in the income statement (see also section 12.54 “Financial income”), as well as other fair value adjustments of Yellow Properties, s.r.o.

12.25.4 Sales / redemptions of other investments

During the financial period the share capital of Yellow Properties, s.r.o. was reduced with about 60%. During the period the reduction of the share capital Yellow Properties, s.r.o. for the amount of CZK 928,000 (€ 35,000) was fully received by the Fund.

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

12.26 ANALYSIS RECOGNISED DEFERRED TAXES

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2016 In € 1,000
Investment property (concerning fair value adjustments)	170	1,289	-/- 1,119
Investment property (concerning other tax differences)	19	2,842	-/- 2,823
Tax losses (carried forward)	615	-	615
Accruals	44	-	44
Interest rate swaps used for hedging	25	-	25
Trade receivables (impairments)	11	-	11
Interest intercompany loans (unpaid)	7	-	7
Secured bank loans (flat fee)	-	19	-/- 19
Foreign currency translation differences[9]	-	25	-/- 25
Other investments	-	2	-/- 2
	891	**4,177**	**-/- 3,286**

	Deferred tax assets In € 1,000	Deferred tax liabilities In € 1,000	Total 2015 In € 1,000
Investment property (concerning fair value adjustments)	-	1,263	-/- 1,263
Investment property (concerning other tax differences)	-	2,930	-/- 2,930
Tax losses (carried forward)	630	-	630
Accruals	45	-	45
Trade receivables (impairments)	35	-	35
Equity component convertible bonds	-	24	-/- 24
Secured bank loans (flat fee)	-	19	-/- 19
Foreign currency translation differences	-	25	-/- 25
Other investments	-	10	-/- 10
	710	**4,271**	**-/- 3,561**

[9] With regard to net investments in group companies.

12.27 DEFERRED TAX ASSETS

12.27.1 Analysis of recognised deferred tax assets

	31-12-2016 will expire In € 1,000	31-12-2016 will never expire In € 1,000	Total 31-12-2016 In € 1,000
Tax losses (carried forward)	615	-	615
Investment property	-	189	189
Accruals	-	44	44
Interest rate swaps used for hedging	-	25	25
Trade receivables (impairments)	-	11	11
Interest intercompany loans (unpaid)	-	7	7
	615	**251**	**891**

	31-12-2015 will expire In € 1,000	31-12-2015 will never expire In € 1,000	Total 31-12-2015 In € 1,000
Tax losses (carried forward)	630	-	630
Accruals	-	45	45
Trade receivables (impairments)	-	35	35
	630	**80**	**710**

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

12.27.2 Statement of changes in recognised deferred tax assets

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	710	748
Adjustments related to prior years	-/- 24	19
Additions	419	307
Withdrawals	-/- 200	-/- 369
Change in tax rate	-/- 13	-
Exchange rate differences	-/- 1	5
Balance as at 31 December	**891**	**710**

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

12.27.3 Analysis of unrecognised deferred tax assets

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

	31-12-2015 will expire In € 1,000	**31-12-2015 will never expire** In € 1,000	**Total 31-12-2015** In € 1,000
Investment property	-	321	321
Tax losses (carried forward)	665	-	665
	665	**321**	**986**

12.27.4 Analysis of unrecognised tax losses

	2016 In € 1,000	**2015** In € 1,000
Expires in 2018	-	31
Expires in 2020	245	444
Expires in 2022	94	94
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	363	-
Balance as at 31 December	**798**	**665**

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

12.27.5 Statement of changes in unrecognised deferred tax assets

	2016 In € 1,000	**2015** In € 1,000
Balance as at 1 January	986	951
Adjustments related to prior years	25	-/- 26
Additions	363	425
Withdrawals	-/- 288	-/- 383
Exchange rate differences	-	19
Balance as at 31 December	**1,086**	**986**

12.28 TRADE AND OTHER RECEIVABLES

12.28.1 Analysis of trade and other receivables

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Non-current part of trade and other receivables	-	-
Current part of trade and other receivables	5,557	485
	5,557	**485**

12.28.2 Specification of trade and other receivables

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Trade receivables	380	165
Value added tax and other taxes	4,934	-
Prepayments and deferred expenses	155	238
Invoiceable amounts	17	47[10]
Arrangement fees	2	2
Interest	2	-
Other receivables	67	33
	5,557	**485**

The "Value added tax and other taxes" concerns mainly the receivable Value added tax with regard to the acquisition of the Polish retail investment portfolio during December 2016, which has been received during February 2017.

12.28.3 Analysis of trade receivables

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Trade receivables (gross)	634	394
Provision for doubtful receivables	-/- 254	-/- 229
	380	**165**

12.29 CASH AND CASH EQUIVALENTS

12.29.1 Analysis of cash and cash equivalents

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Non-current part of cash and cash equivalents	637	737
Current part of cash and cash equivalents	1,766	923
	2,403	**1,660**

The cash and cash equivalents are entirely at the free disposal of the Fund, with the exception of an amount of CZK 9.1 million (€ 337,000) at Sberbank, € 300,000 at Slovenská Sporiteľňa and the cash at Raiffeisen Polbank (31 December 2015: CZK 9.1 million (€ 337,000) at Sberbank and € 400,000 at Tatra Banka). These amounts are retained as security for the secured bank loans.

[10] € 47,000 reclassified from "Trade receivables".

12.29.2 Specifications of current part of cash and cash equivalents

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Bank balances	1,763	920
Cash	3	3
	1,766	**923**

12.30 ASSETS HELD FOR SALE

12.30.1 Analysis of assets held for sale

No.	Name of properties	Address	Fair value 31-12-2016	Fair value 31-12-2015
			In € 1,000	In € 1,000
In ownership of Arcona Capital RE Bohemia s.r.o.				
1	VUP	Šujanovo náměsti 3, Brno	203	n.a.

12.30.2 Statement of changes in assets held for sale

	2016	2015
	In € 1,000	In € 1,000
Balance as at 1 January	-	3,173
Sales	-	-/- 3,179
Fair value adjustments	-	-/- 44
Exchange rate differences	-	50
Reclassification (from “Investment property”)	203	-
Balance as at 31 December	**203**	**-**

The “Reclassification” for the amount of € 203,000 relates to a part of the investment property “VUP”, which has been reclassified as at 31 December 2016 from “Investment property”(see also section 12.24).

12.30.3 Valuation of assets held for sale

The assets held for sale, stated under section 12.30.1 “Analysis of assets held for sale”, were valued by an external, independent appraiser as at 31 December of the current year. The valuation are prepared for accounting purposes and are in accordance with relevant IFRS regulations. The market value 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.

12.31 INCOME TAX RECEIVABLE

12.31.1 Analysis of income tax receivable

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Income tax current year	2	-

12.32 SHAREHOLDERS' EQUITY

12.32.1 Comparative statement

	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012
Shareholders' equity (in € 1,000)	**36,452**	**28,569**	**28,554**	**26,814**	**26,471**
Number of ordinary shares in issue	3,138,158	1,411,713	1,411,713	1,296,819	1,285,725
Number of registered shares in issue	26,991	26,991	26,991	42,888	-
Total number of shares in issue entitled to profit	**3,165,149**	**1,438,704**	**1,438,704**	**1,339,707**	**1,285,725**
Net Asset Value per ordinary and registered share (in €)	**11.52**	**19.86**	**19.85**	**20.01**	**20.59**

12.32.2 Distribution to shareholders

At the Annual General Meeting (AGM) of the Fund on 21 June 2016 the AGM approved the proposal of the Managing Board for a distribution to the shareholders in the amount of € 0.25 per ordinary and registered share. The ex-dividend date was 18 May 2016. Payment date was 28 September 2016.

12.32.3 "Closed-end" structure

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

12.32.4 Capital Management

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

12.33 ISSUED CAPITAL

12.33.1 Analysis of issued capital

	31-12-2016	31-12-2016	31-12-2015	31-12-2015
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	3,138,158	15,691	1,411,713	7,059
Registered shares (at € 5.00 each)	26,991	135	26,991	135
Priority shares (at € 5.00 each)	1	-	1	-
Issued capital	**3,165,150**	**15,826**	**1,438,705**	**7,194**

12.33.2 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.

	2016	2016	2015	2015
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1,411,713	7,059	1,411,713	7,059
Issued for payment in cash	1,726,445	8,632	-	-
Balance in issue as at 31 December fully paid	**3,138,158**	**15,691**	**1,411,713**	**7,059**

12.33.3 Registered shares

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

	2016	2016	2015	2015
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	26,991	135	26,991	135
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**26,991**	**135**	**26,991**	**135**

12.33.4 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.

	2016	2016	2015	2015
	In pieces	In € 1,000	In pieces	In € 1,000
Balance in issue as at 1 January	1	-	1	-
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 31 December	**1**	**-**	**1**	**-**

12.33.5 Analysis of authorised share capital

	31-12-2016	31-12-2016	31-12-2015	31-12-2015
	In pieces	In € 1,000	In pieces	In € 1,000
Ordinary shares (at € 5.00 each)	4,999,999	25,000	2,999,999	15,000
Priority shares (at € 5.00 each)	1	-	1	-
Authorised share capital	**5,000,000**	**25,000**	**3,000,000**	**15,000**

12.34 SHARE PREMIUM

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

The paid-up share premium for tax purposes as at 31 December 2016 was € 16,426,000 (31 December 2015: € 16,786,000).

	2016	2015
	In € 1,000	In € 1,000
Balance as at 1 January	16,786	17,361
Distributions to shareholders	-/- 360	-/- 575
Balance as at 31 December	**16,426**	**16,786**

12.35 REVALUATION RESERVE

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

	2016	2015
	In € 1,000	In € 1,000
Balance as at 1 January	4,157	4,004
Addition to / reduction on (-) change in fair value during the financial period	367	153
Balance as at 31 December	**4,524**	**4,157**

12.36 RESERVE FOR CURRENCY TRANSLATION DIFFERENCES

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

	2016 In € 1,000	2015 In € 1,000
Unrealised currency results on net investments	2,245	2,135
Realised currency results on net investments	1	171
Unrealised currency results on net investments	-/- 273	-/- 61
Balance as at 31 December	**1,973**	**2,245**

12.37 EQUITY COMPONENT CONVERTIBLE BONDS

This reserve comprises the amount allocated to the equity component for the convertible bonds as issued by the Fund (see section 12.40.3 "Analysis of convertible bonds").

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	91	49
Additions in connection with issued convertible bonds	144	56
Income tax on equity component convertible bonds	31	-/- 14
Balance as at 31 December	**266**	**91**

12.38 RETAINED EARNINGS

In accordance with the Articles of Association dated 21 September 2016, the Managing Board will deduct the net result for the financial period from the "Retained earnings".

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

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	-/- 1,904	-/- 2,189
Profit for the period	-/- 292	438
	-/- 2,196	-/- 1,751
Change in revaluation reserve	-/- 367	-/- 153
Balance as at 31 December	**-/- 2,563**	**-/- 1,904**

12.39 CALCULATION OF NET ASSET VALUE

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

	31-12-2016	31-12-2015
Shareholders' equity in accordance with IFRS (in € 1,000)	36,452	28,569
Deferred tax liabilities concerning fair value adjustments of investment property and development property held for investment (in € 1,000)	560	636
Shareholders' equity in accordance with NAV (in € 1,000)	**37,012**	**29,205**
Number of shares in issue entitled to profit	**3,165,149**	**1,438,704**
Net Asset Value[11] per share (in €)	**11.69**	**20.30**

12.40 INTEREST-BEARING LOANS AND BORROWINGS

12.40.1 Analysis of interest-bearing loans and borrowings

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

	Long-term liabilities	Current liabilities	Total 31-12-2015
	In € 1,000	In € 1,000	In € 1,000
Secured bank loans	18,556	1,154	19,710
Convertible bonds	2,395	-	2,395
Other long-term liabilities	59	-	59
	21,010	**1,154**	**22,164**

The current liabilities for the amount of € 16,702,000 relates in particular to the short-term VAT loan Raiffeisen Polbank (for the amount of € 4,873,000) and the tranche A and B of the bank loan for the acquisition of the eight assets in Poland. Considering as at statement of financial position's date the shareholders' equity of Arcona Capital Real Estate Poland Sp. Z.o.o. (ACREP) was minus € 0.085 million, the bank loan is classified as short-term. The negative equity is related to the one-off costs for the acquisition of part of the Polish retail portfolio. The Managing Board plans to convert part of the existing shareholders loan into shareholders' equity, after which the bank loan can be reclassified as long-term. After the reporting period the VAT amount has fully been redeemed, since 20 February 2017 the VAT-receivable towards the Polish Tax Authority was received.

[11] EPRA

Polish tax authorities always have the right to challenge the VAT refund during a tax audit. In case the refund would be denied the cost of the non-deductible VAT incurred would be effectively borne by the Fund.

12.40.2 Statement of changes in secured bank loans

	2016	**2015**
	In € 1,000	In € 1,000
Balance as at 1 January	19,710	22,302
Loans advanced	17,493	-
Redemptions	-/- 1,072	-/- 2,899
(Amortization) flat fee	-/- 201	52[12]
Exchange rate differences	40	255
Balance as at 31 December	**35,970**	**19,710**

12.40.3 Pledges to banks and bank covenants

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

	Sberbank	**Slovenská Sporiteľňa**	**Raiffeisen Polbank**
Carrying amount secured bank loans (in € 1,000)	8,165	12,402	15,403
Weighted average interest rate	3.39	2.45	3.59
Debt Service Coverage Ratio (DSCR)	1.27	1.91	1.50
Withdrawable credit facilities	8,165	13,302	15,403
Securities:			
• Carrying amount investment property (in € 1,000)	16,113	37,708	20,985
• Carrying amount Assets held for sale (in € 1,000)	203	-	-
• Carrying amount trade and other receivables (in € 1,000)	33	223	124
• Carrying amount cash and cash equivalents (in € 1,000)	819	638	191
Bank covenants:			
• Debt Service Coverage Ratio (DSCR) (minimum)	1.10	1.25	1.20
• EBITDA / annual instalments of bank or other loans	110%	n.a.	n.a.
• EBITDA (in € 1,000)	n.a.	1,600	n.a.
• Loan yield	n.a.	45%	65%
• Negative shareholders' equity			*None

* As at statement of financial position's date the shareholders' equity of Arcona Capital Real Estate Poland Sp. Z.o.o. (ACREP) was minus € 0.085 million. The negative shareholders' equity was primarily caused by one-off costs borne by ACREP related to the acquisition of part of the Polish retail portfolio. Raiffeisen Polbank (RB) was aware of the nominal negative shareholders' equity situation within ACREP when disbursing the loan for the acquisition of the 8 freeholds on 12 December 2016. The Managing Board plans to resolve this during Q2 2017, once the full costs of the acquisition have been settled, by converting a part of the existing shareholders loan into shareholders' equity. The Board is currently taking professional advice in respect of the optimal structure and the amount of the conversion.

Moreover the issued capital of Arcona Capital RE Bohemia, s.r.o. is pledged to Sberbank and the issued capital of Arcona Capital Real Estate Poland Sp. Z.o.o. is pledged to Raiffeisen Polbank.

[12] € 52,000 reclassified from "Redemptions".

The carrying amount of the loan Raiffeisen Polbank consists of a secured bank loan for the amount of € 10,530,000, as well as a short-term VAT loan for the amount of € 4,873,000.
The secured bank loan Raiffeisen Polbank is split into Tranche A (for the nominal amount of € 9,450,000) and Tranche B (for the nominal amount of € 1,050,000). Tranche B of the secured bank loan Raiffeisen Polbank relates to the investment property "Kalisz", which is not currently leased to tenants. Tranche B has to be repaid together with Tranche A (based on 20-year amortisation of the loan) after their consolidation on the 2nd anniversary of disbursement (December 2018):

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

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

12.40.4 Analysis of convertible bonds

No	Date of issue	Convertible as of	Date of maturity	Nominal interest rate	Conversion price	Face value	Carrying amount 31-12-2016	Carrying amount 31-12-2015
				In %	In €	In € 1,000	In € 1,000	In € 1,000
1	01-12-2014	01-12-2015	01-12-2019	**6.00**	8.24	1,070	1,029	1,016
2	20-02-2015	20-02-2016	20-02-2018	**6.00**	8.48	1,420	1,397	1,379
3	17-10-2016	01-11-2016	31-10-2021	**6.50**	8.76	3,500	3,360	n.a.
						5,990	**5,786**	**2,395**

12.40.5 Statement of changes in convertible bonds

	2016	**2015**
	In € 1,000	In € 1,000
Balance as at 1 January	2,395	1,005
Proceeds from issue	3,500	1,420
Amount classified as equity	-/- 144	-/- 56
Accreted interest	35	26
Balance as at 31 December	**5,786**	**2,395**

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

12.40.6 Valuation of convertible bonds

The valuation of convertible bonds, stated under section 12.40.4 "Analysis of convertible bonds", is recognised at amortised cost, using the effective interest method (see section 12.8.5 "Compound financial instruments"). The average weighted interest rate used is 7.5%, based on the estimated average interest rate to be paid on comparable non-convertible bonds.

12.40.7 Analysis of other long-term liabilities

	31-12-2016	**31-12-2015**
	In € 1,000	In € 1,000
Long-term advance payments from tenants	67	59

12.40.8 Statement of changes of other long-term liabilities

	Unsecured loan Yellow Properties, sro In € 1,000	Long-term advance payments from tenants In € 1,000	Total 2016 In € 1,000	Total 2015 In € 1,000
Balance as at 1 January	-	59	59	1,375
Loans / payments advanced	47	17	64	48
Redemptions	-/- 48	-/- 9	-/- 57	-/- 1,364
Exchange rate differences	1	-	1	-
Balance as at 31 December	**-**	**67**	**67**	**59**

12.41 DEFERRED TAX LIABILITIES

12.41.1 General

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

12.41.2 Analysis of recognised deferred tax liabilities

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Investment property	4,131	4,193
Foreign currency translation differences[13]	25	25
Equity component convertible bonds	-	24
Secured bank loans	19	19
Other investments	2	10
	4,177	**4,271**

12.41.3 Statement of changes in recognised deferred tax liabilities

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	4,271	4,004
Adjustments related to prior years	-/- 22	25
Additions	365	489
Withdrawal	-/- 273	-/- 259
Change in tax rate	-/- 164	-
Exchange rate differences	-	12
Balance as at 31 December	**4,177**	**4,271**

[13] With regard to net investments in group companies.

12.42 TRADE AND OTHER PAYABLES

12.42.1 Analysis of trade and other payables

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Non-current part of trade and other payables	74	-
Current part of trade and other payables	1,426	1,195
	1,500	**1,195**

12.42.2 Specification of trade and other payables

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Trade payables	415	326
Accruals	431	580
Deposits received	277	176
Interest rate swaps used for hedging	132	-
Interest payables	116	70
Value Added Tax and other taxes	63	34
Administrative expenses	65	8
Other liabilities	1	1
	1,500	**1,195**

12.43 INCOME TAX PAYABLE

12.43.1 Analysis of income tax payable

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Income tax current year	-	4

12.44 FINANCIAL INSTRUMENTS

The book value of the Fund’s financial assets and financial liabilities, not measured at fair value, is a reasonable approach for its fair value, as all financial assets (classified as “loans and receivables”), and all financial liabilities (classified as “financial liabilities measured at amortised cost”) are priced at market rates at statement of financial position’s date or will be reprised within 3 months after statement of financial position’s date (see also section 12.63.4 “Interest rate risk”).

12.45 LEASE AGREEMENTS

12.45.1 Lease agreements in which the Fund is lessee

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

12.45.2 Lease agreements in which the Fund is lessor

The Fund has not entered as lessor into operating or finance lease agreements other than the leases indicated in section 12.48.2 “Non-cancellable operating leases”.

12.46 NON-CONTINGENT LIABILITIES

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

12.47 CONTINGENT LIABILITIES

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

- Arcona Capital RE Bohemia s.r.o. has a contingent liability for the amount of CZK 6,365,000 (€ 236,000) 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;
- The Fund has a contingent liability (subject to a corporate reorganization being completed by RECE Poland Sp. z.o.o.) with regard to the purchase of 100% of the shares of RECE Progress Sp. z.o.o., which is owner of 3 leasehold retail properties located in Poland, for an amount of € 4,718,000.

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.

12.48 GROSS RENTAL INCOME

12.48.1 General

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

Weighted to the fair value, the weighted average percentage of the vacant space of the investment properties in the portfolio at the end of 2016 was 20.9% (2015: 22.0%).

12.48.2 Non-cancellable leases

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

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
< 1 year	5,206	3,460
1 - 5 years	8,182	2,701
> 5 years	2,398	210
	15,786	**6,371**

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

12.49.1 General

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

12.49.2 Analysis of property operating expenses

	2016	2015
	In € 1,000	In € 1,000
Property management	468	463
Asset management	469	454
Maintenance expenses in respect of investment properties	432	329
Taxes on investment properties	185	181
Commission fees	64	95
Insurance premiums	23	23
Other direct operating expenses	12	18
	1,653	**1,563**

12.49.3 Allocation of service charges and property operating expenses

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

	2016 In € 1,000	2015 In € 1,000
For investment properties let	3,056	2,964
For investment properties not let	548	545
	3,604	**3,509**

12.50 VALUATION RESULTS OF PROPERTIES

12.50.1 Analysis of valuation results of properties

	2016 In € 1,000	2015 In € 1,000
Investment properties	-/- 208	329
Properties held for sale	-	4,129
	-/- 208	**4,458**

12.50.2 Specification of valuation results of properties

	2016 In € 1,000	2015 In € 1,000
Unrealised value adjustments booked in current year	-/- 208	329
Unrealised value adjustments booked in prior years	-	4,129
	-/- 208	**4,458**

12.51 RESULTS ON DISPOSALS OF PROPERTIES

12.51.1 Analysis of results on disposals of properties

	2016 In € 1,000	2015 In € 1,000
GiTy, Brno	-	-/- 4,414
Part of Drahobejlova, Prague	-	-/- 29
Part of Newton House, Prague	-	-/- 14
Part of VUP, Brno	-	-/- 6
Part of Palmovka, Prague	-	-/- 1
	-	**-/- 4,464**

12.51.2 Specification of results on disposals of properties

	2016 In € 1,000	2015 In € 1,000
Realised value adjustments booked in current year	-	-/- 94
Realised value adjustments booked in prior years	-	-/- 4,129
	-	-/- 4,223
Transfer tax	-	-/- 156
Consultancy fees and legal fees	-	-/- 85
	-	-/- 241
	-	**-/- 4,464**

12.52 NET RESULTS ON PROPERTIES

	2016 In € 1,000	2015 In € 1,000
Valuation gains	1,804	746
Valuation losses	-/- 2,012	-/- 752
	-/- 208	**-/- 6**

12.53 PROFIT ON DISPOSAL OF INVESTMENTS IN GROUP COMPANIES

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

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

12.54 FINANCIAL INCOME

	2016 In € 1,000	2015 In € 1,000
Released from "Reserve for currency translation differences"	273	61
Net dividend from "Other investments"	10[14]	32
Interest income	2	4
Other exchange and currency translation results	-	2
	285	**99**

[14] Concerns dividend from Yellow Properties, s.r.o. (see also section 12.25.2 "Statement of changes of other investments").

12.55 OTHER OPERATING INCOME

	2016	2015
	In € 1,000	In € 1,000
Penalty interest and fees	3	3
Other	11	2
	14	**5**

12.56 ADMINISTRATIVE EXPENSES

12.56.1 Management fee

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

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

12.56.2 Specification Management fee

	2016	2015
	In € 1,000	In € 1,000
Management fee	908	854
Asset Management fee Arcona Capital Czech Republic s.r.o.	-/- 469[15]	-/- 454
Fund Management fee (Arcona Capital Fund Management B.V.)	**439**	**400**

12.56.3 Performance-related remuneration

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

A. In the case of a total return of up to 12% the performance-related remuneration is 0%;
B. In the case of a total return of 12% to 15% the performance-related remuneration is 20% of the total return less 12%;
C. In the case of a total return of more than 15% the performance-related remuneration is 30% of the total return less 15%. In addition, the remuneration indicated under B above will be awarded.

The performance-related remuneration will be charged annually in arrears. This performance-related remuneration is budgeted and put aside on a three-monthly basis. This performance-related remuneration will not be due if the stock exchange price of the share plus the dividends distributed in the relevant financial period is lower than that of a preceding period for which the remuneration was deducted.

For the financial period 2016 the Managing Board received no performance-related remuneration (2015: nil).

[15] See also section 12.49.2 "Analysis of property operating expenses".

12.57 OTHER OPERATING EXPENSES

12.57.1 Specification of other operating expenses

	2016 In € 1,000	2015 In € 1,000
Costs of service providers	584	571
Other operating expenses	183	169
	767	740
Costs of funding and acquisition	1,073	258
Adjustment non-refundable Value Added Tax prior years	-	-/- 58
	1,840	**940**

12.57.2 Analysis of costs of service providers

	2016 In € 1,000	2015 In € 1,000
Consultancy fees	131	83
Accounting expenses	165	155
Audit fees	87	102
Supervisory Board fees	28	28
Marketing expenses	20	57
Custody fees	39	38
Listing, Paying and Fund Agent fees	23	23
Appraisal expenses	18	14
Supervisors' expenses	24	20
Insurance AIFMD	24	30
Other costs of service providers	25	21
	584	**571**

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

- The "Consultancy fees", including legal fees, relates mainly to consultancy fees with regard to the tax structuring of the planned acquisition of the Polish investment portfolio;
- The "Accounting expenses" include the expenses related to bookkeeping, determination of monthly Net Asset Value (NAV), preparation of (semi)-annual report and other activities on account of administrative requirements for the Fund and its subsidiaries;
- The "Audit fees" for the annual report 2016 of the Fund are estimated at € 55,000 (2015: € 38,000). In 2016 audit fees related to prior years are booked to an amount of € nil (2015: € nil). Besides auditing the annual report 2016, KPMG provided audit related services with regard to the "capital raise" and review of the "Registration Document";
- The "Custody fees" relates to the operational activities with regard to AIFMD Depositary;
- The "Supervisors' expenses" include costs related to the supervision of the Dutch Authority for the Financial Markets, (Autoriteit Financiële Markten, the "AFM") and "De Nederlandsche Bank" ("DNB");
- The "Other costs of service providers" include, among others, costs of press releases, Euronext Fund Services ("EFS") and bank costs.

12.57.3 Analysis of Supervisory Board fees

	2016 In € 1,000	2015 In € 1,000
H.H. Kloos RBA	14	14
B. Vos M.Sc.	14	14
	28	**28**

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

12.57.4 Analysis of other operating expenses

	2016 In € 1,000	2015 In € 1,000
Non-refundable Value Added Tax	84	136
Change in provision for doubtful receivables	25	27
Irrecoverable trade receivables	68	-
Wages and salaries statutory directors	6	6
	183	**169**

12.57.5 Analysis of costs of funding and acquisition

	2016 In € 1,000	2015 In € 1,000
Capital raise	1,033	141[16]
Due Diligence	40	117
	1,073	**258**

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

- The costs of "Capital raise" concerns consultancy fees and audit fees with regard to the "Registration Document" and "Securities Note", as well a success fee for the Listing and Paying Agent with regard to the "capital raise" and acquisition of the Polish investment portfolio;
- The "Due diligence" relates to technical and legal due diligence with regard to the planned acquisition of the Polish investment portfolio.

12.57.6 Transaction costs

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

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

	2016 In € 1,000	2015 In € 1,000
Transaction costs on purchase of investments	-	-
Transaction costs on sale of investments	-	85
	-	**85**

[16] € 141,000 reclassified from "Consultancy fees".

12.57.7 Costs of lending financial instruments

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

12.57.8 Remuneration for orders on behalf of the Fund

The Managing Board, the Directors of the Managing Board, the Fund or the depositary of the Fund, parties affiliated with these parties, or third parties did not receive any remuneration, in any way, received nor promised for performing assignments for the Fund, except Management fee as described in section 12.56.

12.57.9 Outsourcing expenses

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

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

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

  The related expenses are included in the section “Accounting expenses”, as indicated in section 12.57.2 “Analysis of costs of service providers”.

12.57.10 Comparison of actual costs with prospectus

	2016	2016	2015	2015
	Actual	Prospectus	Actual	Prospectus[17]
	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Costs of service providers	584,000	900,000	571,000	900,000

For comparison of actual costs of service providers with budgeted costs of service providers as per the Fund’s prospectus, the Registration Document dated 19 October 2016 in combination with the Security Note dated 28 October 2016.

For the analysis of costs of service providers see section 12.57.2 “Analysis of costs of service providers”.

[17] For comparison purposes the figures 2015 have been restated.

12.58 PERSONNEL COSTS

The Fund does not employ any personnel, with the exception of statutory Directors of the Fund's subsidiaries. The statutory Directors receive a wage, which specified in the "Other operating expenses" (see section 12.57.4 "Analysis of other operating expenses").

12.59 FINANCIAL EXPENSES

	2016 In € 1,000	2015 In € 1,000
Interest expense on loans taken up	749	791
Interest expense on convertible bonds	232	164
Underwriting fee / commitment fee	152	-
Change in fair value of derivatives	132	-
Fine interest / liquidity costs on loans taken up	45	9
Other exchange and currency translation results	35	-
Valuation losses on "Other investments"	21[18]	15
	1,366	**979**

12.60 ONGOING CHARGES FIGURE

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

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

	2016 In %	2015 In %	2014 In %	2013 In %	2012 In %
Ongoing Charges Figure	12.82	9.91	10.65	10.24	13.23

In 2016 the Ongoing Charges Figure increased as a result of an increase of the total expenses (including "Other operating expenses") by about 35%, as well as a result of an increase of the average shareholders' equity by about 5%.

The total expenses also include costs of funding and acquisition (see section 12.57.5). Without these costs the OCF would be 9.32% (31 December 2015: 8.84%).

[18] Concerns Yellow Properties, s.r.o. (see also section 12.25.3 "Statement of changes in other investments").

12.61 INCOME TAX EXPENSE

12.61.1 Tax position

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

12.61.2 Income tax expense recognised in the income statement

	2016	2015
Current tax expense	In € 1,000	In € 1,000
Current year	-/- 6	-/- 7
Adjustments related to prior years	1	-
	-/- 5	-/- 7
Deferred tax expense		
Origination and reversal of temporary differences	-/- 161	-/- 275
Recognition of previously unrecognised tax losses	288	-
Change in tax rate	151	-
Adjustments related to prior years	-/- 32	19
	246	-/- 256
	241	**-/- 263**

12.61.3 Reconciliation of effective tax rate

	2016	2016	2015	2015
	In %	In € 1,000	In %	In € 1,000
Profit before income tax		**-/- 533**		**701**
Tax using the company's domestic tax rate	-/- 25.0	133	22.3	-/- 156
Effect of tax rates in foreign jurisdictions	-/- 5.8	31	-/- 1.0	7
Change in tax rate	-/- 28.3	151	0.0	-
Tax effect of:				
Non-deductible expenses	8.8	-/- 47	10.4	-/- 73
Tax exempt revenues	-/- 14.8	79	-/- 3.7	26
Current year losses for which no deferred tax asset is recognised	68.1	-/- 363	66.9	-/- 469
Recognition of previously unrecognised deferred tax losses	-/- 54.0	288	-/- 54.6	383
Adjustments related to prior years	5.8	-/- 31	-/- 2.7	19
	-/- 45.2	**241**	**37.6**	**-/- 263**

12.61.4 Deferred tax recognised directly in shareholders' equity

	2016	2015
	In € 1,000	In € 1,000
Related to foreign currency translation differences	-	-/- 25
Related to equity component convertible bonds	31	-/- 14
	31	**-/- 39**

12.61.5 Applicable local tax rates

	2017 In %	2016 In %	2015 In %	2014 In %	2013 In %
The Netherlands:					
Up to € 200,000	20.0	20.0	20.0	20.0	20.0
As of € 200,000	25.0	25.0	25.0	25.0	25.0
Czech Republic	19.0	19.0	19.0	19.0	19.0
Slovakia	21.0	22.0	22.0	22.0	23.0
Poland	19.0	19.0	19.0	19.0	19.0

12.62 EARNINGS PER (ORDINARY AND REGISTERED) SHARE

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

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

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

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

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

	2016 In € 1,000	2015 In € 1,000
Profit for the financial period	-/- 292	438

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

	2016 In pieces	2015 In pieces
Issued shares as at 1 January	1,438,704	1,438,704
Bonus element rights issue	308,156	308,156
Effect on issued shares during the financial period	287,740	-
	2,034,600	**1,746,860**

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

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

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

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

	2016	**2015**
	In € 1,000	In € 1,000
Profit for the financial period	-/- 292	438
Interest expense on convertible bonds (net of tax)	232	164
Deferred taxes convertible bonds	6	-/- 6
	-/- 54	**596**

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

	2016	**2015**
	In pieces	In pieces
Weighted average number of (ordinary and registered) shares outstanding during the period (basic)	2,034,600	1,746,860
Effect on conversion of convertible bonds	379,180	225,601
	2,413,780	**1,972,461**

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

12.63 RISK MANAGEMENT

12.63.1 General

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

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

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

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

12.63.2 Market risk

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

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

Control of the market risk is determined largely by the Management's investment policy, which is aimed at achieving investment results by purchasing investments that are assumed to have been undervalued and are expected to benefit from the further development of the Czech, Slovak and Polish economy. The market risk is managed on a day-to-day basis. See also the "Sensitivity analysis" of the investment properties (section 12.24.5).

12.63.3 Currency risk

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

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

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

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

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

	31-12-2016	31-12-2015
	In %	In %
Czech Koruna (CZK)	11.9	41.7
Euro (EUR)	23.1	55.6
Polish Zloty (PLN)	65.0	2.7
	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	Monetary liabilities	Net exposure
	31-12-2016	31-12-2016	31-12-2016
	In € 1,000	In € 1,000	In € 1,000
Czech Koruna (CZK)	888	8,339	-/- 7,451
Euro (EUR)	1,760	29,665	-/- 27,905
Polish Zloty (PLN)	5,227	4,975	252
	7,875	**42,979**	**35,104**

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

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

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Czech Koruna (CZK)	373	398
Polish Zloty (PLN)	-/- 12	6

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

12.63.4 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 is entered into the following derivatives:

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

Exposure to interest rate risk

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

	Per 31-12-2016						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	-	-	70	-	-	20	90
Trade and other receivables	-	-	-	-	-	5,557	5,557
Cash and cash equivalents	2,400	-	-	-	-	3	2,403
Financial assets	**2,400**	**-**	**70**	**-**	**-**	**5,580**	**8,050**
Interest-bearing loans and borrowings	15,403	12,497	8,070	5,786	-	67	41,823
Effect of interest rate swaps	-/- 7,350	-	-	-	-	-	-/- 7,350
Trade and other payables	-	-	-	-	-	1,500	1,500
Financial liabilities	**8,053**	**12,497**	**8,070**	**5,786**	**-**	**1,567**	**35,973**
Total interest sensitivity gap	**-/- 5,653**	**-/- 12,497**	**-/- 8,000**	**-/- 5,786**	**-**		**-/- 31,936**

	Per 31-12-2015						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Other investments	-	-	-	-	-	76	76
Trade and other receivables	-	-	-	-	-	485	485
Cash and cash equivalents	1,657	-	-	-	-	3	1,660
Financial assets	**1,657**	**-**	**-**	**-**	**-**	**564**	**2,221**
Interest-bearing loans and borrowings	-	288	11,268	10,549	-	59	22,164
Trade and other payables	-	-	-	-	-	1,195	1,195
Financial liabilities	**-**	**288**	**11,268**	**10,549**	**-**	**1,254**	**23,359**
Total interest sensitivity gap	**1,657**	**-/- 288**	**-/- 11,268**	**-/- 10,549**	**-**		**-/- 20,448**

Fair value sensitivity analysis for fixed-rate instruments
An increase of 100 basis points in interest rates as at the reporting date would have increased shareholders' equity and profit for the period by € 317,000 (2015: € nil). A decrease of 100 basis points in interest rates as at the reporting date would have increased shareholders' equity and profit for the period" by € 317,000 (2015: € nil).

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

Cash flow value sensitivity analysis for variable-rate instruments
A reasonably possible change of 100 basis points (bp) in interest rates as at the reporting date would have increased and / or decreased "Profit for the period" by the amounts shown below.

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

	31-12-2016	**31-12-2016**	**31-12-2015**	**31-12-2015**
	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	-/- 209	85	-/- 204	204
Interest rate swaps	59	-/- 59	-	-
Cash flow sensitivity (net)	**-/- 150**	**26**	**-/- 204**	**204**

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

	31-12-2016	**31-12-2015**
	In %	In %
Weighted average interest rate of interest-bearing loans and borrowings	3.58	3.64

12.63.5 Price risk

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

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

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

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

For the sensitivity analysis of the investment property, see section 12.24.5 "Sensitivity analysis".

12.63.6 Concentration risk

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

12.63.7 Risk associated with investing with borrowed money

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

12.63.8 Economic risk

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

12.63.9 Counterpart risk (credit risk)

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

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

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

	31-12-2016	31-12-2016	31-12-2015	31-12-2015
	In € 1,000	In %	In € 1,000	In %
Other investments	70	0.2	-	0.0
Trade and other receivables	5,402	14.8	247	0.9
Cash and cash equivalents	2,403	6.6	1,660	5.8
	7,875	**21.6**	**1,907**	**6.7**

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

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

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

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

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

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

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

12.63.10 Rent risk

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

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

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

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

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

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

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

	Per 31-12-2016						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Non-derivative liabilities							
Interest-bearing loans & borrowings	10,610	506	6,636	27,414	-	-	45,166
Trade and other payables	1,007	31	53	-	-	-	1,091
	11,617	537	6,689	27,414	-	-	46,257
Derivative liabilities							
Interest rate swaps	-	3	42	87	-	-	132
Monetary liabilities	**11,617**	**540**	**6,731**	**27,501**	**-**	**-**	**46,389**

	Per 31-12-2015						
	Less than 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**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							
Interest-bearing loans & borrowings	68	423	1,458	22,545	-	-	24,494
Trade and other payables	907	107	5	-	-	-	1,019
Monetary liabilities	**975**	**530**	**1,463**	**22,545**	**-**	**-**	**25,513**

The main components of the financial liabilities are the interest-bearing loans and borrowings. As at statement of financial position's date the weighted remaining maturity of the interest-bearing loans and borrowings was 3.51 years (31 December 2015: 3.54 years).

As at statement of financial position's date the Fund has additional credit facilities amounting to € 900,000 (31 December 2015: no).

12.63.15 Operational risk

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

12.63.16 Tax risk

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

12.63.17 Outsourcing risk

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

12.63.18 Legal risk

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

12.63.19 Integrity risk

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

12.63.20 Offsetting financial assets and financial liabilities

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

12.64 RELATED PARTIES

12.64.1 Identity of related parties

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

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

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

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

A. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Czech Republic, s.r.o. for the amount of € 469,000;
B. Mr. B. Vos, member of the Supervisory Board, exercised all rights granted to him by the Fund in respect of his holding of ordinary shares. Therefore mr. B. Vos bought 2,400 ordinary shares in private possession and 2,488 ordinary shares in possession through Bas Vos B.V for the total amount of € 24,440.

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

Personal interests of members of the Managing and Supervisory Board are defined in section 16.4 “Personal interests”.

The remuneration for the Managing Board is described in section 12.56 “Administrative expenses”.

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 12.57.3 “Analysis of Supervisory Board fees” and 12.57.4 “Analysis of other operating expenses”.

12.64.3 Specification major investors[19]

	Type of share	Directly real voting rights In %	Indirectly real voting rights In %	Directly potential voting rights In %	Total In %
H.M. van Heijst	Ordinary shares	4.70	17.24[20]	n.a.	21.94
	Convertible bond	n.a.	n.a.	16.34	16.34
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

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

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

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

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

A. H.M. van Heijst bought 81,061 ordinary shares in private possession as a result of the rights issue for the total amount of € 405,305;

B. H.M. van Heijst has registered on a privately issued convertible bond for the total amount of € 2,000,000. The total outstanding amount issued to H.M. van Heijst (face value) as at statement of financial position's date amounts to € 4,420,000 (31 December 2015: € 2,420,000);

C. H.M. van Heijst was entitled to interest with regard to the convertible bonds for an amount of € 172,000. The total outstanding amount of the payable interest towards H.M. van Heijst as at statement of financial position's date amounts to € 63,000 (31 December 2015: € 36,000);

D. H.M. van Heijst received an amount of € 8,106 with regard to commitment fee.

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

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

A. Arcona Capital RE Bohemia s.r.o. paid Asset Management fees to Arcona Capital Czech Republic, s.r.o. in the amount of € 99,000 (2015: € 84,000). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own Management fee by the same amount;

B. Arcona Capital RE Slovakia s.r.o. paid Asset Management fees to Arcona Capital Czech Republic s.r.o. in the amount of € 370,000 (2014: € 370,000). The Managing Board of Arcona Capital Fund Management B.V. has decided to reduce its own management fee by the same amount;

C. Arcona Capital RE Bohemia s.r.o. paid fees for advisory services to Arcona Capital Czech Republic s.r.o. for the amount of € 2,000 (2015: € 24,000);

D. Arcona Capital RE Slovakia s.r.o. paid fees for advisory services to Arcona Capital Czech Republic s.r.o. for the amount of € 3,000 (2015: € 3,000);

E. Arcona Capital related parties rented office space in the Fund owned properties for the amount of € 43,000 268 m^2 (2015: € 43,000 (268 m^2));

F. Arcona Capital RE Bohemia s.r.o. and Arcona Capital RE Slovakia s.r.o. paid short term wages and salaries for its statutory Directors in the amount of € 6,000 (2015: € 6,000);

G. Arcona Property Fund N.V. received an unsecured loan from Yellow Properties, s.r.o. for the principal amount of € 47,000. For this loan no interest was due till 1 October 2016. As of 1 October 2016 for this loan an annual average interest rate of 6.0% was due. Before 1 October 2016 the loan was fully paid back.

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

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

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

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

Yellow Properties, s.r.o. is a Czech limited company which undertook a property development. As at statement of financial position's date all properties are sold (31 December 2015: all properties are sold).

12.64.7 Agreements with related parties

The Fund has not entered into any agreements with parties affiliated with the Managing Board of the Fund, other than as described in section 12.56.4 "Agreement with Arcona Capital Fund Management B.V.".

12.65 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE

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

VAT return (20 February 2017)
The VAT related to the acquisition of the Polish shopping centers portfolio is recharged. The short-term VAT loan from Raiffeisen Polbank (for the amount of € 4,873,000) was fully installed on 22 February 2017. Polish tax authorities always have the right to challenge the VAT refund during a tax audit. In case the refund would be denied the cost of the non-deductible VAT incurred would be effectively borne by the Fund.

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

RECE Holding ApS installs € 70,000 loan to Arcona Property Fund N.V. (24 March 2017)
On 24 March 2017 the Fund received an amount of € 70,000 as full repayment of a loan to Real Estate Central Europe Holding ApS in connection with the Polish retail acquisition.

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

12.66 ESTIMATES AND FORMATION OF AN OPINION BY THE MANAGEMENT

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

12.66.1

The major sources of uncertainty in estimates are as follows:

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

In section 12.24.3 "Valuation of investment properties" the critical assessments by the Managing Board in applying the Fund's principles of the valuation of the investment properties are stated.

COMPANY FINANCIAL STATEMENTS 2016

13 COMPANY BALANCE SHEET

	Notes	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Investments			
Investments in group companies	*15.5*	16,940	13,043
Receivables from group companies	*15.6*	24,355	17,436
Other financial investments	*15.7*	70	-
Total investments		**41,365**	**30,479**
Receivables			
Other receivables	*15.8*	656	765
Deferred expenses	*15.9*	4	5
Total receivables		**660**	**770**
Other assets			
Deferred tax assets	*15.10*	-	24
Cash and cash equivalents	*15.11*	753	137
Total other assets		**753**	**161**
Total assets		**42,778**	**31,410**
Shareholders' equity	*12.32*		
Issued capital	*12.33*	15,826	7,194
Share premium	*12.34*	16,426	16,786
Revaluation reserve	*12.35*	4,524	4,157
Reserve for currency translation differences	*12.36*	1,973	2,245
Equity component convertible bonds	*12.37*	266	91
Retained earnings	*12.38*	-/- 2,563	-/- 1,904
Total shareholders' equity		**36,452**	**28,569**
Provisions			
Deferred tax liabilities	*15.16*	25	49
Other provisions		-	61
Total provisions		**25**	**110**
Long-term liabilities			
Convertible bonds	*12.40*	5,786	2,395
Current liabilities			
Other liabilities	*15.16*	241	116
Accruals	*15.17*	274	220
Total current liabilities		**515**	**336**
Total shareholders' equity and liabilities		**42,778**	**31,410**

14 COMPANY PROFIT AND LOSS ACCOUNT

	Notes	**2016** In € 1,000	**2015** In € 1,000
Income from investments			
Interest	*15.21*	705	795
Realised valuation results of investments			
Receivables from group companies	*15.22*	273	61
Unrealised valuation results of investments			
Investments in group companies	*15.23*	1,357	696
Receivables from group companies	*15.24*	-/- 407	-/- 36
		950	660
Other operating income	*15.25*	2	3
Total operating income		**1,930**	**1,519**
Administrative expenses	*15.26*	439	400
Other operating expenses	*15.27*	1,367	533
Interest expenses	*15.29*	385	178
Total expenses		**2,191**	**1,111**
Result before income tax		**-/- 261**	**408**
Income tax expense	*15.30*	-/- 31	30
Result after income tax		**-/- 292**	**438**

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS

15.1 COMPANY FINANCIAL STATEMENTS

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

15.2 CHANGE OF PRESENTATION OF THE COMPANY PROFIT AND LOSS ACCOUNT

As of the book year 2016 the exemption pursuant to Book 2, Title 9, article 402 of the Dutch Civil Code with regard to the Property Fund's company profit and loss account is no longer applicable for listed companies. Therefore, the company profit and loss account is no longer given in a compromised format. The comparative figures 2015 are presented in accordance with the new format.

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

15.3.1 General

For the purpose of determining the principles of valuation of assets and liabilities and the determination of results for its company financial statements, the Fund makes use of the option offered in Book 2, article 2:362 (8) of the Dutch Civil Code. This means that the principles of valuation of assets and liabilities and determination of results (hereinafter referred to as the "principles of valuation") of the Fund's company financial statements are identical to those that have been applied for the consolidated EU-IFRS financial statements. In this context equity participations, on which significant influence is exercised, are valued on the basis of the equity method. These consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board ("IASB") and accepted by the European Union (hereinafter referred to as "EU-IFRS"). Reference is made to sections 12.4 to 12.22 inclusive for a description of these principles.

15.3.2 Investments in group companies

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

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

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

15.3.3 Receivables from group companies

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

15.3.4 Result from investments in group companies

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

15.4 SIZE AND COMPOSITION OF THE CONSOLIDATED AND COMPANY EQUITY

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

15.5 RECONCILIATION CONSOLIDATED AND COMPANY RESULT

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

15.6 INVESTMENTS IN GROUP COMPANIES

15.6.1 Analysis of investments in group companies

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Arcona Capital RE Bohemia s.r.o.	1,584	693
Arcona Capital RE Slovakia s.r.o.	15,356	12,350
Arcona Capital Real Estate Poland Sp. z.o.o.	-	-
Total	**16,940**	**13,043**

The companies indicated above are included in the consolidated financial statements. For further analysis of the investments in group companies see section 12.5.2 “Consolidated subsidiaries”.

15.6.2 Statement of changes in investments in group companies

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	13,043	12,262
Acquisitions	2,600	1
Share in result of group companies	1,296	757
Exchange rate differences	1	23
Balance as at 31 December	**16,940**	**13,043**

The “Acquisitions” for the amount of € 2,600,000 relates to the increase of the “capital contribution” Arcona Capital RE Slovakia s.r.o. The payment of the “capital contribution” has been set-off against the receivable “Loan to Arcona Capital RE Slovakia s.r.o.” (see also section 15.7.2).

15.6.3 Security

The issued capital of Arcona Capital RE Bohemia s.r.o. is pledged to Sberbank and the issued capital of Arcona Capital Real Estate Poland Sp. z.o.o. is pledged to Raiffeisen Polbank.

15.7 RECEIVABLES FROM GROUP COMPANIES

15.7.1 Analysis of receivables from group companies

	2016 before provision In € 1,000	Provision In € 1,000	2016 after provision In € 1,000	2015 after provision In € 1,000
Loan to Arcona Capital RE Bohemia s.r.o.	6,768	-	6,768	6,489
Loan to Arcona Capital RE Slovakia s.r.o.	6,997	-	6,997	10,947
Loan to Arcona Capital Real Estate Poland Sp. zoo	11,033	-/- 443	10,590	-
Total	24,798	-/- 443	**24,355**	**17,436**

As at balance sheet date the weighted average interest rate on all receivables from group companies is 5.0% per annum (31 December 2015: 4.4% per annum).

15.7.2 Statement of changes in receivables from group companies

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	17,436	18,004
Loans advanced	11,763	779
Redemption on loans advanced	-/- 4,437	-/- 1,484
Fair value adjustments (provision)	-/- 407	-/- 36
Exchange rate differences	-	173
Balance as at 31 December	**24,355**	**17,436**

The “Redemptions on loans advanced” relates for an amount of € 2,600,000 to the increase of the “capital contribution” in Arcona Capital RE Slovakia s.r.o. (see also section 15.6.2).

15.8 OTHER FINANCIAL INVESTMENTS

15.8.1 Analysis of other financial investments

	Principal of investment		Interest
	In 1,000	In € 1,000	In %
Eastern European Property Fund Limited	GBP -	-	< 0.1
Loan Real Estate Central Europe Holding ApS	EUR 70	70	n.a.

15.8.2 Statement of changes in other financial investments

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	-	-
Purchases / Loans advanced	70	-
Exchange rate differences	-	-
Balance as at 31 December	**70**	**-**

15.9 OTHER RECEIVABLES

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

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Interest on receivables from group companies	654	765
Interest on bank accounts	2	-
	656	**765**

15.10 DEFERRED EXPENSES

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

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Short-term advance payments	4	5

15.11 DEFERRED TAX ASSETS

15.11.1 General

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

15.11.2 Analysis of recognised deferred tax assets

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Tax losses carried forward (will expire)	-	24

15.11.3 Statement of changes in recognised deferred tax assets

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	24	-
Adjustments related to prior years	-/- 24	16
Additions	-	8
Balance as at 31 December	**-**	**24**

15.11.4 Analysis of unrecognised deferred tax assets

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Tax losses carried forward (will expire)	630	243

15.11.5 Analysis of unrecognised tax losses carried forward

	2016 In € 1,000	2015 In € 1,000
Expires in 2020	77	53
Expires in 2022	94	94
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	363	-
Balance as at 31 December	**630**	**243**

15.11.6 Statement of changes in unrecognised deferred tax assets

	2016 In € 1,000	2015 In € 1,000
Balance as at 1 January	243	234
Adjustments related to prior years	24	-/- 21
Additions	363	38
Withdrawal	-	-/- 8
Balance as at 31 December	**630**	**243**

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

15.12 CASH AND CASH EQUIVALENTS

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

15.13 SHAREHOLDERS' EQUITY

15.13.1 Statement of changes in shareholders' equity

	Issued capital	Share premium	Revaluation reserve	Reserve for currency translation differences	Equity component convertible bonds	Retained earnings	Total Share-holders' equity
	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000	In € 1,000
Balance as at 1 January 2016	7,194	16,786	4,157	2,245	91	-/- 1,904	28,569
Result for the financial period	-	-	-	-	-	-/- 292	-/- 292
Change in revaluation reserve	-	-	367	-	-	-/- 367	-
Change in reserve for currency translation differences	-	-	-	-/- 272	-	-	-/- 272
Change in equity component convertible bonds	-	-	-	-	175	-	175
Own shares issued	8,632	-	-	-	-	-	8,632
Distributions to shareholders	-	-/- 360	-	-	-	-	-/- 360
Balance as at 31 December 2016	**15,826**	**16,426**	**4,524**	**1,973**	**266**	**-/- 2,563**	**36,452**
Balance as at 1 January 2015	7,194	17,361	4,004	2,135	49	-/- 2,189	28,554
Result for the financial period	-	-	-	-	-	438	438
Change in revaluation reserve	-	-	153	-	-	-/- 153	-
Change in reserve for currency translation differences	-	-	-	110	-	-	110
Change in equity component convertible bonds	-	-	-	-	42	-	42
Distributions to shareholders	-	-/- 575	-	-	-	-	-/- 575
Balance as at 31 December 2015	**7,194**	**16,786**	**4,157**	**2,245**	**91**	**-/- 1,904**	**28,569**

15.13.2 Equity components

For further analysis and statements of changes in the several equity components see the sections 12.32 to 12.38.

15.14 DEFERRED TAX LIABILITIES

15.14.1 General

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

15.14.2 Analysis of recognised deferred tax liabilities

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Foreign currency translation differences	25	25
Equity component convertible bonds	-	24
	25	**49**

15.14.3 Statement of changes in deferred tax liabilities

	2016	2015
	In € 1,000	In € 1,000
Balance as at 1 January	49	16
Adjustments related to prior years	-/- 24	25
Additions	-	14
Withdrawal	-	-/- 6
Balance as at 31 December	**25**	**49**

15.15 OTHER PROVISIONS

15.15.1 Analysis of other provisions

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Provision group companies	-	61

The provision to group companies concerns only Arcona Capital Real Estate Poland Sp. z.o.o.

15.15.2 Statement of changes in other provisions

	2016	2015
	In € 1,000	In € 1,000
Balance as at 1 January	61	-
Additions	-	61
Withdrawals	-/- 61	-
Balance as at 31 December	**-**	**61**

15.16 CONVERTIBLE BONDS

For the analysis, statement of changes and valuation of the convertible bonds see section 12.40.4 to 12.40.6.

15.17 OTHER LIABILITIES

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

	31-12-2016	31-12-2015
	In € 1,000	In € 1,000
Trade payables	241	116

15.18 ACCRUALS

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

	31-12-2016 In € 1,000	31-12-2015 In € 1,000
Administrative expenses	125	176
Interest payables	84	36
Investment management fees	65	8
	274	**220**

15.19 NON-CONTINGENT LIABILITIES

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

15.20 CONTINGENT LIABILITIES

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

- •The Fund has a contingent liability (subject to a corporate reorganization being completed by RECE Poland Sp. z.o.o.) with regard to the purchase of 100% of the shares of RECE Progress Sp. z.o.o., which is owner of 3 leasehold retail properties located in Poland, for an amount of € 4,718,000.

As at balance sheet 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.

15.21 INTEREST INCOME FROM INVESTMENTS

	2016 In € 1,000	2015 In € 1,000
Receivable from Arcona Capital RE Bohemia s.r.o.	301	308
Receivable from Arcona Capital RE Slovakia s.r.o.	346	487
Receivable from Arcona Capital Real Estate Poland Sp. z.o.o.	58	-
	705	**795**

15.22 REALISED VALUATION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2016 In € 1,000	2015 In € 1,000
Realised currency results Arcona Capital RE Bohemia s.r.o.	-	9
Realised currency results Arcona Capital RE Slovakia s.r.o.	273	52
	273	**61**

15.23 UNREALISED VALUTATION RESULTS INVESTMENTS IN GROUP COMPANIES

	2016 In € 1,000	2015 In € 1,000
Arcona Capital RE Bohemia s.r.o.	889	-/- 294
Arcona Capital RE Slovakia s.r.o.	407	1,052
Arcona Capital Real Estate Poland Sp. z.o.o	61[21]	-/- 62
	1,357	**696**

15.24 UNREALISED VALUTION RESULTS RECEIVABLES FROM GROUP COMPANIES

	2016 In € 1,000	2015 In € 1,000
Arcona Capital Real Estate Poland Sp. z.o.o.	-/- 407	-/- 36

15.25 OTHER OPERATING INCOME

	2016 In € 1,000	2015 In € 1,000
Other exchange and currency translation results	-	2
Interest income current account banks	2	1
	2	**3**

15.26 ADMINISTRATIVE EXPENSES

For the remuneration of the Managing Board see section 12.56 “Administrative expenses”.

15.27 OTHER OPERATING EXPENSES

15.27.1 Specification of other operating expenses

	2016 In € 1,000	2015 In € 1,000
Costs of service providers	344	392
Costs of funding and acquisition	1,023	141
	1,367	**533**

[21] Including change in provision group companies.

15.27.2 Analysis of costs of service providers

	2016 In € 1,000	2015 In € 1,000
Consultancy fees	42	68
Accounting expenses	79	78
Audit fees	55	38
Supervisory Board fees	28	28
Marketing expenses	20	57
Custody fees	39	38
Listing, Paying and Fund Agent fees	23	23
Supervisors' expenses	24	20
Insurance AIFMD	24	30
Other costs of service providers	10	12
	344	**392**

15.27.3 Analysis of Supervisory Board fees

For the analysis of the Supervisory Board fees see section 12.57.3 “Analysis of Supervisory Board fees”.

15.27.4 Analysis of costs of funding and acquisition

	2016 In € 1,000	2015 In € 1,000
Capital raise	1,023	141

15.28 PERSONNEL COSTS

The Fund does not employ any personnel (2015: nil).

15.29 INTEREST EXPENSES

	2016 In € 1,000	2015 In € 1,000
Interest expenses on loans taken up	-	14
Interest expenses on convertible bonds	232	164
Underwriting fee / commitment fee	152	-
Other exchange and currency translation results	1	-
	385	**178**

15.30 INCOME TAX EXPENSE

	2016 In € 1,000	2015 In € 1,000
Deferred tax on profits		
Origination and reversal of temporary differences	-	14
Adjustment in respect of previous years	-/- 31	16
	-/- 31	**30**

15.31 RELATED PARTIES

15.31.1 Identity of related parties

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

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

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

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

A. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Czech Republic s.r.o. for the amount of € 469,000.

B. Mr. B. Vos, member of the Supervisory Board, exercised all rights granted to him by the Fund in respect of his holding of ordinary shares. Therefore mr. B. Vos bought 2,400 ordinary shares in private possession and 2,488 ordinary shares in possession through Bas Vos B.V for the total amount of € 24,440.

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

The remuneration for the Managing Board is described in section 12.56 “Administrative expenses”.

The remuneration for the Supervisory Board is described in section 12.57.3 “Analysis of Supervisory Board fees”.

15.31.3 Specification major investors

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

** Through Stichting Value Partners*

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

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

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

A. H.M. van Heijst bought 81,061 ordinary shares in private possession as a result of the rights issue for the total amount of € 405,305;

B. H.M. van Heijst has registered on a privately issued convertible bond for the total amount of € 2,000,000. The total outstanding amount issued to H.M. van Heijst (face value) as at statement of financial position's date amounts to € 4,420,000 (31 December 2015: € 2,420,000);

C. H.M. van Heijst was entitled to interest with regard to the convertible bonds for an amount of € 172,000. The total outstanding amount of the payable interest towards H.M. van Heijst as at statement of financial position's date amounts to € 63,000 (31 December 2015: € 36,000);

D. H.M. van Heijst received an amount of € 8,106 with regard to commitment fee.

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

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

A. Providing loans to group companies, as described in section 15.7 "Receivables from group companies".

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

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

15.32 TAXES

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

15.33 PROPOSAL FOR THE COMPANY RESULT APPROPRIATION

The company profits for the financial period amounts to € 292,000 negative. Recognising the mandatory net addition of € 367,000 to the "Revaluation reserve" the remaining profit for the financial period was € 659,000 negative. In accordance with the Articles of Association dated 21 September 2016, the Managing Board will deduct the net result for the financial period from the "Retained earnings".

This deduction has already been recognised in the company balance sheet.

15.34 EVENTS AFTER BALANCE SHEET DATE

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

RECE Holding ApS installs € 70,000 loan to Arcona Property Fund N.V. (24 March 2017)
On 24 March 2017 the Fund received an amount of € 70,000 as full repayment of a loan to Real Estate Central Europe Holding ApS in connection with the Polish retail acquisition.

No further material events have occurred after balance sheet date.

Amsterdam, 6 April 2017

The Managing Board:

Arcona Capital Fund Management B.V.
On behalf of,

G.St.J. Barker LLB FRICS	*P.H.J. Mars M.Sc.*	*H.H. Visscher*
Managing Director	*Managing Director*	*Managing Director*

The Supervisory Board:

H.H. Kloos RBA	*B. Vos M.Sc.*
Chairman	

16 OTHER INFORMATION

16.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION

In accordance with Article 28 of the Articles of Association dated 21 September 2016, profits are determined and distributed as follows:

28.1 From the profit earned in a financial period in so far as possible a dividend is first distributed on the priority share, the amount of which dividend is equal to seven per cent (7%) on an annual basis, calculated on the nominal value of the priority share. No further distributions are made on the priority share.

28.2 The priority shareholder determines annually what part of the profit remaining after application of article 28.1 above is added to the reserves.

28.3 It is the prerogative of the general meeting of shareholders to appropriate the profit remaining after application of articles 28.1 and 28.2 above.

28.4 Distribution of profit occurs after adoption of the financial statements evidencing that this is permitted.

28.5 The priority shareholder may resolve to make interim distributions on ordinary shares and / or distributions on ordinary shares charged to a company reserve.

28.6 Distributions on shares may only take place up to a maximum of the amount of the distributable shareholders' equity.

28.7 Unless the body that decides on distribution determines another time, distributions on shares are payable immediately after declaration.

28.8 In calculating the amount of any distribution on shares the shares held by the company in its own capital are not included.

16.2 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION

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

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

16.3 PERSONAL INTERESTS

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Fund, except for B. Vos M.Sc. who had 4,400 ordinary shares (31 December 2015: 2,000) in private possession and 4,562 ordinary shares (31 December 2015: 2,074) in possession through Bas Vos B.V.

As at balance sheet date Arcona Capital GmbH held 26,991 registered shares (31 December 2015: 26,991) in the Fund. During January 2016 G.St.J. Barker LLB FRICS became ultimate beneficial owner (UBO) of Arcona Capital GmbH.

16.4 SPECIAL CONTROLLING RIGHTS

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

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

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

- Reduction of the issued share capital.

16.5 INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders and the Supervisory Board of Arcona Property Fund N.V.

Report on the accompanying financial statements 2016

Our opinion

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 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), with Part 9 of Book 2 of the Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Wet op het financieel toezicht (Wft, Act on Financial Supervision).
- 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 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Arcona Property Fund N.V. (the company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2016;
2 the following consolidated statements for 2016: the income statement, the statements of other comprehensive income, changes in equity and cash flows; and
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 2016;
2 the company profit and loss account for 2016; and
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

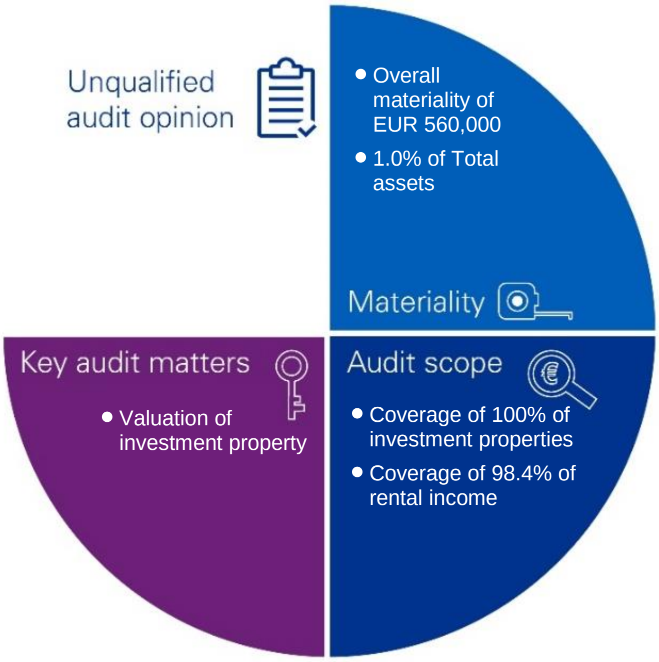
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Arcona Property Fund N.V. in accordance with the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary



Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 560,000 (2015: EUR 550,000). The materiality is determined with reference to total assets (1.0%). We consider total assets as the most appropriate benchmark as it best fits the nature of the Arcona Property Fund N.V.'s operations and is deemed most relevant for the users of the financial statements.

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

We agreed with the Managing Board and the Supervisory Board that misstatements in excess of EUR 28,000 (5.0% of materiality), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.
Our audits of the subsidiaries were performed at lower materiality levels that we, based on our judgement, deemed appropriate for the circumstances, having regard to the materiality for the financial statements for the Group as a whole and the reporting structure within the group.

Scope of the group audit

Arcona Property Fund N.V. is 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.

The group manages its investment property portfolio through its subsidiaries in the Czech Republic, Slovakia and Poland. Each of these subsidiaries is individually significant in the context of the group's financial statements and therefore we have instructed local KPMG audit teams to perform an audit of the financial information of the subsidiaries in the Czech Republic and Slovakia. We as group auditor have performed audit procedures over specific accounts balances of the subsidiary in Poland.

The audits performed in these countries covered the entire investment property portfolio. Given our responsibility for the overall audit opinion, we are 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 subsidiaries to be able to conclude on whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

Our involvement included the following:

- Issuing detailed audit instructions to subsidiary auditors describing the scope of audit procedure to be performed, our risk assessment, materiality to be applied and reporting requirements.
- Participation in planning discussions with component auditors.
- Attending conference calls during the audit with respect to relevant audit matters.
- Follow up on reported audit findings.
- Reviewed the audit files of the component auditors of Czech Republic and Slovakia and verified that the audit work has been carried out in accordance with our instructions.

The consolidation of the group, the disclosures in the financial statements, the fair value of investment property and certain accounting topics that are performed at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, assessment of the use of the going concern assumption, equity, group financing and claims and litigations.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Managing Board and the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment property
Description The valuation of investment property is complex and requires significant judgements, both from management and the external appraisal firms hired by management. The valuation is dependent on valuation techniques using a number of assumptions to determine expected future cash flows and risks. Assumptions include for example developments of market rent levels, vacancy rates, interest rates and maintenance expenses. Due to the significance of investment property (representing 89.1% of total assets) and the estimation uncertainties, we consider this a key audit matter. Refer for the accounting policies to note 12.24 on the financial statements and the disclosures about the valuation and valuation parameters of investment property in note 12.24.
Our response Our audit included a comprehensive assessment of the valuation process with respect to the investment property as at year-end 2016, including testing related internal controls and tests of details at each subsidiary. We have tested the accuracy and completeness of the rent roll data and other property related data used as input for the valuations performed by the external appraisal firm. We have assessed the objectivity, independence and expertise of the external appraisal firms. We tested the valuation techniques applied and challenged the appropriateness of key assumptions in the valuation process such as market rent levels, vacancy rates, interest rates, maintenance expenses and transfer tax. Our challenge was based on our assessment of the control environment, our understanding of the market developments and a comparison of assumptions and movements therein with publicly available data. We analysed the results of the valuation process and discussed our findings and observations with management and with the appraisal firms. KPMG property valuation specialists formed an integral part of our team supporting us with our audit procedures.

Valuation of investment property

We have assessed whether the disclosures relating to investment properties appropriately reflect the exposure to valuation risk, including the valuation methodologies applied and the key assumptions used.

Our observation

Overall we assess that the assumption and related estimates resulted in a balanced valuation of the investment property and we determined that the related disclosures are in accordance with the applicable financial reporting standards.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Managing Board's report which includes message from the Managing Board (page 8 and page 15 to 26),
- results and key figures (page 9 to 12),
- pre-advice of the Supervisory Board (page 14);
- the real estate portfolio (page 27 to 37); and
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below 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 Netherlands 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 Netherlands 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 Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of Arcona Property Fund N.V. as of the audit for year 2003 and have operated as statutory auditor since then. On 4 November 2016 we have been reappointed by the Managing Board to audit the 2016 financial statements.

Description of the responsibilities for the financial statements

Responsibilities of Managing Board and Supervisory Board for the financial statements

Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS, with Part 9 of Book 2 of the Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Wft. Furthermore, Managing Board is responsible for such internal control as Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism 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 errors or fraud, 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 errors, 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 the Managing Board;
- 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 ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent[s] 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 identify during our audit.

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 safegards.

From the matters communicated with the Supervisory Board, we determine 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.

Utrecht, 6 April 2017

KPMG Accountants N.V.

G.J. Hoeve RA