



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



**SEMI ANNUAL REPORT 2014**



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

### Incorporation

Palmer Capital Emerging Europe Property Fund N.V. (PCEEPF) 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

Palmer Capital Emerging Europe Property Fund N.V. is registered in Amsterdam and is entered in the Trade Register of the Chamber of Commerce 'Oost Nederland' under number 08110094.

### Office Address

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Website: [www.palmercapital.nl](http://www.palmercapital.nl)

### Correspondence Address

P.O. Box 211  
7400 AE Deventer  
The Netherlands

### Supervisory Board

The Supervisory Board of The Fund consists of:

Prof. Dr. J.L. Bouma (chairman) till 19 June 2014

Mr H.H. Kloos RBA (chairman) since 19 June 2014 *subject to approval of Financial Markets Authorities.*

B. Vos M.Sc.

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

H.H. Kloos, RBA, resident in Maartensdijk, 20 Prinsenlaan, 3738 VE, the Netherlands, 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 has in the past been 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], consultant of DNB and member of supervisory Boards of DSI and De' Medici Vermogensbeheer.

B. Vos is currently also Chairman of the Supervisory Board of Palmer Capital Fondsenbeheer B.V., MEI-Tsjechië en Slowakije Fonds N.V., Palmer Capital Emerging Europe Equity Fund N.V., Palmer Capital Russian Midcap Fund N.V., Chairman of the Advisory Board of Kempen Capital Management and Vice Chairman of the Supervisory Board of Reesink.

### **Managing Board**

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

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

Palmer Capital Fondsenbeheer B.V. currently has the following directors:

G.St.J. Barker LLB FRICS

P.H.J. Mars M.Sc.

Drs. P.H. van Kleef RC MRE

The Managing Board has chosen domicile at the office of PCEEPF. More information can be found on the website: [www.palmercapital.nl](http://www.palmercapital.nl).

### **Stichting Prioriteit**

Stichting Prioriteit (the "Foundation") of the Palmer Capital Emerging Europe Property 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.

Laan van Langerhuize 1

1186 DS Amstelveen

the Netherlands

### **Legal Advisor**

Loyens & Loeff N.V.

Blaak 31

3011 GA Rotterdam

the Netherlands

### **Listing and Paying Agent**

SNS Securities N.V.

Nieuwezijds Voorburgwal 162

1012 SJ Amsterdam

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### **Administrator**

KroeseWevers Accountants B.V.

Pantheon 2, 2<sup>nd</sup> floor

7500 AC Enschede

the Netherlands

### **Depositary**

Infintax Fund Services B.V.

Gustav Mahlerplein 60p

ITO Tower, 7th Floor

1082 MA Amsterdam

The Netherlands

**Identification codes**

The ISIN code is NL0006311706

The REUTERS code is MERE.AE

The BLOOMBERG code is MERENVFNA

The Management of Palmer Capital Emerging Europe Property Fund N.V.(Palmer Capital Fondsenbeheer B.V.) holds a licence from the AFM under the Act on the Supervision of Investment Institutions (Wet toezicht beleggingsinstellingen), which has since been absorbed into the 'Wet Financieel Toezicht'. This investment involves risks. The price of shares may go down as well as up. Past performance is not a guarantee for future performance. Consult your broker or financial advisor prior to making any investment decisions.

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## 2 FOREWORD

For the Palmer Capital Emerging Europe Property Fund, the key event in the first half of 2014 has been the replacement of the senior loan from Raiffeisen Bank on the Czech portfolio by a new loan from Sberbank on more flexible terms. In addition, the new property managers in Slovakia (Zbereko) have taken up their responsibilities and preparations have been finalised for the last stage of the financial restructuring, i.e. the refinancing of the Slovak portfolio and the repayment of the SNS loan.

Against this background, and having concluded the refinancing with Sberbank in the Czech Republic, the fund management also expects to complete a successful refinancing of the Slovak portfolio and repayment of the SNS loan in the second part of 2014. Based on an agreement now reached in principle with Tatra Banka, the expectation is that this debt restructuring process will require additional funding of up to EUR 4.3mln. by the end of 2014, a significantly lower sum than originally anticipated.

The semi-annual operational costs have shown further reductions, to EUR 0.63mln., a reduction of more than 17.9% against H1 2013, which directly benefit the operational result.

Vacancy rates have increased over the reporting period from 26.3% to 28.8%. Particularly in the Prague office market a short-term increase in supply of speculative Class A office space is increasing competition for tenants and putting downward pressure on rents, which requires, on the part of the Fund, additional investment in the buildings to retain existing tenants and to attract new ones.

Nevertheless, asset management initiatives are now having a positive effect on the Fund' s portfolio. Management anticipates occupancy rates will show improvements during H2 2014 in line with the developments during the second quarter. The increase in resources for capital expenditure created by the refinancing programme will support the fund management in their aim to further improve the portfolio occupancy levels.

### 3 PROFILE

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

Palmer Capital Fondsenbeheer B.V. (PCFB) is located in Deventer, the Netherlands. Palmer Capital also has offices in London, Munich, Hong Kong, Singapore, Prague, Cluj-Napoca, Sofia and Warsaw.

#### Objective

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

#### Fund Structure

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

#### Management

Palmer Capital Fondsenbeheer B.V. is the management company of the Fund. On 24 January 2006 it obtained from AFM a permit under the Act on the Supervision of Investment Institutions. Since 1 January 2007 PCEEPF has operated under the Wft. On July 22, 2013 the AIFM Directive (Alternative Investment Fund Managers Directive) entered into force in the Netherlands. An entitled manager which manages on July 21, 2013 alternative investment funds in the Netherlands in the course of his profession or business (applicable for Palmer Capital Fondsenbeheer B.V.), has the ability to use a transition year. Since the manager was already in possession of a Wft-license on July 21, 2013 it means that after the transition year the Wft-license passes into an AIFMD license. The interim financial statements of 2014 PCEEPF therefore still apply the provisions of the old Wft. As of July 22, 2014, the WFT-license passed into an AIFMD license. In connection related legislation Palmer Capital Fondsenbeheer B.V. assigned Infintax Fund Services B.V. ([www.infintax.com](http://www.infintax.com)) as custodian to the fund.

#### Investment Policy

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

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

#### Investment Criteria

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

- PCEEPF will invest in commercial real estate in Central and Eastern Europe, direct and indirect;
- In principle no more than 60% of the book value of the total real estate portfolio will be financed with borrowed capital;
- PCEEPF is allowed to invest in securities or place money on deposit to have enough cash available;
- Investments are diversified at the following levels:



- Countries, regions and cities in Central and Eastern Europe;
- Commercial sectors, including offices, retail, industry, logistics;
- Property classes: A-/ B-/ C-class;
- Size of individual projects.

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

### Financing policy

PCEEPF finances a substantial portion (currently 47.5%) of the real estate portfolio with long-term external debt, although a Loan-to-Value percentage of up to 60% is possible. The 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. PCEEPF prefers to use several financiers, so as to be not dependent on just one party.

### Investor relations

PCEEPF 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 PCEEPF's investors are largely private investors and asset/wealth managers.

### Corporate Governance

Clarity and transparency in supervision and accounting is considered by PCEEPF to be the cornerstone of good management and entrepreneurship. The Fund acknowledges a sound system of good corporate governance. Such as is demonstrated in this semi-annual report, the objectives are clearly defined and PCEEPF has a clear strategy.

### Fund governance

Palmer Capital Fondsenbeheer B.V. endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association (DUFAS). Following these Principles, Palmer Capital Fondsenbeheer B.V. will act in the interests of investors of the funds Palmer Capital Fondsenbeheer B.V. manages. In case of a possible conflict of interest, the Management Board will submit transactions to the Supervisory Board for approval. DUFAS principles of fund governance are presented on the website of DUFAS: [www.dufas.nl](http://www.dufas.nl).

### Key data per 30-6-2014 and 31-12-2013

	30-6-2014	31-12-2013
Total Assets (EUR 1,000)	61,370	60,707
Shareholders' Equity (EUR 1,000)	27,256	26,814
Total Liabilities (EUR 1,000)	34,114	33,893
Bank Debts (EUR 1,000)	27,115	27,099
LTV (%)*	47.5	47.5
Net Asset Value per share (EUR)	20.73	20.42
Share price (EUR)	7.88	8.49
Occupancy (%)	71.2	73.7
Gross Income (EUR 1,000)	3,125	7,563

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

## 4 REPORT OF THE MANAGEMENT BOARD

The Management Board hereby presents the semi-annual report 2014 of Palmer Capital Emerging Europe Property Fund N.V. (The Fund). The reporting period is from 1 January 2014 to 30 June 2014.

### 4.1 FUND STRATEGY

The Management of the Fund presented a revised strategy to shareholders in April 2012. The aim was to position the Fund as the leading quoted vehicle investing in income-generating real estate in Central and Eastern Europe. The revised strategy envisaged a resumption of dividend payments combined with overall growth in Fund size and an expansion of the Fund into new sectors and additional countries within Central and Eastern Europe. The strategy was to be implemented in three stages: operational cost reductions to improve efficiency, restructuring of existing debt finance arrangements to create free cash flow and raising of fresh equity and debt to finance the substantial expansion of the Fund.

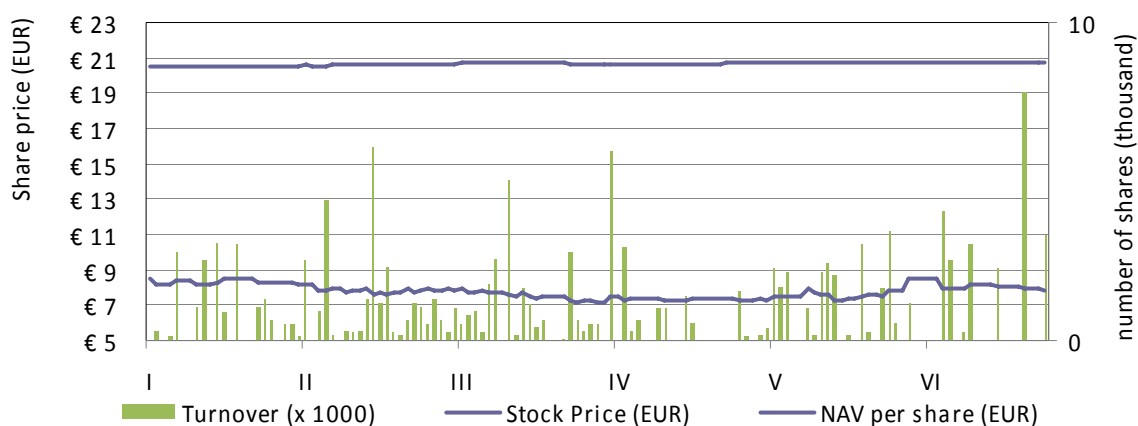
The success of the H2 2014 capital raise will determine the future of the fund. After finalizing the refinancing process the Management will formulate a detailed growth scenario and alternatives thereto, which will be presented to the shareholders at an Extraordinary General Meeting in the second half of 2014.

### 4.2 SUMMARY OF EVENTS

#### 4.2.1 DEVELOPMENTS DURING THE FIRST HALF OF 2014

The first half of 2014 was dominated by securing the refinancing of the Czech portfolio by Sberbank and the continued negotiations with banks regarding the refinancing of the Slovak bank loan. The Fund concluded the period with a net asset value per share of EUR 20.73 at 30 June 2014 (figure 1), 1.5% higher than at the beginning of 2014. During the same period the price on the stock exchange decreased by 4.0% from EUR 8.21 to EUR 7.88.

Figure 1 –Development of the Fund’s net asset value and stock price per share during H1-2014



The first half of 2014 showed respectively the following events:

#### *New property manager in Slovakia*

Zbereko, spol. s.r.o. (Zbereko) was appointed on 1 January 2014 as property and facilities manager for the Slovak portfolio. The appointment of the new manager will lead to direct annual cost savings of approximately EUR 100 000. Zbereko was selected following a bidding process in which seven parties participated. Zbereko was chosen because of the price offered and the fact that the company is located in Kosice, the town in Slovakia where the Fund has its largest exposure.

### *General Meeting of Shareholders*

On 18 June 2014 the General Meeting of Shareholders adopted the annual accounts of 2013 and decided not to distribute a dividend for 2013.

### *Completion of Czech portfolio refinancing by Sberbank and refinancing negotiation of the Slovak portfolio*

The Fund completed in March the previously announced refinancing of the Czech real estate portfolio with Sberbank. The bank provided an annuity loan with a fixed interest rate period of 3 years to the Czech subsidiary Palmer Capital RE Bohemia, s.r.o. The annuity is calculated over a period of 20 years. The weighted average interest rate on the loan is 3.42%.

With the loan from Sberbank, the mortgage loan from Raiffeisen Bank was repaid in full. It also partially repaid the SNS bank loan. The surplus was used for investments in improving the occupancy rate of the portfolio and to reduce operating costs. The loan-to-value of the Property Fund is currently 47.5%.

The final step in the strategic refinancing of the Fund is to refinance the Slovak portfolio. The Tatra Banka loan (now) EUR 15.0m, runs off in December 2014. In the coming months,, the Management Board will continue discussions to extend the contract under more suitable and flexible terms. Based on initial discussions with Tatra Banka and competing offers from other banks, end 2014 will show a financing requirement of between EUR 4m and EUR 5m. After successful refinancing and recapitalization, it will be possible to pay out dividends to shareholders.

### *Real estate portfolio valuation*

On 30 June 2014, the Fund reassessed the property portfolio values at EUR 57.05m. This is unchanged from the valuation as at end 2013. The management reassessed the property values using an internal valuation policy, which takes into account the rental income, the estimated rental value and the yield. For more detailed information see the consolidated financial statements.

## 4.2.2 NET ASSET VALUE AND SHARE PRICE DEVELOPMENT

The Net Asset Value of the Fund continued to increase based on the positive operational result. The following tables show the development of the Fund's Net Asset Value during the period 1 January 2014 to 30 June 2014.

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

	<b>30-06-2014</b>	<b>31-12-2013</b>
Shareholders' equity (in EUR x 1,000)	27,256	26,814
50% of the deferred tax liabilities concerning revaluation gains on investment property (EUR x 1,000)	546	546
Shareholders equity in accordance with EPRA (EUR x 1,000)	27,802	27,360
Number of ordinary shares in issue	1,339,707	1,339,707
<b>Adjusted EPRA-NAV (in Euro)</b>	<b>20.75</b>	<b>20.42</b>
Return on NAV YtD (%)	1.5	- 3.2

**Table 2 –Development of the share price per month till 30-6-2014**

<b>Month</b>	<b>Opening price begin month (EUR)</b>	<b>Closing price end month (EUR)</b>	<b>Volume (pieces)</b>
January 2014	8.21	8.22	17,912
February 2014	8.22	7.85	25,087
March 2014	7.85	7.20	21,123
April 2014	7.25	7.40	15,118
May 2014	7.40	7.60	19,699
June 2014	7.50	7.88	30,112

With on average 1,500 shares transacted per trading day, the transaction volume kept relatively stable during most of the reporting period, however June saw with 2,750 shares per trading day a significantly higher volume. Since the beginning of the reporting period, the stock price trades with a 62% discount to the net asset value within a range between EUR 7.25 and EUR 8.25 per share. At the end of the reporting period the share price quoted is EUR 7.88.

### **4.3 OPERATIONAL HIGHLIGHTS**

#### **4.3.1 REAL ESTATE (INVESTMENT) MARKET**

The Czech economy is currently characterized by fiscal stimulus, a National Bank that manipulates the exchange rate to combat deflation (and indirectly stimulate exports) and by increasing interest from foreign investors.

Following growth of 1.2% in the fourth quarter of 2013, the Czech economy will grow by 2.6% during 2014 according to Oxford Economics. They say that, as external demand continues to improve in 2015, growth will accelerate to 2.8%, the unemployment rate will drop and conditions for bank financing will continue to improve. The availability of bank financing has been continuing to improve. This is also reflected in the current refinancing process of the Fund in Slovakia.

The rental market in the Czech Republic has been under pressure especially due to the increasing supply of Class A office properties in Prague. Currently, there are for example 350,000 m<sup>2</sup> of offices under development in Prague. According to DTZ vacancy increased during the first half from 13.2% to 13.4%.

#### **4.3.2 OPERATIONAL DEVELOPMENT**

The occupancy rate of the portfolio is at the end of the second quarter, 71.2%. The occupancy rate of the Czech part of the portfolio is 66.2%. The Czech portfolio showed since the fourth quarter of 2013 a decrease in occupancy mainly related to the Prague office market. The increased vacancy related to more available (new) A-class real estate in the Czech capital which is offered at competitive prices.

The Slovak portfolio shows with an occupancy rate of 72.8% a decrease compared to the first quarter of 2014 (74.0%).

#### **4.3.3 REAL ESTATE PORTFOLIO DEVELOPMENT**

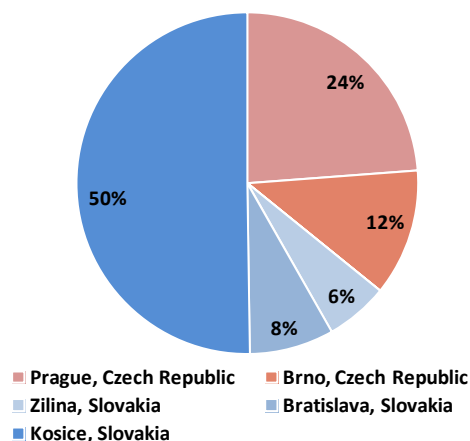
The total income of EUR 3.57m from the current portfolio is 8% lower compared to the same period in the previous year. This decrease is related to the occupancy decrease since January 2014 and the devaluation of the Czech Koruna. However, Management anticipates an improved occupancy level by the end of 2014.

During the reporting period no real estate was acquired or sold.

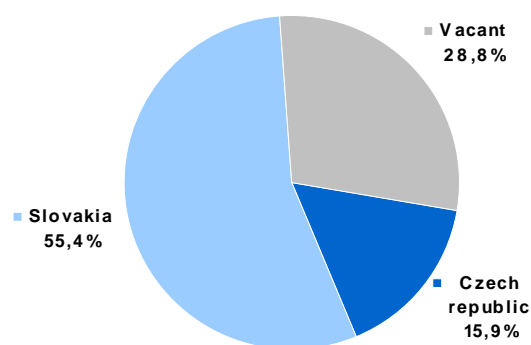
**Table 3 – Comparative statement of the real estate portfolio**

EUR 1,000	30-06-2014	31-12-2013	change	%
Fair value (EUR x 1,000)	57,055	57,068	13	0.0
Number of properties	17	17	0	0.0
Rentable area (m <sup>2</sup> )	109,335	109,335	0	0.0
Occupancy (%)	71.2	73.7	- 2.5	- 3.4

**Figure 2 – Fair value per city at 30-6-2014**



**Figure 3 – Portfolio area occupancy at 30-6-2014**



**Table 4 – Comparative statement of real estate income within portfolio**

EUR 1,000	01-01-2014 until 31-06-2014	01-01-2013 until 31-06-2013	Change In EUR 1,000	Change In %
Gross rental income	3,125	3,387	-/- 262	- 7.7%
Service cost income	441	500	-/- 59	- 11.8%
<b>Total income</b>	<b>3,566</b>	<b>3,887</b>	<b>-/- 321</b>	<b>- 8.3%</b>
Service costs	-/- 1,160	-/- 1,230	-/- 70	- 5.7%
Operational costs	-/- 631	-/- 769	-/- 138	- 17.9%
<b>Net rental income</b>	<b>1,775</b>	<b>1,888</b>	<b>-/- 113</b>	<b>- 6.0%</b>

The decrease in total net rental income in the amount of EUR 113,000 is 75% due to a decrease in occupancy at the beginning of 2014 and 25% attributable to the CZK-exchange rate effect. During the period the net rental income was EUR 1.78m, 6% less than the previous period. The quarterly comparison below showed in Q2 2014 a 26.1% net rental income increase compared Q1. Rental activity has further increased after reporting date, which supports the expectation that the occupancy rate will recover during the second half of the year.

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

EUR 1,000	Q2 2014		Q2 2014 versus			
	Q2 2014	Q1 2014	Q1 2014	Q2 2013	Q1 2013	Q2 2013
Gross rental income	1,527	1,598	-4.4%	1,675	1,712	-8.8%
Service cost income	206	235	-12.3%	232	268	-11.2%
<b>Total income</b>	<b>1,733</b>	<b>1,833</b>	<b>-5.5%</b>	<b>1,907</b>	<b>1,980</b>	<b>-9.1%</b>
Service costs	-/- 474	-/- 686	-30.9%	-/- 534	-/- 696	-11.2%
Operational costs	-/- 269	-/- 362	-25.7%	-/- 374	-/- 395	-28.1%
<b>Net rental income</b>	<b>990</b>	<b>785</b>	<b>+26.1%</b>	<b>999</b>	<b>889</b>	<b>-0.9%</b>

## 4.4 FINANCIAL HIGHLIGHTS

### 4.4.1 BALANCE

<i>EUR 1,000</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Investment property	57,055	57,068
Non-current assets	1,723	1,609
Current assets	2,592	2,030
<b>Total assets</b>	<b>61,370</b>	<b>60,707</b>
Shareholders' equity	27,256	26,814
Deferred tax liabilities	4,950	4,709
Long-term loans and borrowings	10,330	9,023
Total current liabilities	18,834	20,161
<b>Total shareholders' equity and liabilities</b>	<b>61,370</b>	<b>60,707</b>

Both the increase in current assets amounting to approximately EUR 0.6m and the increase in long-term debt amounting to approximately EUR 1.3m, is mainly related to the refinancing of the Czech real estate portfolio end March 2014.

An amount of EUR 15.0m of the total current liabilities is related to the Slovak Tatra Banka loan, which contractually should be fully repaid end December 2014. After refinancing this loan it will be classified as long-term debt.

### 4.4.2 RESULT

<i>EUR 1.000</i>	<b>01-01-2014 until 30-06-2014</b>	<b>01-01-2013 until 30-06-2013</b>
Direct result before tax	558	849
Indirect result before tax	0	27
<b>Result before tax</b>	<b>558</b>	<b>876</b>
tax	-/- 127	-/- 134
<b>Result after tax</b>	<b>431</b>	<b>742</b>

The decrease of the direct result before tax in the amount of EUR 291,000, is related to the decrease in rental income and the EUR 129,000 higher financial expenses related to the higher interest costs after refinancing. Despite the higher interest costs the total debt service decreased significantly, considering the amortization is EUR 250,000 lower than during the same period last year. The decrease in rental income was mostly related to the occupancy decrease at the start of 2014. However during the second quarter of 2014 the result after tax, EUR 261,000, is higher than the result during the same period last year (EUR 250,000). The Management expects that the occupancy development will result an improving operating result during the second part of 2014.

#### 4.4.3 FINANCIAL POSITION

The financial result of EUR 0.43m contains the operating result, the valuation result, the reversal of deferred taxes and the results on the currency exchange rate. The total return on Net Asset Value in the first half of 2014 was 1.5%. The following table provides a statement of investment results for the period and the same period last year.

**Table 6 – Statement of recognised income and expense for the period till 30 June 2014**

<i>EUR 1,000</i>	<b>01-01-2014 until 30-06-2014</b>	<b>01-01-2013 until 30-06-2013</b>
Foreign currency translation differences on net investment in group companies	11	-/- 298
Income tax on foreign currency translation differences on net investment in group companies	-	66
<b>Net gain/ (loss) recognised directly in equity</b>	<b>11</b>	<b>-/- 232</b>
Profit for the period	431	742
<b>Total recognised income and expense for the period</b>	<b>442</b>	<b>510</b>

During the period the equity increased by EUR 0.44m due to the positive operational result. The number of outstanding shares kept stable at 1,339,707.

The sum of outstanding bank loans increased net by EUR 0.02m during the period to EUR 27.12m. The current EUR 15.0m Tatra Banka loan matures at the end of 2014. The process to refinance this loan is almost concluded. The LTV at 30-6-2014 is 47.5% (31-12-2013: 47.5%).

#### 4.5 FUND COMMENTARY AND OUTLOOK

In the first half of 2014, the Fund demonstrated considerable progress in the refinancing process. After asserting direct control over key operational areas and realizing significant management and operational cost savings, important steps to refinance the portfolios have been made. This will enable additional cash to be released to permit improvement of the real estate stock and eventual distribution of the surplus to shareholders in the form of dividends.

Economic optimism has been sustained, although developments in Ukraine do raise some concerns. Until a robust recovery is clearly established, expectations for occupier demand will remain relatively conservative. Uncertainties persist over future interest rate movements, but there is no doubt that the overall financing environment has substantially improved over the last fifteen months, with real competition amongst lending banks. This is having a positive effect on yields, with a general expectation that prime property in particular will show substantial yield compression during the rest of 2014.

Against this background, and having concluded the refinancing with Sberbank in the Czech Republic, the fund management also expects to complete a successful refinancing of the Slovak portfolio and repayment of the SNS loan in the second part of 2014. Fund management is finalising the refinancing of the Slovak Tatra Banka loan over the next few months. The overall funding gap is expected to be approximately EUR 4.3mln., which will be financed by sales, the issuance of ordinary shares and a convertible- or secured bond.

From an operational perspective the Fund will focus on tenant retentions and further reductions of service charge leakage. The positive operational improvements during the second quarter are expected to continue during the second half of 2014 in particular by an increase in occupancy rate. The increase in resources for capital expenditure created by the refinancing programme will support the fund management in their aim to further improve the portfolio occupancy levels.

#### **4.6 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL**

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

*Deventer, 29 August 2014*

*The management, Palmer Capital - Fondsenbeheer B.V.*

*G.St.J. Barker LLB FRICS, Managing director*

*P.H.J. Mars, M.Sc., Managing director*

*P.H. van Kleef RC MRE, Managing director*



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2014**

## 5 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>EUR thousands</i>	<b>Notes</b>	<b>30-06-2014</b>	<b>31-12-2013</b>
<b>Assets</b>			
Investment property	10.10	57,055	57,068
Other investments	10.11	554	555
Deferred tax assets		1,169	1,054
Total non-current assets		<b>58,778</b>	<b>58,677</b>
Trade and other receivables	10.12	1,579	1,371
Cash and cash equivalents		1,013	659
Total current assets		<b>2,592</b>	<b>2,030</b>
<b>Total assets</b>		<b>61,370</b>	<b>60,707</b>
<b>Shareholders' equity<sup>1</sup></b>			
Issued capital	10.13		
Share premium	10.14	6,699	6,699
Revaluation reserve	10.15	17,219	17,219
Reserve for currency translation differences	10.16	4,191	4,191
Retained earnings	10.17	2,216	2,205
Total shareholders' equity (attributable to parent company shareholders)	10.18	<b>-/- 3,069</b>	<b>-/- 3,500</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	10.20	10,330	9,023
Deferred tax liabilities		4,950	4,709
Total non-current liabilities		<b>15,280</b>	<b>13,732</b>
Interest-bearing loans and borrowings	10.20	16,785	18,076
Trade and other payables	10.21	2,037	2,073
Income tax payable		12	12
Total current liabilities		<b>18,834</b>	<b>20,161</b>
Total liabilities		<b>34,114</b>	<b>33,893</b>
<b>Total shareholders' equity and liabilities</b>		<b>61,370</b>	<b>60,707</b>

## 6 CONSOLIDATED INCOME STATEMENT

<i>EUR thousands</i>	<b>Notes</b>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Gross rental income		3,125	3,387
Service charge income		441	500
Service charge expenses		-/- 1,160	-/- 1,230
Property operating expenses	10.25	-/- 631	-/- 769
<b>Net rental and related income</b>		<b>1,775</b>	<b>1,888</b>
Valuation gains on investment property		-	693
Valuation losses on investment property		-	-/- 666
<b>Net valuation gains on investment property</b>	10.26	<b>-</b>	<b>27</b>
Financial income	10.27	31	41
Other operating income	10.28	11	4
Other income		42	45
<b>Total income</b>		<b>1,817</b>	<b>1,960</b>
Administrative expenses	10.29	462	479
Other operating expenses	10.30	262	199
<b>Total expenses</b>		<b>724</b>	<b>678</b>
<b>Net operating result before financial expenses</b>		<b>1,093</b>	<b>1,282</b>
Financial expenses	10.31	535	406
<b>Profit before income tax</b>		<b>558</b>	<b>876</b>
Income tax expense		-/- 127	-/- 134
<b>Profit for the period</b>		<b>431</b>	<b>742</b>
<b>Attributable to:</b>			
Parent company shareholders		431	742
Basic earnings per (ordinary and registered) share (EUR)	10.32.3	0.32	0.57
Diluted earnings per (ordinary and registered) share (EUR)	10.32.4	0.32	0.57

## 7 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>EUR thousands</i>	<b>Notes</b>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences on net investment in group companies		11	-/- 298
Income tax on foreign currency translation differences on net investments in group companies		-	66
		11	-/- 232
<b>Net gain / loss (-/-) recognized directly in shareholders' equity</b>		11	-/- 232
<b>Profit for the period</b>	6	431	742
<b>Total comprehensive income for the period</b>		442	510
<b>Attributable to:</b>			
Parent company shareholders		442	510

## 8 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>EUR thousands</i>	Issued capital	Share premium	Revaluation reserve	Reserve for currency translation differences	Retained earnings	Total shareholders' equity
Balance as at 1 January 2013	6,429	16,338	4,769	2,880	-/-3,945	26,471
Total comprehensive income	-	-	-/- 578	-/- 675	445	-/- 808
Own ordinary shares issued	270	881	-	-	-	1,151
Balance as at 31 December 2013	6,699	17,219	4,191	2,205	-/- 3,500	26,814
Balance as at 1 January 2014	6,699	17,219	4,191	2,205	-/- 3,500	26,814
Total comprehensive income	-	-	-	11	431	442
Balance as at 30 June 2014	6,699	17,219	4,191	2,216	-/- 3,069	27,256

## 9 CONSOLIDATED STATEMENT OF CASH FLOWS

<i>EUR thousands</i>	<b>Notes</b>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
<b>Cash flows from operating activities</b>			
Profit for the period	6	431	742
<i>Adjustments for:</i>			
Net valuation gains on investment property <sup>2</sup>	10.26	-	-/- 89
Net valuation gains on other investments	10.26	-	9
Exchange and currency translation results		-/- 2	19
Interest income	10.27	-/- 31	-/- 41
Interest expensed	10.31	535	397
Income tax expensed		127	68
Change in trade and other receivables		-/- 177	51
Change in trade and other payables		-/- 71	-/- 72
<b>Cash generated from operations</b>		<b>812</b>	<b>1,084</b>
Interest paid		-/- 483	-/- 331
Income tax paid		-	-/- 233
<b>Net cash from / used in (-/-) operating activities</b>		<b>329</b>	<b>520</b>
<b>Cash flows from investing activities</b>			
Proceeds from the sale of investment properties		-	-/- 99
Proceeds from the sale of other investments		-	340
Acquisition of / additions to investment properties		-/- 5	-/- 283
<b>Net cash from / used in (-/-) investing activities</b>		<b>-/- 5</b>	<b>-/- 42</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		10,873	5
Repayments of loans and borrowings		-/- 10,846	-/- 1,038
<b>Net cash from / used in (-/-) financing activities</b>		<b>27</b>	<b>-/- 1,033</b>
Net increase / decrease (-/-) in cash and cash equivalents		351	-/- 555
Cash and cash equivalents as at 1 January		659	1,107
Effect of exchange and currency translation result on cash held		3	20
<b>Cash and cash equivalents as at 30 June</b>		<b>1,013</b>	<b>572</b>

## **10 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **10.1 GENERAL**

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

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

### **10.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” and with the International Financial Reporting Standards (“IFRS”) and the interpretations thereof adopted by the International Accounting Standards Board (“IASB”) as adopted by the European Union (hereinafter referred to as “EU-IFRS”). In the preparation of these consolidated interim financial statements also there has been taken account of other legal regulations, under which 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”).

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

PCEEPF has applied the significant accounting principles as set out in the Annual Report 2013 section 12.2 to 12.23. The Managing Board authorized the consolidated interim financial statements for issue on 29 August 2014.

## **10.4 BASIS OF PREPARATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **10.4.1 General**

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

The accounting policies are equal to those applied in the Annual Report 2013 (section 12.2 to 12.23). The accounting policies have been consistently applied for all periods presented in this Semi-Annual Report.

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

### **10.4.2 Judgements, estimates and assumptions**

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

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

Judgements made by Management in the application of the EU-IFRS that have significant effect on the consolidated interim financial statements, and estimates with a significant risk of material adjustment in the next year are described in section 9.35 of the Notes.

### **10.4.3 New standards, amendments and interpretations**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied to this consolidated interim financial statements. Those that might be relevant for the Group are set out in the Annual Report 2013.



## 10.5 BASIS OF CONSOLIDATION

### 10.5.1 Subsidiaries

Subsidiaries are those entities controlled by PCEEPF. Control exists when PCEEPF 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 interim financial statements of subsidiaries have been included in the consolidated interim financial statements with effect from the date on which control commences until the date that control ceases.

### 10.5.2 Consolidated subsidiaries

All subsidiaries of PCEEPF have been included in the consolidation. This relates to the following companies:

Company	Registered office	Country of incorporation	Holding as at 30-06-2014	Holding as at 31-12-2013
A Palmer Capital RE Bohemia s.r.o.	Prague	Czech Republic	100%	100%
B Palmer Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100%	100%

### 10.5.3 Elimination of transactions on consolidation

All intercompany receivables, payables, significant transactions and any unrealized profits and losses on transactions within PCEEPF, or income or expenses from such transactions within PCEEPF have been eliminated in the consolidated interim financial statements.

## 10.6 BASIS OF PREPARATION OF CONSOLIDATED STATEMENT OF CASH FLOWS

PCEEPF has used the indirect method for the consolidated statement of cash flows. Given the nature of PCEEPF (investment company) financial income is not netted against financial expenses, but presented separately under the total income, so financial income is presented in the consolidated statement of cash flows under “Cash flows from operating activities”.

Cash and cash equivalents as mentioned in the consolidated statement of cash flows includes the statement of financial position’s item “Cash and cash equivalents” and “Bank overdrafts”. Cash flows in foreign currencies are converted at the exchange rate applicable on settlements date. Transactions without settlement in cash are not recognized in the consolidated statement of cash flows.

## 10.7 FOREIGN CURRENCY

### 10.7.1 Foreign currency transactions

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

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

### 10.7.2 Interim financial statements of foreign activities

The assets and liabilities of foreign operations, including goodwill and fair-value adjustments arising on consolidation are translated into Euros at the exchange rate applicable on the statement of interim financial position's date. The income and expenses of foreign operations are translated into Euro at rates approximating to the foreign exchange rates applicable at the dates of the transactions. Foreign currency translation differences arising on translation are recognized as a separate component of equity.

### 10.7.3 Net investment in foreign activities

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

### 10.7.4 Exchange rates

	30-06-2014	31-12-2013	30-06-2013
Czech Koruna (CZK / EUR)	27.4530	27.4270	25.9490
Bulgarian Lev (BGN / EUR)	1.9558	1.9558	1.9558

Source: European Central Bank (ECB)

## 10.8 SEGMENT REPORTING

### 10.8.1 General

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

- 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 PCEEPF);
- Whose operating results does PCEEPF's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance regularly review; and for which discrete financial information is available.

Given PCEEPF's Management decision-making structure and internal reporting structure each investment property is indicated as an operating segment. The investment properties held during the financial period (current period and / or previous period), as mentioned in section 9.10.1 "Analysis of investment properties" are taken into account in the segment reporting overviews.

The following segment reporting overviews are given for each investment property:

- A. Overview of segment result (net operating income), distinguished to PCEEPF's geographic categories;
- B. Overview of assets and liabilities distinguished to PCEEPF's geographic categories.

Since each separate investment property is indicated as an operating segment, most of PCEEPF's assets and liabilities cannot be allocated to the operating segments. Therefore only the carrying value of each investment property is reported as segment assets (see section 9.10.1 "Analysis of investment properties").

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

### 10.8.2 PCEEPF's geographic categories

PCEEPF distinguishes the following geographic categories:

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

The following segmentation criteria are used:

- The allocation of the investment property is based on the geographic location of the premises;
- The allocation of goodwill is based on the geographic location of the assets the goodwill concerns;
- The allocation of deferred tax assets is based on the geographic location of the company generated the deferred tax assets;
- The allocation of investments in associates are based on the business location of the company PCEEPF 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 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 PCEEPF in anticipation of their investment in property.

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

Name of investment property	Gross rental		Service charge		Service charge		Property operating		Net rental and		Realized		Unrealized valuation		Total segment result	
	Income		income		expenses		expenses		related income		Valuation gains		gains			
	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13	01-01-14	01-01-13
	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to
	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13	30-06-14	30-06-13
<b>Czech Republic (CR):</b>																
Drahobejlova	35	65	21	28	-/- 30	-/- 43	-/- 12	-/- 14	14	36	-	-	-	-/- 1	14	35
Palmovka	109	157	49	53	-/- 34	-/- 41	-/- 24	-/- 21	100	148	-	-	-	12	100	160
Karlin	167	214	52	63	-/- 55	-/- 53	-/- 34	-/- 24	130	200	-	-	-	16	130	216
GiTy	180	187	111	122	-/- 145	-/- 156	-/- 47	-/- 44	99	109	-	-	-	117	99	226
VUP	102	117	83	106	-/- 73	-/- 68	-/- 48	-/- 26	64	129	-	-	-	209	64	338
Newton House	98	108	42	39	-/- 42	-/- 48	-/- 22	-/- 20	76	79	-	-	-	15	76	94
Štefánikova	-	-	-	-	-	-	-	-	-	-	-	-/- 62	-	-	-	-/- 62
<b>Total Czech Republic</b>	<b>691</b>	<b>848</b>	<b>358</b>	<b>411</b>	<b>-/- 379</b>	<b>-/- 409</b>	<b>-/- 187</b>	<b>-/- 149</b>	<b>483</b>	<b>701</b>	<b>-</b>	<b>-/- 62</b>	<b>-</b>	<b>368</b>	<b>483</b>	<b>1,007</b>
<b>Slovakia:</b>																
Račianska	45	50	7	6	-/- 36	-/- 34	-/- 10	-/- 24	6	-/- 2	-	-	-	-/- 300	6	-/- 302
Záhradnícka	146	140	3	3	-/- 36	-/- 37	-/- 20	-/- 31	93	75	-	-	-	200	93	275
Pražská 2	216	239	5	5	-/- 76	-/- 82	-/- 36	-/- 45	109	117	-	-	-	30	109	147
Pražská 4	180	181	1	1	-/- 52	-/- 54	-/- 29	-/- 42	100	86	-	-	-	-/- 30	100	56
Krivá 18	189	190	2	2	-/- 55	-/- 55	-/- 34	-/- 48	102	89	-	-	-	-/- 70	102	19
Krivá 23	195	210	3	3	-/- 62	-/- 63	-/- 37	-/- 48	99	102	-	-	-	-/- 80	99	22
Gemerská	123	132	4	4	-/- 66	-/- 67	-/- 23	-/- 33	38	36	-	-	-	-/- 30	38	6
Letná	623	644	7	9	-/- 72	-/- 79	-/- 99	-/- 135	459	439	-	-	-	94	459	533
Šaca	81	71	6	5	-/- 48	-/- 52	-/- 23	-/- 37	16	-/- 13	-	-	-	-/- 13	16	-/- 26
Vural	222	224	40	46	-/- 107	-/- 120	-/- 53	-/- 77	102	73	-	-	-	-/- 70	102	3
Kosmalt	414	458	5	5	-/- 171	-/- 178	-/- 80	-/- 100	168	185	-	-	-	-/- 10	168	175
<b>Total Slovakia</b>	<b>2,434</b>	<b>2,539</b>	<b>83</b>	<b>89</b>	<b>-/- 781</b>	<b>-/- 821</b>	<b>-/- 444</b>	<b>-/- 620</b>	<b>1,292</b>	<b>1,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-/- 279</b>	<b>1,292</b>	<b>908</b>
<b>Total CR and Slovakia</b>	<b>3,125</b>	<b>3,387</b>	<b>441</b>	<b>500</b>	<b>-/- 1,160</b>	<b>-/- 1,230</b>	<b>-/- 631</b>	<b>-/- 769</b>	<b>1,775</b>	<b>1,888</b>	<b>-</b>	<b>-/- 62</b>	<b>-</b>	<b>89</b>	<b>1,775</b>	<b>1,915</b>

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

The reconciliation between the total segment results as calculated in section 12.23.3 with the profit for the period, mentioned in the consolidated income statement, is made below.

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
<b>Total segment result (overview A)</b>	1,775	1,915
Unallocated income	42	45
Unallocated expenses	-/- 1,259	-/- 1,084
<b>Profit before income tax</b>	558	876
Income tax expense	-/- 127	-/- 134
<b>Profit for the period</b>	431	742

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

EUR thousands

	Czech Republic		Slovakia		The Netherlands		Subtotal		Unallocated		Total assets	
	30-06-14	31-12-13	30-06-14	31-12-13	30-06-14	31-12-13	30-06-14	31-12-13	30-06-14	31-12-13	30-06-14	31-12-13
<b>Assets</b>												
Investment property	19,073	19,091	37,982	37,977	-	-	57,055	57,068	-	-	57,055	57,068
Other investments	554	555	-	-	-	-	554	555	-	-	554	555
Deferred tax assets	148	88	1,021	966	-	-	1,169	1,054	-	-	1,169	1,054
Trade and other receivables	900	921	431	307	248	143	1,579	1,371	-	-	1,579	1,371
Cash and cash equivalents	562	486	335	163	116	10	1,013	659	-	-	1,013	659
<b>Total geographic assets</b>	<b>21,237</b>	<b>21,141</b>	<b>39,769</b>	<b>39,413</b>	<b>364</b>	<b>153</b>	<b>61,370</b>	<b>60,707</b>	<b>-</b>	<b>-</b>	<b>61,370</b>	<b>60,707</b>
<b>Liabilities</b>												
Interest bearing loans and borrowings	10,700	9,834	15,128	15,703	1,287	1,562	27,115	27,099	-	-	27,115	27,099
Deferred tax liabilities	946	882	4,004	3,827	-	-	4,950	4,709	-	-	4,950	4,709
Trade and other payables	468	572	491	439	1,078	1,062	2,037	2,073	-	-	2,037	2,073
Income tax payable	12	12	-	-	-	-	12	12	-	-	12	12
<b>Total geographic liabilities</b>	<b>12,126</b>	<b>11,300</b>	<b>19,623</b>	<b>19,969</b>	<b>2,365</b>	<b>2,624</b>	<b>34,114</b>	<b>33,893</b>	<b>-</b>	<b>-</b>	<b>34,114</b>	<b>33,893</b>

## 10.9 ACQUISITION OF SUBSIDIARIES

### 10.9.1 Analysis of acquired subsidiaries

During the financial period PCEEPF acquired no subsidiaries.

## 10.10 INVESTMENT PROPERTY

### 10.10.1 Analysis of investment properties

No.	Name of premises	Address	Ownership by	Fair value	Fair value	Interest	Interest
				30-06-14	31-12-13	30-06-14	31-12-13
<i>EUR thousands</i>							
1	Drahobejlova	Drahobejlova 27, Prague	PC RE Bohemia s.r.o.	1,206	1,207	100%	100%
2	Palmovka	Na Žertvách 34, Prague	PC RE Bohemia s.r.o.	2,989	2,992	100%	100%
3	Karlin	Prvního Pluku 621/8a, Prague	PC RE Bohemia s.r.o.	3,779	3,783	100%	100%
4	GiTy	Mariánské Náměstí 617/1, Brno	PC RE Bohemia s.r.o.	3,481	3,484	100%	100%
5	VUP	Šujanovo náměstí 3, Brno	PC RE Bohemia s.r.o.	3,278	3,281	100%	100%
6	Newton House	Politických Vězňů 10, Prague	PC RE Bohemia s.r.o.	4,340	4,344	100%	100%
7	Račianska	Račianska 71, Bratislava	PC RE Slovakia s.r.o.	552	552	100%	100%
8	Záhradnícka	Záhradnícka 46, Bratislava	PC RE Slovakia s.r.o.	4,160	4,160	100%	100%
9	Pražská 2	Pražská 2, Košice	PC RE Slovakia s.r.o.	2,710	2,710	100%	100%
10	Pražská 4	Pražská 4, Košice	PC RE Slovakia s.r.o.	2,530	2,530	100%	100%
11	Krivá 18	Krivá 18, Košice	PC RE Slovakia s.r.o.	2,960	2,960	100%	100%
12	Krivá 23	Krivá 23, Košice	PC RE Slovakia s.r.o.	2,900	2,900	100%	100%
13	Gemerská	Gemerská 3, Košice	PC RE Slovakia s.r.o.	1,650	1,650	100%	100%
14	Letná	Letná 45, Košice	PC RE Slovakia s.r.o.	9,955	9,950	100%	100%
15	Šaca	Šaca, Železiarska 49, Košice	PC RE Slovakia s.r.o.	935	935	100%	100%
16	Vural	Alexandra Rudnaya 21, Žilina	PC RE Slovakia s.r.o.	3,930	3,930	100%	100%
17	Kosmalt	Kysucká 16, Košice	PC RE Slovakia s.r.o.	5,700	5,700	100%	100%
Total fair value				57,055	57,068		

### 10.10.2 Statement of changes in investment properties

*EUR thousands*

	2014	2013
Balance as at 1 January	57,068	59,830
Purchases and additions	5	415
Exchange rate differences	-/- 18	-/- 1,794
Fair value adjustments	-	-/- 1,383
Balance as at 30 June / 31 December	57,055	57,068

### 10.10.3 Valuation of investment properties

The investment properties, stated under section 10.10.1 "Analysis of investment properties", were not valued by an external, independent valuer as at 30 June of the current year.

On quarterly basis, the Managing Board reviewed the appraised values of investment properties. The applied valuation method will be the same as used by the external, independent valuer, as described in the Annual Report 2013. The Managing Board has decided to adjust the fair value of an investment property under the following conditions:

- If the expected rental value (ERV) determined by the external, independent valuer deviates more than 10%;
- Unforeseen circumstances during the financial period, such as fire or water damages to an investment property.

As a result of the above principles the Managing Board will henceforth use the most recent external valuation (as at 31 December 2013), whereby investments done during the financial period are added to the value of the investment property.

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

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

## 10.11 OTHER INVESTMENTS

### 10.11.1 Analysis of other investments

	Principal of investment <i>Local currency thousands</i>	Principal of investment <i>EUR thousands</i>	Interest rate	Final date
Yellow Properties s.r.o. (5.00%)	CZK 1,691	65	n.a.	n.a.
Loan to Palmer Capital Central European Properties a.s. (PCCEP)	CZK 32,000	1,310	12%	December 2014
		<u>1,375</u>		

### 10.11.2 Statement of changes of other investments

<i>EUR thousands</i>	Yellow Properties s.r.o.	Loan to PCCEP	Total 2014	Total 2013
Balance as at 1 January	38	517	555	958
Exchange rate differences	-	-/- 1	-/- 1	-/- 58
Fair value adjustments	-	-	-	-/- 5
Sales / redemptions	-	-	-	-/- 340
Balance as at 30 June / 31 December	<u>38</u>	<u>516</u>	<u>554</u>	<u>555</u>



## 10.12 TRADE AND OTHER RECEIVABLES

### 10.12.1 Analysis of trade and other receivables

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Non-current part of trade and other receivables	-	-
Current part of trade and other receivables	1,579	1,371
	<u>1,579</u>	<u>1,371</u>

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

### 10.12.2 Specification of trade and other receivables

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Trade receivables from lessees	530	489
Prepayments and deferred expenses	290	211
Interest	631	601
Arrangement fees	121	68
Other receivables	7	2
	<u>1,579</u>	<u>1,371</u>

The "Prepayments and deferred expenses" includes an amount of EUR 248,000 (31 December 2013: EUR 143,000) related to a "capital raise", which has been planned for second half year 2014.

## 10.13 SHAREHOLDERS' EQUITY

### 10.13.1 Comparative statement

	30-06-2014	31-12-2013	30-06-2013
Shareholders' equity (in EUR thousands)	27,256	26,814	27,454
Number of ordinary shares in issue	1,296,819	1,296,819	1,285,725
Number of registered shares in issue	42,888	42,888	22,188
Total number of shares in issue entitled to profit	1,339,707	1,339,707	1,307,913
Net Asset Value per ordinary and registered share (in EUR)	20.34	20.01	20.99

## 10.14 ISSUED CAPITAL

### 10.14.1 Analysis of issued capital

	Number 30-06-2014	EUR 1,000 30-06-2014	Number 31-12-2013	EUR 1,000 31-12-2013
Ordinary shares (at EUR 5.00 each)	1,296,819	6,484	1,296,819	6,484
Registered shares (at EUR 5.00 each)	42,888	215	42,888	215
Priority shares (at EUR 5.00 each)	1	-	1	-
Issued capital	1,339,708	6,699	1,339,708	6,699

### 10.14.2 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.

	Number 2014	EUR 1,000 2014	Number 2013	EUR 1,000 2013
Balance in issue as at 1 January	1,296,819	6,484	1,285,725	6,429
Issued during the financial period	-	-	11,094	55
Balance in issue as at 30 June / 31 December	1,296,819	6,484	1,296,819	6,484

### 10.14.3 Registered shares

Registered shares are currently restricted from trading on NYSE Euronext Amsterdam.

	Number 2014	EUR 1,000 2014	Number 2013	EUR 1,000 2013
Balance in issue as at 1 January	42,888	215	-	-
Issued during the financial period	-	-	53,982	270
Redeemed during the financial period	-	-	-/- 11,094	-/- 55
Balance in issue as at 30 June / 31 December	42,888	215	42,888	215

#### 10.14.4 Priority shares

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

	Number 2014	EUR 1,000 2014	Number 2013	EUR 1,000 2013
Balance in issue as at 1 January	1	-	1	-
Issued during the financial period	-	-	-	-
Redeemed during the financial period	-	-	-	-
Balance in issue as at 30 June / 31 December	1	-	1	-

#### 10.14.5 Analysis of authorized share capital

	Number 30-06-2014	EUR 1,000 30-06-2014	Number 31-12-2013	EUR 1,000 31-12-2013
Ordinary shares (at EUR 5.00 each)	2,999,999	15,000	2,999,999	15,000
Priority shares (at EUR 5.00 each)	1	-	1	-
Authorized share capital	3,000,000	15,000	3,000,000	15,000

#### 10.15 SHARE PREMIUM

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

<i>EUR thousands</i>	2014	2013
Balance as at 1 January	17,219	16,338
Received on issued ordinary and registered shares	-	881
Balance as at 30 June / 31 December	17,219	17,219

#### 10.16 REVALUATION RESERVE

The revaluation reserve comprises the cumulative unrealized positive net change in the fair value of the investment properties, less the related deferred tax liabilities. The deferred tax liabilities are deducted with due regard for the principles of valuation for deferred taxes. In case of sale of the investment property the cumulative unrealized positive net change in the fair value of the investment property sold, as well as the related deferred tax liabilities, are no longer stated in the revaluation reserve but recognized under retained earnings.

<i>EUR thousands</i>	2014	2013
Balance as at 1 January	4,191	4,769
Addition to / reduction on (-/-) change in fair value during the financial period	-	-/ - 578
Balance as at 30 June / 31 December	4,191	4,191

## 10.17 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 subsidiaries outside the euro-zone into PCEEPF's reporting currency.

<i>EUR thousands</i>	<b>2014</b>	<b>2013</b>
Balance as at 1 January	2,205	2,880
Addition / reduction (-/-) in connection with translation net investments	-/- 7	-/- 675
Change in connection with decrease of net investments	18	-
Balance as at 30 June / 31 December	<b>2,216</b>	<b>2,205</b>

## 10.18 RETAINED EARNINGS

<i>EUR thousands</i>	<b>2014</b>	<b>2013</b>
Balance as at 1 January	-/- 3,500	-/- 3,945
Profit for the period	431	-/- 133
Change in revaluation reserve	-	578
Balance as at 30 June / 31 December	<b>-/- 3,069</b>	<b>-/- 3,500</b>

## 10.19 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 liabilities concerning revaluation of investment property and development property held for investment are eliminated for 50%. The percentage of 50% is an estimation of the present value of the tax applicable in the (near) future. In this Semi-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.

	<b>30-06-2014</b>	<b>31-12-2013</b>
Shareholders' equity in accordance with IFRS (EUR thousands)	27,256	26,814
Deferred tax liabilities concerning revaluation of investment property and development property held for investment (EUR thousands)	546	546
Shareholders' equity in accordance with NAV (EUR thousands)	<b>27,802</b>	<b>27,360</b>
Number of shares in issue entitled to profit	1,339,707	1,339,707
<b>Net Asset Value per share (in Euro)</b>	<b>20.75</b>	<b>20.42</b>

## 10.20 INTEREST-BEARING LOANS AND BORROWINGS

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

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
<b>Long-term liabilities</b>		
Secured bank loans	10,289	8,982
Other long-term liabilities	41	41
	<b>10,330</b>	<b>9,023</b>
<b>Current liabilities</b>		
Current portion of secured bank loans	15,498	16,514
Current portion of other long-term liabilities	1,287	1,562
	<b>16,785</b>	<b>18,076</b>
<b>Total interest-bearing loans and borrowings</b>	<b>27,115</b>	<b>27,099</b>

### 10.20.2 Statement of changes of secured bank loans

<i>EUR thousands</i>	<b>2014</b>	<b>2013</b>
Balance as at 1 January	25,496	28,441
Loans advanced	10,817	-
Redemptions	-/- 10,515	-/- 2,024
Exchange rate differences	-/- 11	-/- 921
Balance as at 31 December	<b>25,787</b>	<b>25,496</b>

In the “redemptions” an amount of EUR 9,840,000 (CZK 269,701,000) is included related to the refinancing of a substantial part of the secured bank loans. During the financial period Palmer Capital RE Bohemia s.r.o. agreed with Sberbank for refinancing of the whole secured bank loan with Raiffeisen Bank a.s.

### 10.20.3 Analysis of other long-term liabilities

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Unsecured bank loans	1,287	1,562
Long-term advance payments from tenants	41	41
	<b>1,328</b>	<b>1,603</b>

The unsecured bank loans corresponds to the outstanding principal of SNS Bank loan agreement dated 12 December 2008. This loan will mature at 1 December 2014. The applicable interest rate is the applicable SNS base interest rate plus a margin of 2.5%.

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

<i>EUR thousands</i>	<b>Unsecured bank loans</b>	<b>Long-term advance payments from tenants</b>	<b>Total 2014</b>	<b>Total 2013</b>
Balance as at 1 January	1,562	41	1,603	1,504
Loans advanced	56	-	56	99
Redemptions	-/- 331	-	-/- 331	-
Balance as at 31 December	<u>1,287</u>	<u>41</u>	<u>1,328</u>	<u>1,603</u>

#### 10.21 TRADE AND OTHER PAYABLES

##### 10.21.1 Analysis of trade and other payables

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Non-current part of trade and other payables	-	-
Current part of trade and other payables	2,037	2,073
	<u>2,037</u>	<u>2,073</u>

##### 10.21.2 Specification of trade and other payables

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Trade payables	716	838
Administrative expenses	656	644
Deposits received	387	424
Value Added Tax en other taxes	177	44
Interest payables	63	28
Other liabilities, accruals and deferred income	38	95
	<u>2,037</u>	<u>2,073</u>

##### 10.21.3 Specification of payable administrative expenses

<i>EUR thousands</i>	<b>30-06-2014</b>	<b>31-12-2013</b>
Administrative expenses	805	793
Provisional waiver	-/- 149	-/- 149
	<u>656</u>	<u>644</u>

## 10.22 FINANCIAL INSTRUMENTS

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

## 10.23 NON-CONTINGENT LIABILITIES

As at 30 June 2014 PCEEPF was not subject to contractual obligation concerning investments, repairs, maintenance or other non-contingent liabilities that will be settled in the following financial period.

## 10.24 CONTINGENT LIABILITIES

As at 30 June 2014 PCEEPF has the following contingent liabilities:

- Palmer Capital RE Bohemia s.r.o. provided guarantee, as well as Middle Europe Opportunity Fund II N.V., as shareholders of Yellow Properties s.r.o., in favour of Raiffeisen Bank a.s. for the amount of CZK 18,675,000 (EUR 680,000). Palmer Capital RE Bohemia s.r.o. guarantees 5% of this guarantee, in accordance with the stake of Palmer Capital RE Bohemia s.r.o. in Yellow Properties s.r.o.;
- Palmer Capital RE Bohemia s.r.o. has a potential liability under some circumstances (e.g. cancelled lease) for the amount of CZK 7,293,000 (EUR 266,000) to Kooperativa (the lessee of the parking places Štefánikova), which has paid the rent in advance for parking places for several years. Based on the negotiations during 2012 for the sale of the investment property Štefánikova, the new owner permits the lessee the usage of the parking places (free of payment) and the new owner will pay the tax with regard to the rent;
- PCEEPF N.V. has a potential liability for the amount of EUR 149,000 to Palmer Capital Fondsenbeheer B.V. regarding to Management fee, as a result of a provisional waiver for the Management fee 2013 above EUR 800,000.

As at 30 June 2014 PCEEPF was not subject to any further contingent liabilities, among which included obligations that result from security transactions related to (exchange) rate risk in connection with investments.

## 10.25 PROPERTY OPERATING EXPENSES

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Property management	246	443
Maintenance expenses in respect of investment properties	153	179
Taxes on investment properties	117	116
Commission fees	84	13
Insurance premiums	14	16
Other direct operating expenses	17	2
	<b>631</b>	<b>769</b>

The decrease of the “Property management” relates mainly to the decision of the Managing Board of Palmer Capital Fondsenbeheer B.V. to reduce (additional) its own Management fee regarding to Management fee Palmer Capital Czech Republic s.r.o. (see also section 10.33.2 “Transactions with and / or interests of managers in key positions”) as well as the appointment of Zbereko Spol sro as the new property and facility manager in Slovakia as of 1 January 2014 (formerly: Property Services SK sro).

## 10.26 NET VALUATION GAINS ON INVESTMENT PROPERTY

### 10.26.1 General

The analysis of value adjustments (gains and losses) during the financial period consists as well realized as unrealized value adjustments. Value adjustments are presented as a gain (or loss) in case the total of unrealized and realized value adjustments for each investment property is positive (or negative).

### 10.26.2 Analysis of net valuation gains on investment property

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Realized value adjustments	-	-/- 62
Unrealized value adjustments	-	89
	-	27

### 10.26.3 Specification of realized value adjustments

The realized value adjustments are attributable as follows:

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Štefánikova 167, Žlin	-	-/- 62

The realized value adjustment consists of the total value adjustments of the sold property, calculated as the difference between selling price and its purchase price. Therefore the realized value adjustments include also the cumulative unrealized value adjustments booked in previous years. The specification is as follows:

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Value adjustments booked in current year	-	-
Value adjustments booked in previous years	-	-
Transaction costs on sale of investment property	-	-
Transfer tax	-	-/- 62
	-	-/- 62



## 10.27 FINANCIAL INCOME

<i>EUR thousands</i>	01-01-2014 to 30-06-2014	01-01-2013 to 30-06-2013
Interest income	31	41

## 10.28 OTHER OPERATING INCOME

<i>EUR thousands</i>	01-01-2014 to 30-06-2014	01-01-2013 to 30-06-2013
Provisions and fees related to leases	9	-
Other	2	4
	11	4

## 10.29 ADMINISTRATIVE EXPENSES

### 10.29.1 Management fee

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

- For the assets below EUR 75,000,000: 1.50% per annum (0.125% per month);
- For the assets from EUR 75,000,000 and above: 1.00% per annum (0.083% per month).

The Management fee calculated as described above is payable partly by Palmer Capital RE Bohemia s.r.o. and by Palmer Capital RE Slovakia s.r.o. The Managing Board of Palmer Capital Fondsenbeheer B.V. has decided to reduce its own Management fee for the amounts payable by Palmer Capital RE Bohemia s.r.o. and Palmer Capital RE Slovakia s.r.o.

### 10.29.2 Performance-related remuneration

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

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

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

For the financial period 2014 the Managing Board received no performance-related remuneration (2013: no).

### 10.30 OTHER OPERATING EXPENSES

#### 10.30.1 Specification of other operating expenses

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Non-refundable Value Added Tax	63	48
Wages and salaries Statutory Directors	3	7
Other operating expenses	196	144
	<b>262</b>	<b>199</b>

#### 10.30.2 Transaction costs

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

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

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Transaction costs on purchase of investments	-	-
Transaction costs on sale of investments	-	-
	<b>-</b>	<b>-</b>

### 10.31 FINANCIAL EXPENSES

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Interest expense on loans taken up	494	355
Fine interest on loans taken up	24	-
Other exchange and currency translation results	-	42
Released from "Reserve for currency translation differences"	17	-
Valuation losses on other investments	-	9
	<b>535</b>	<b>406</b>

## 10.32 EARNINGS PER (ORDINARY AND REGISTERED) SHARE

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

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

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

<i>EUR thousands</i>	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Profit for the financial period	431	742

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

	<b>01-01-2014 to 30-06-2014</b>	<b>01-01-2013 to 30-06-2013</b>
Issued (ordinary and registered) shares as at 1 January	1,339,707	1,285,725
Effect on issued (ordinary and registered) shares during the financial period	-	7,968
Weighted average number of outstanding (ordinary and registered) shares during the financial period	1,339,707	1,293,693

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

The diluted earnings per (ordinary and registered) share is 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 during the financial period including all outstanding convertible securities. Since there are no outstanding convertible securities the calculation of the diluted earnings per (ordinary and registered) share is in accordance with the calculation of basic earnings per (ordinary and registered) share.

## 10.33 RELATED PARTIES

### 10.33.1 Identity of related parties

With regard to PCEEPF the following categories of related parties were distinguished during the financial period:

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

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

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

- A. The Managing Board of Palmer Capital Fondsenbeheer B.V. decided to reduce its own Management fee with the asset management fees paid by PCEEPF (and/or its subsidiaries) to Palmer Capital Czech Republic s.r.o. During the financial period an additional amount of EUR 102.000 was paid by Palmer Capital RE Slovakia s.r.o. to Palmer Capital Czech Republic s.r.o. regarding asset management fee.

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

Personal interests of members of the Managing Board and Supervisory Board are defined in section 10.3 “Personal interests”. The remuneration for the Managing Board is described in section 10.29 “Administrative expenses”. The remuneration for the Supervisory Board and the remuneration for the Statutory Directors are described in the Annual Report 2013 section 12.52 “Other operating expenses”.

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

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

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

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

- A. Providing credit by PCEEPF N.V. to Palmer Capital Central European Properties a.s. for the principal amount of EUR 1,310,000 (31 December 2013: EUR 1,310,000). For this credit provision an annual average interest payment of 12.0% (31 December 2013: 12.0%) was received. As at 30 June 2014 the outstanding amounts are EUR 516,000 (2013: EUR 517,000) and the receivable interest is EUR 631,000 (31 December 2013: EUR 601,000);
- B. Palmer Capital RE Bohemia s.r.o. Management fee to Palmer Capital Czech Republic s.r.o. is payable for the amount of EUR 42,000 (30 June 2013: EUR 42,000). The Managing Board of Palmer Capital Fondsenbeheer B.V. has decided to reduce its own Management fee for the same amount;
- C. Palmer Capital RE Slovakia s.r.o. Management fee to Palmer Capital Czech Republic s.r.o. is payable for the amount of EUR 182,000 (30 June 2013: EUR 80,000). The Managing Board of Palmer Capital Fondsenbeheer B.V. has decided to reduce its own Management fee for the same amount;

- D. Palmer Capital RE Bohemia s.r.o. fee for advisory services to Palmer Capital Czech Republic s.r.o. is payable for the amount of EUR 11,000 (30 June 2013: EUR 7,000);
- E. PC-related parties rented of PCEEPF properties (office) about 259 m<sup>2</sup> (30 June 2013: 259 m<sup>2</sup>);
- F. PCEEPF wages and salaries for its Statutory Directors is payable for the amount of EUR 3,000 (30 June 2013: EUR 7,000);
- G. Providing guarantee by Palmer Capital RE Bohemia s.r.o., as well as Middle Europe Opportunity Fund II N.V., as shareholders of Yellow Properties s.r.o., in favour of Raiffeisen Bank a.s. for the amount of CZK 18,675,000 (EUR 680,000) (30 June 2013: CZK 18,675,000). Palmer Capital RE Bohemia s.r.o. guarantees 5% of this guarantee, in accordance with the stake of Palmer Capital RE Bohemia s.r.o. in Yellow Properties s.r.o.

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

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

- Middle Europe Opportunity Fund II N.V. (MEOF II) (in)directly holds investments in companies in which PCEEPF also holds investments. The following table shows the percentages the Palmer Capital managed companies hold of the outstanding shares in the companies as at 30 June 2014:

Company	MEOF II	PCEEPF	Total
Yellow Properties s.r.o.	95%	5%	100%

#### 10.33.6 Agreements with related parties

PCEEPF has not entered into any agreements with parties affiliated with the Managing Board of PCEEPF, other than as described in the Annual Report 2013 section 12.51.3 “Agreement with Palmer Capital Fondsenbeheer B.V.”.

### 10.34 ESTIMATES AND FORMATION OF AN OPINION BY THE MANAGEMENT

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

The major sources of uncertainty in estimates are as follows:

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

In section 10.10.3 “Valuation of investment properties” the critical assessments by the Managing Board in applying PCEEPF’s principles of the valuation of the investment properties are stated.

## **11 OTHER INFORMATION**

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

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

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

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

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

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

### **11.3 PERSONAL INTERESTS**

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by PCEEPF, except for B. Vos M.Sc. who had 2,000 ordinary shares (31 December 2013: 2,000) in private possession and 2,074 ordinary shares (31 December 2013: 2,074) in possession through Bas Vos B.V.

As at 30 June 2014 Palmer Capital Investments GmbH held 42,888 registered shares (31 December 2013: 42,888) in PCEEPF.

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

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

- Reduction of the issued share capital.

#### **11.5 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE**

During August 2014 the Managing Board of Palmer Capital Fondsenbeheer B.V. decided (for the time being) to "cap" the total Management fee 2014 at EUR 800,000 and to waive provisionally the claim above EUR 800,000.

During August 2014 the investment property Račianska 71, residing in Bratislava (Slovakia), was sold for an amount of EUR 500,000.

#### **11.6 AUDITOR'S REPORT**

The information in this Semi-Annual Report has not been audited by an expert pursuant to article 393 Book 2 BW (auditor's report).