



ARCONA CAPITAL



**ARCONA PROPERTY FUND N.V.  
SEMI-ANNUAL REPORT 2019**

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# 1 FOREWORD FROM THE MANAGEMENT

Although economic growth slowed sharply across western and southern Europe during the first six months of 2019, the data for Central Europe shows continuing strong regional performance, with year-on-year growth of 4.4% in Poland, 2.7% in Czech Republic and 1.9% in Slovakia. Against this positive background, the operational performance of the Arcona Property Fund has been stable for the H1 2019 period covered by this report and Management is maintaining the forecast of an operational profit of €2.4 million for the full year. Progress has continued on the expansion of the portfolio, with conditional agreements signed in June for the acquisition of the Kliwer office property in Warsaw and, post balance-sheet date, in August, for the first stage of the acquisition of the non-Greek assets of Secure Property Development and Investment PLC (SPDI). These acquisitions will expand the Fund's regional presence into Bulgaria, Romania and the Ukraine and grow asset volume to ca. €175 million when completed.

Management intends to pay an interim dividend of 10 cents per share. An announcement on timing will be made in September.

**Table 1 - Key data per 30-6-2019 and 31-12-2018**

	<b>30-06-2019</b>	<b>31-12-2018</b>
Number of assets <sup>1</sup>	24	24
Fair value Investment Properties (in € 1,000) <sup>2</sup>	89,322 <sup>3</sup>	89,032
Total Assets (in € 1,000)	94,722	92,657
Shareholders' Equity (in € 1,000)	40,356	40,911
Total Liabilities (in € 1,000)	54,366	51,746
Bank Debts (in € 1,000)	34,483	33,671
Bonds + other loans (in € 1,000)	47,329	44,849
LTV (%)	51.3	50.5
Share price ultimo (in €)	6.74	7.10
Occupancy (in %)	86.9	86.9
Annual gross income (in € 1,000)		10,798
Semi-annual gross Income (in € 1,000)	5,419	-

The number of outstanding shares is 3,165,149. The sum of outstanding bank loans increased by € 0.81 million to € 34.48 million during the reporting period. The total LTV (including convertible bonds) increased by 0.8% to 51.3% (31 December 2018: 50.5%).

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<sup>1</sup> The KLIWER acquisition is expected to be finalised in Q4 of 2019

<sup>2</sup> Including € 10,910,000 assets held for sale

<sup>3</sup> Excluding €1.63 million Rights-of-use assets

## KEY FIGURES

### Balance sheet statement (in € 1,000)

	H1 2019	H1 2018	2018	2017	2016	2015
Investment properties	79,533	89,623	89,032	89,798	74,806	53,272
Other non-current assets	831	1,182	680	1,385	1,548	1,523
Current assets	14,358	3,980	2,945	7,660	7,598	1,408
<b>Total assets</b>	<b>94,722</b>	<b>94,785</b>	<b>92,657</b>	<b>98,843</b>	<b>83,952</b>	<b>56,203</b>
Shareholders' equity	40,356	41,905	40,911	42,036	36,452	28,569
Deferred tax liabilities	4,678	4,986	4,606	5,157	4,177	4,271
Other non-current liabilities	31,001	35,126	26,519	43,942	25,195	21,010
Current liabilities	18,687	12,768	20,621	7,708	18,128	2,353
<b>Total equity and liabilities</b>	<b>94,722</b>	<b>94,785</b>	<b>92,657</b>	<b>98,843</b>	<b>83,952</b>	<b>56,203</b>
Loan-to-Value (in %)	51.3	51.1	50.5	52.7	49.3	41.0

### Profit and Loss statement (in € 1,000)

	H1 2019	H1 2018	2018	2017	2016	2015
Direct result before tax	634	852	1,482	3,161	-/- 325	707
Indirect result before tax	-/- 281	-	-/- 1,336	3,250	-/- 208	-/- 6
<b>Total result before tax</b>	<b>353</b>	<b>852</b>	<b>146</b>	<b>6,411</b>	<b>-/- 533</b>	<b>701</b>
Income tax expense	158	282	352	842	-/- 241	263
<b>Total result after tax</b>	<b>195</b>	<b>570</b>	<b>-/- 197</b>	<b>5,569</b>	<b>-/- 292</b>	<b>438</b>
Occupancy (in %)	86.9	84.0	86.9	84.0	80.7	78.0
Rentable area (in m <sup>2</sup> )	103,956	103,589	104,216	104,186	100,673	80,754

### Issued capital

	H1 2019	H1 2018	2018	2017	2016	2015
Ultimo outstanding shares	3,165,149	3,165,149	3,165,149	3,165,149	3,165,149	1,438,704
Basic earnings per share (€)	0.06	0.18	-/- 0.05	1.76	-/- 0.14	0.25
Adj. EPRA Earnings (€) <sup>4</sup>	0.16	0.14	-	-	-	-

### Data per share

	H1 2019	H1 2018	2018	2017	2016	2015
(Interim-) dividend	0.10	0.10	0.35	0.24	- <sup>5</sup>	0.35
NAV <sup>6</sup>	-	-	-	13.37	11.69	20.30
NNNAV conform EPRA <sup>7</sup>	13.29	14.01	13.65	14.05	-	-
Avg. monthly turnover (in €)	211,502	282,847	260,359	231,240	102,192	387,413
Highest price (in €)	7.48	7.95	7.95	7.40	8.15	9.51
Lowest price (in €)	6.69	7.01	6.79	5.20	5.00	6.84
Ultimo price (in €)	6.74	7.26	7.10	7.40	5.40	8.35

<sup>4</sup> EPRA Earnings indicator was introduced in 2018

<sup>5</sup> The AGM rejected a share distribution from the share premium reserve, whereby 32 existing shares of the Fund gave an entitlement to one new share of the Fund.

<sup>6</sup> Determined based on previous method

<sup>7</sup> Determined based on market conform EPRA method

## 2 REPORT OF THE MANAGEMENT BOARD

The Management Board hereby presents the semi-annual report of 2019 of Arcona Property Fund N.V. (the Fund). The reporting period is from 1 January 2019 to 30 June 2019.

### 2.1 SUMMARY OF EVENTS DURING THE FIRST HALF OF 2019

**Table 2 – Total Return on share price and Net Asset Value during H1 2019**

	Based on share price		Based on NNNAV	
	In €	In %	In €	In %
Start period	7.09		13.65	
End period	6.74		13.29	
Return	-/ 0.35		-/ 0.36	
Distribution to shareholders	0.25		0.25	
<b>Total Return</b>	<b>-/ 0.10</b>	<b>-/ 1.4</b>	<b>-/ 0.11</b>	<b>-/ 0.8</b>

#### 2.1.1 DEVELOPMENTS DURING H1 2019

The key events during the reporting period were the refinancing of the Czech real estate portfolio and the agreement to acquire the KLIWER office building in Warsaw, Poland.

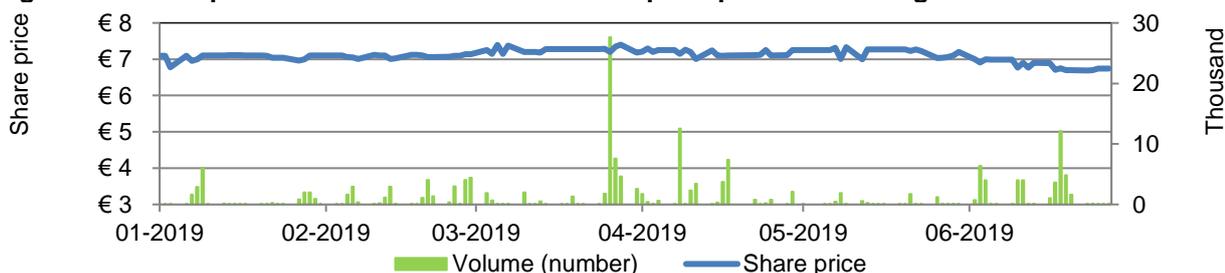
The KLIWER purchase, which is conditional on the raising of approximately € 5 million of acquisition funding during H2 2019, should give the Fund exposure to the vibrant Warsaw office market, now established as the CEE region's dominant financial centre. The property was completed in 2004, is fully leased and provides 5,969 m<sup>2</sup> of modern office space. On acquisition, it will be the Fund's largest single asset.

The refinancing by Sberbank of the four-asset Czech portfolio, completed in April, was concluded at an overall interest rate of 3.79% on a loan amount of CZK 235 million (€9.2 million). This increased the total LTV ratio of the Fund from 50.5% to 51.3%.

The Fund realized an adjusted EPRA Earnings before tax of € 504,000 in the first half of 2019, against an adjusted EPRA Earnings of € 430,000 in the same period last year, an increase of 17.2% (see 3.1.4 "Calculation of (diluted) adjusted EPRA Earnings"). Net rental income increased in the second quarter of 2019 by 20.1% compared to the first quarter, from € 1.09 million to € 1.32 million.

The weighted occupancy of the portfolio over the reporting period remained stable at 86.9% in comparison to end 2018. The net rental and related income of € 2.41 million over the six-month reporting period was also consistent with the equivalent period in 2018. Shareholders' equity (see Section 4) decreased during the reporting period by € 0.55 million to € 40.36 million, reflecting the dividend pay-out in early June. The Fund concluded the period with a 0.8% lower net asset value (EPRA NNNAV) per share of € 13.29 at 30 June 2019 (see 3.1.10 "Calculation of EPRA Triple Net Asset Value"). During the same period the price per share on the stock exchange adjusted for shareholder distribution decreased by 1.4% to € 6.74 (see figure 1).

**Figure 1 –Development of the Fund's stock market price per share during H1 2019**



The following events took place during the reporting period:

*Arcona Property Fund N.V. achieves highest Czech occupancy rate (28 February 2019)*

On 28 February the Fund announced it has agreed the letting of the remaining 260 m<sup>2</sup> of office space in its Palmovka office building in Prague, taking the building up to full occupancy. In addition, the Fund has exercised its option to extend by one year, from 1 March 2019, the € 4.7 million loan from Real Estate Central Europe on three supermarkets in Poland.

*Arcona Property Fund N.V. refinances Czech portfolio (18 March 2019)*

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

*Publication of Annual Report 2018 (4 April 2019)*

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

*Arcona Property Fund N.V. further improves occupancy rate (10 April 2019)*

The Fund announced it has extended two existing leases and concluded three new leases in its Polish portfolio. This improves the Fund's occupancy rate to 87.9%.

*Publication of the Q1 figures 2019 (9 May 2019)*

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

*Arcona Property Fund N.V. AGM sets out future plans (22 May 2019)*

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

*Arcona Property Fund N.V. agrees purchase of Warsaw office building (18 June 2019)*

On 18 June the Fund announced it has signed an agreement, conditional on financing, to acquire the KLIWER office building in Warsaw, Poland. The purchase price of the building, which is fully occupied, is approximately € 14 million and the transaction is expected to complete in November 2019.

*Arcona Property Fund N.V. extends loan (24 June 2019)*

On 24 June the Fund announced it has extended until 30 September 2019 a loan of EUR 2.0 million due to expire on 23 June 2019.

## Event after balance sheet date

### *Arcona Property Fund N.V. and SPDI conclude agreement (7 August 2019)*

The Fund has signed a formal agreement with Secure Property Development & Investments Ltd (SPDI) for the purchase of SPDI's real estate holdings in Romania, Bulgaria and Ukraine. The purchase, which is structured in three phases, is expected to be completed before the end of the year.

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

The following tables show the development of the Fund's Net Asset Value during the period 1 January 2019 to 30 June 2019.

**Table 3 – Comparative statement of the EPRA Triple Net NAV per share**

	30-6-2019	31-12-2018
Shareholders' equity in accordance with EPRA NAV (in € 1,000)	43,871	45,320
Including: Fair value of financial instruments	-/- 133	20
Including: Fair value of debt	-	38
Including: Fair value of deferred tax	<u>-/- 1,589</u>	<u>-/- 2,169</u>
Shareholders equity in accordance with EPRA NNAV (in €1,000)	42,059	43,209
Number of ordinary shares in issue	3,165,149	3,165,149
<b>Adjusted EPRA-NNAV (in €)</b>	<b>13.29</b>	<b>13.65</b>
Return on NAV YTD (in %) <sup>8</sup>	-/- 2.6	

**Table 4 – Development of the share price per month in 2019**

Period		Opening price	Closing price	Volume	Volume
		begin period	end period	per month	per Quarter
		In €	In €	In pieces	In pieces
2019	January	7.09	7.10	16,732	
	February	7.10	7.14	23,050	92,218
	March	7.13	7.40	52,436	
	April	7.39	7.25	38,729	
	May	7.25	7.20	6,116	87,295
	June	7.01	6.74	42,450	
<b>Average per quarter</b>					<b>89,757</b>

The above table shows an average trading volume of 1,448 shares per day of trading during the first half of 2019. The stock price traded at € 6.74 at the end of the reporting period, which corresponds to a 48.8% discount on the triple net asset value per share.

<sup>8</sup> Including the shareholder distributions. Without shareholder distributions it is -/- 1.4%

### 2.1.3 REAL ESTATE PORTFOLIO DEVELOPMENT

**Table 5 – Comparative statement of the real estate portfolio**

	30-06-2019	31-12-2018	change	%
Fair value (in € 1,000) <sup>9</sup>	89,322	89,032	290	0.3
Number of properties	24	24	0	0.0
Rentable area (in m <sup>2</sup> )	103,956	103,589	367	0.4
Occupancy (in %) <sup>10</sup>	86.9	86.9	0	0.0

The increase in fair value (€ 290,000) is related to investments (€ 110,000) and fair value adjustments (€ 180,000).

**Table 6 – Statement of changes in investment properties**

	01-01-2019 to 30-06-2019 in € 1,000	01-01-2018 to 31-12-2018 in € 1,000
<b>Balance as at 1 January</b>	<b>89,032</b>	<b>89,798</b>
Purchases and additions	110	690
Fair value adjustments	-	-/- 1,336
Exchange rate differences	180	-/- 120
Reclassification (to "Assets held for sale")	-/- 11,416	-
<b>Balance as at 30 June / 31 December</b>	<b>77,906</b>	<b>89,032</b>

The "Purchases and additions" for the amount of € 110,000 is related to capital expenses in the portfolio.

The "Reclassification (to "Assets held for sale")" for the amount of € 11.42 million involves the Kalisz property in Poland and several properties in Kosice Slovakia. See also 11.2.3. "Statement of changes in owned investment property".

**Table 7 – Comparative semi-annual statement of real estate income within portfolio**

	01-01-2019 until 30-06-2019 in € 1,000	01-01-2018 until 30-06-2018 in € 1,000	Change in € 1,000	Change In %
Gross rental income	4,289	4,383	-/- 94	-/- 2.1
Service cost income	1,130	973	157	16.1
<b>Total income</b>	<b>5,419</b>	<b>5,356</b>	<b>63</b>	<b>1.2</b>
Service costs	-/- 1,743	-/- 1,577	-/- 166	10.5
Operational costs	-/- 1,266	-/- 1,363	97	-/- 7.1
<b>Net rental income</b>	<b>2,410</b>	<b>2,417</b>	<b>-/- 7</b>	<b>-/- 0.3</b>

Total income increased by 1.2% to € 5.42 million. Net rental income decreased by 0.3% to € 2.41 million, due to increases in service costs.

<sup>9</sup> Without € 1.63 million right-of-use assets

<sup>10</sup> Weighted based on fair value

## 2.2 FINANCIAL HIGHLIGHTS

### 2.2.1 BALANCE

**Table 8 – Balance statement**

	<b>30-6-2019</b>	<b>31-12-2018</b>
	in € 1,000	in € 1,000
Investment property	79,533	89,032
Non-current assets	831	680
Current assets	14,358	2,945
<b>Total assets</b>	<b>94,722</b>	<b>92,657</b>
Shareholders' equity	40,356	40,911
Deferred tax liabilities	4,678	4,606
Long-term loans and borrowings	31,001	26,519
Total current liabilities	18,687	20,621
<b>Total shareholders' equity and liabilities</b>	<b>94,722</b>	<b>92,657</b>

The net € 17.74 million change in “*Investment property*” is explained by the € 11.42 million reclassification to assets held for sale of two properties in Kosice Slovakia and one in Poland (see 11.10.1 “Analysis of assets held for sale”) and the IFRS 16 implementation of the € 1.63 million Right-of-use assets applied to the land-leases in Poland (see 11.2.5 “Specification of right-of-use assets”).

“*Shareholders' equity*” decreased by € 550,000, reflecting the € 790,000 dividend distribution, the € 200,000 operational result and the € 40,000 exchange rate result during the period.

## 2.2.2 RESULT

The profit for the first half of 2019 after tax (see table 10 and Section 8) amounted to € 195,000 (H1 2018: € 570,000). A detailed summary with comparative figures of the direct and indirect result is provided in the consolidated annual accounts in Section 7 and in the following paragraphs.

**Table 9 – Comparative statement of semi-annual results**

	<b>01-01-2019 until 30-6-2019</b> In € 1,000	<b>01-01-2018 until 30-6-2018</b> In € 1,000	<b>Change</b> In € 1,000	<b>Change</b> In %
Direct result before tax	634	852	-/- 218	-/- 25.6%
Indirect result before tax	-/- 281	0	-/- 281	n.a.
<b>Result before tax</b>	<b>353</b>	<b>852</b>	<b>-/- 499</b>	<b>-/- 58.6%</b>
Tax	-/- 158	-/- 282	124	-/- 44.0%
<b>Result after tax</b>	<b>195</b>	<b>570</b>	<b>-/- 375</b>	<b>-/- 65.8%</b>

The “*direct result before tax*” of € 634,000 was € 218,000 lower than the comparable previous period. This is related to the € 230,000 higher Financial expenses, due to changes in fair value of derivatives and the higher RECE vendor loan interest rate, in comparison to the previous period.

The “*indirect result before tax*” of -/- € 281,000 was € 281,000 lower than the comparable previous period. This is related to the Kalisz property, which has been reclassified to ‘asset held for sale’ based on the conditional lower sale price.

## 2.2.3 CASH FLOW

The net cash flow of the Fund after operating, investment and financing activities was -/- € 64,000 (H1 2018: € 283,000). The table below provides a summary of the cash flow.

**Table 10 – Consolidated cash flow statement**

	<b>01-01-2019 to 30-06-2019</b> in € 1,000	<b>01-01-2018 to 30-06-2018</b> in € 1,000
Cash flow from operating activities	239	314
Cash flow from investing activities	-/- 110	3,663
Cash flow from financing activities	-/- 192	-/- 3,694
<b>Net increase / decrease (-/-) in cash and cash equivalents</b>	<b>-/- 64</b>	<b>283</b>

The “*Cash flow from operating activities*” is the net cashflow from operating activities minus the interest and income tax payments.

The “*Cash flow from investing activities*” is the net cash flow from proceeds from sales of properties and capital investment costs for properties in the portfolio.

The “*Cash flow from financing activities*” records the net cash inflow from new borrowings and the repayments of loans and borrowings (see 8 ‘Consolidated statement of cash flow’).

**Table 11 – Statement of recognised income and expense**

	<b>H1 2019</b> in € 1,000	<b>H1 2018</b> in € 1,000
Foreign currency exchange differences on net investment in group companies	37	-/- 303
Income tax on foreign currency exchange differences on net investments in group companies	4	45
	<u>41</u>	<u>-/- 258</u>
<b>Net gain/ (loss) recognised directly in shareholders' equity</b>	<b>41</b>	<b>-/- 258</b>
Result for the period	+ 195	+ 570
<b>Total comprehensive income for the period</b>	<b>236</b>	<b>312</b>

## 2.2.4 BANK LOANS

**Table 12 – Overview of interest-bearing loans and borrowings**

	<b>30-6-2018</b> in € 1,000	<b>31-12-2018</b> in € 1,000
Secured bank loans	25,553	17,994
Convertible bonds	3,426	3,412
Lease liabilities <sup>11</sup>	1,469	-
<b>Subtotal</b>	<b>30,448</b>	<b>21,406</b>
Other long-term liabilities	-	4,710
<b>Total long-term interest-bearing loans and borrowings</b>	<b>30,448</b>	<b>26,116</b>
Current portion of secured bank loans <sup>12</sup>	8,930	15,677
Current portion other long-term liabilities	6,710	2,000
Current portion lease liabilities	177	-
Current portion of convertible bonds	1,064	1,056
<b>Total short-term interest-bearing loans and borrowings</b>	<b>16,881</b>	<b>18,733</b>
<b>Total interest-bearing loans and borrowings</b>	<b>47,329</b>	<b>44,849</b>

Over the past six months the total loan-to-value ratio (**LTV**) of the portfolio has increased due to a larger Czech bank loan after refinancing to from 50.5% to 51.3%. The Fund 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.

See section 11.12 (“loans and borrowings”) for more information on the secured bank loans

<sup>11</sup> Lease liabilities

<sup>12</sup> See 12.40.1 “Analysis of interest-bearing loans and borrowings”.

## 2.2.5 FOREIGN CURRENCY

	30-06-2019	31-12-2018	30-06-2018
Czech Koruna (EUR / CZK)	25.447	25.724	26.02000
% change	1.1%	0.7%	-/ - 1.9%
Polish Zloty (EUR / PLN)	4.2496	4.3014	4.37320
% change	1.2%	3.0%	-/ - 4.7%
Pound Sterling (EUR / GBP)	0.89655	0.89453	0.88605
% change	-/ - 0.2%	-/ - 0.8%	0.0%

Source: European Central Bank (ECB)

## 2.3 DIVIDEND

During the General Shareholder Meeting in May 2019 the Managing Board recommended for 2018 a final € 0.25 cash distribution per share. This proposal was adopted by the shareholders.

The intention is to pay an interim dividend with the half year results, as well as a final dividend each year, both in cash. Dividend proposals will, however, need to reflect considerations including expected future capital requirements, growth opportunities available to the Fund, net cash generation and regulatory developments.

Based on the first half year results for 2019, the Fund plans a distribution of an interim dividend of 10 cents per share. The final decision on timing will be taken in the course of September. Further details regarding the distribution will follow in a press release.

## 2.4 FUND OUTLOOK

Continuing strong economic growth across the CEE region can be contrasted with less positive economic developments elsewhere in Europe. Against this background, the stable and consistent performance of the Fund's core income-generating portfolio in Poland, Czech Republic and Slovakia should support continuing increases in dividend payments to our shareholders. The selective rebalancing of this portfolio by opportunistic purchases in key regional centres and the continuing disposal of underperforming and less-liquid properties will continue. The plan for further improvement of the existing portfolio over the next 12 months should involve transaction volumes of circa. € 25 million, whereby some EUR 11m of non-core assets in Slovak regional cities are replaced with a prime office property in Warsaw. This rotation will give the Fund a better regional balance, improved occupancy rates and a higher-quality cash flow. The Fund maintains its forecast of a net operational result of ca. € 2,400,000 for 2019.

However, in the view of Management it is essential to continue the expansion of the Fund to generate economies of scale and to improve the visibility and turnover of the Fund's stock. The acquisition of the majority of the assets of SPDI will significantly increase the size of the Fund and expand its regional coverage across South-Eastern Europe. The issuance of additional shares to fund the purchase will not dilute existing shareholders economic interest but will substantially increase the total number of shares issued and broaden the shareholder base as SPDI distributes this consideration pro-rata to its shareholders. The acquisition of SPDI's assets through an all-share transaction creates the opportunity for value realisation in a number of areas and a concomitant increase in distributions to all shareholders. A framework agreement for the entire acquisition was signed between the Fund and SPDI in August 2019, together with contracts for the acquisition of the first tranche of assets in Bulgaria and Ukraine. These first-tranche acquisitions are expected to be completed in Q3 2019 and the remainder of the deal by year-end. The impact on the performance of the Fund will become apparent from 2020 onwards.

Management will continue to report to and consult with shareholders periodically in respect to the SPDI transaction in accordance with the commitments given by the Board at the General Meetings of the Fund.

## **2.5 DECLARATION OF THE MANAGING BOARD**

The Managing Board of the Property Fund hereby declares that, to the best of its knowledge, the consolidated interim financial statements prepared in accordance with IAS 34 “Interim Financial Reporting”, provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Arcona Property Fund and the undertakings included in the consolidation taken as a whole and that the interim financial statements include a true and fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”).

*Amsterdam, 29 August 2019*

*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*

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
AS AT 30 JUNE 2019**

# CONTENTS

- 3 EPRA PERFORMANCE INDICATORS .....17**
- 4 CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....24**
- 5 CONSOLIDATED INCOME STATEMENT .....25**
- 6 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....26**
- 7 CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY .....27**
- 8 CONSOLIDATED STATEMENT OF CASH FLOW .....28**
- 9 ACCOUNTING PRINCIPLES CONSOLIDATED INTERIM FINANCIAL STATEMENTS .....29**
  - 9.1 REPORTING ENTITY .....29
  - 9.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES .....29
  - 9.3 STATEMENT OF COMPLIANCE AND FUTURE RELATED ASSUMPTIONS .....29
  - 9.4 BASIS OF PREPARATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS .....30
  - 9.5 EXCHANGE RATES .....31
- 10 SEGMENT INFORMATION .....32**
  - 10.1 SEGMENT RESULTS .....33
- 11 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS .....37**
  - 11.1 SUBSIDIARIES .....37
  - 11.2 INVESTMENT PROPERTY .....38
  - 11.3 OTHER INVESTMENTS .....39
  - 11.4 RECOGNISED DEFERRED TAXES .....41
  - 11.5 DEFERRED TAX ASSETS .....43
  - 11.6 TRADE AND OTHER RECEIVABLES .....44
  - 11.7 PREPAYMENTS AND LEASE INCENTIVES .....45
  - 11.8 CASH AND CASH EQUIVALENTS .....45
  - 11.9 TAX ASSETS .....46
  - 11.10 ASSETS HELD FOR SALE .....46
  - 11.11 GROUP EQUITY .....47
  - 11.12 LOANS AND BORROWINGS .....48
  - 11.13 TRADE AND OTHER PAYABLES .....49
  - 11.14 DEFERRED INCOME AND TENANT DEPOSITS .....50
  - 11.15 DEFERRED TAX LIABILITIES .....50
  - 11.16 TAX LIABILITIES .....50
  - 11.17 FINANCIAL INSTRUMENTS .....51
  - 11.18 CONTINGENT ASSETS .....51
  - 11.19 NON-CONTINGENT LIABILITIES .....52
  - 11.20 CONTINGENT LIABILITIES .....52
  - 11.21 GROSS RENTAL INCOME .....53
  - 11.22 PROPERTY OPERATING EXPENSES .....53
  - 11.23 VALUATION RESULTS OF PROPERTIES .....54
  - 11.24 NET RESULTS ON PROPERTIES .....54
  - 11.25 FINANCIAL INCOME .....54
  - 11.26 OTHER OPERATING INCOME .....55
  - 11.27 ADMINISTRATIVE EXPENSES .....55
  - 11.28 OTHER OPERATING EXPENSES .....56

11.29	FINANCIAL EXPENSES.....	57
11.30	EARNINGS PER SHARE .....	58
11.31	RISK MANAGEMENT .....	60
11.32	RELATED PARTIES .....	60
11.33	EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE .....	63
11.34	ESTIMATES AND FORMATION OF AN OPINION BY THE MANAGEMENT .....	63
<b>12</b>	<b>OTHER INFORMATION.....</b>	<b>64</b>
12.1	PERSONAL INTERESTS.....	64
12.2	INDEPENDENT AUDITOR'S REPORT .....	64

### **3 EPRA PERFORMANCE INDICATORS**

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

#### **3.1.1 EPRA Earnings**

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

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

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

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

The Diluted EPRA Earnings per share ("Diluted EPRA EPS") should be calculated on a diluted basis taking into account the impact of any options, convertibles, etcetera that are "dilutive". For the explanation of the effect of exercise of options of options, convertibles and other equity interests (fully diluted basis) see the explanation in (3), mentioned in section 3.1.8 "Explanation of adjustments calculation of EPRA Net Asset Value".

### 3.1.2 Calculation of (diluted) EPRA Earnings

	Notes	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
Earnings per IFRS Consolidated Income Statement	5	195	570
<i>Exclude:</i>			
1. Valuation results of properties and other investments		-	-
2. Results on disposals of properties and other investments	11.25	-/ 47	-/ 139
3. Tax on results on disposals of properties and other investments		-	-
4. Changes in fair value of financial instruments		151	42
5. Acquisition costs on share deals		-	-
6. Taxes in respect of EPRA adjustments		-	-
<b>EPRA Earnings</b>		<b>299</b>	<b>473</b>
Total number of shares in issue entitled to profit	11.30.3	3,165,149	3,165,149
<b>EPRA Earnings per share (in €)</b>		<b>0.09</b>	<b>0.15</b>
Total number of outstanding profit-sharing shares (fully diluted)	11.30.6	3,165,149	3,165,149
<b>Diluted EPRA Earnings per share (in €)</b>		<b>0.09</b>	<b>0.15</b>

### 3.1.3 Explanation of adjustments calculation of (Diluted) EPRA Earnings

#### 1. Valuation results of properties and other investments

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

#### 2. Results on disposals of properties and other investments

This adjustment includes the profit or loss on disposal of owned investment properties and other investments. Therefore the results on disposals of properties held for sale and right-of-use assets are not excluded from EPRA Earnings.

The adjustment includes also the profit or loss on foreign currency translation differences in case of (partial) reduction of net investment in foreign activities (release from "Reserve for currency translation differences").

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

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

4. *Changes in fair value of financial instruments*

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

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

5. *Acquisition costs on share deals*

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

6. *Taxes in respect of EPRA adjustments*

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

### 3.1.4 Calculation of (diluted) adjusted EPRA Earnings

	Notes	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
EPRA Earnings	3.1.2	299	473
<i>Exclude:</i>			
1. Valuation results of "Properties held for sale"	11.23.1	239	-
2. Valuation results of "Right of use assets"	11.23.1	42	-
3. Early termination of rent contracts	11.26	-/- 258	-/- 81
4. Costs of funding and acquisition	11.28.4	193	-
5. Interest expense on lease liabilities	11.29	51	-
6. Other exchange and currency translation results	11.29	28	23
<i>Include:</i>			
7. Operating leases		-/- 93	-
Subtotal adjustments (before taxes)		202	-/- 58
8. Taxes in respect of above adjustments		3	15
Total adjustments		205	-/- 43
<b>Adjusted EPRA Earnings</b>		<b>504</b>	<b>430</b>
Total number of shares in issue entitled to profit	11.30.3	3,165,149	3,165,149
<b>Adjusted EPRA Earnings per share (in €)</b>		<b>0.16</b>	<b>0.14</b>
Total number of outstanding profit-sharing shares (fully diluted)	11.30.6	3,165,149	3,165,149
<b>Diluted adjusted EPRA Earnings per share (in €)</b>		<b>0.16</b>	<b>0.14</b>

### 3.1.5 Explanation of adjustments calculation of (diluted) adjusted EPRA Earnings

The EPRA Earnings is a measure of the underlying operating performance of an investment property company. It therefore does provide a measure of recurring income, but does not, for example, exclude "exceptional" items that are part of IFRS Earnings. For that reason the Fund has introduced its own (diluted) adjusted EPRA Earnings. In this calculation the Fund excludes "exceptional" and "one-off costs" and "one-off revenues". Moreover in this calculation valuation results, as well as results on disposals of properties held for sale and right-of-use assets are excluded, as well as accreted interest lease liabilities.

The operating leases are included in the calculation of the (diluted) adjusted EPRA Earnings. As a result of above described adjustments the impact of applying IFRS 16 (e.g. fair value adjustments right-of-use assets) are eliminated in the (diluted) adjusted EPRA Earnings.

### 3.1.6 EPRA Net Asset Value

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

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

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

### 3.1.7 Calculation of EPRA Net Asset Value

	Notes	30-06-2019 In € 1,000	31-12-2018 In € 1,000
Group equity in accordance with IFRS	4	40,356	40,911
<i>Exclude:</i>			
1. Fair value of financial instruments		133	-/ 20
2. Deferred tax	11.4.1	3,292	4,429
<b>Group equity in accordance with EPRA NAV</b>		<b>43,781</b>	<b>45,320</b>
Total number of shares in issue entitled to profit	11.30.3	3,165,149	3,165,149
3. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	11.30.6	-	-
<b>Total number of outstanding profit-sharing shares (fully diluted)</b>	11.30.6	<b>3,165,149</b>	<b>3,165,149</b>
<b>EPRA NAV per profit-sharing share (in €)</b>		<b>13.83</b>	<b>14.32</b>

### 3.1.8 Explanation of adjustments calculation of EPRA Net Asset Value

#### 1. Fair value of financial instruments

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

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

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

## 2. *Deferred tax*

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

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

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

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

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

### 3.1.9 EPRA Triple Net Asset Value

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

### 3.1.10 Calculation of EPRA Triple Net Asset Value

	Notes	30-06-2019 In € 1,000	31-12-2018 In € 1,000
Group equity in accordance with EPRA NAV	3.1.7	43,781	45,320
<i>Include:</i>			
1. Fair value of financial instruments		-/- 133	20
2. Fair value of debt		-	38
3. Fair value of deferred tax		-/- 1,589	-/- 2,169
<b>Group equity in accordance with EPRA NNNAV</b>		<b>42,059</b>	<b>43,209</b>
Total number of shares in issue entitled to profit	11.30.3	3,165,149	3,165,149
4. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	11.30.6	-	-
<b>Total number of outstanding profit-sharing shares (fully diluted)</b>	11.30.6	<b>3,165,149</b>	<b>3,165,149</b>
<b>EPRA NNNAV per profit-sharing share (in €)</b>		<b>13.29</b>	<b>13.65</b>

### 3.1.11 Explanation of adjustments calculation of EPRA Triple Net Asset Value

#### 1. *Fair value of financial instruments*

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

#### 2. *Fair value of debt*

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

### 3. Fair value of deferred tax

This adjustment includes the fair value of the deferred taxes concerning investment property, development property held for investment or other non-current investments (including investments in group companies; these three items hereinafter mentioned as “non-current investments”). The deferred taxes are calculated with regard to all taxable temporary differences with regard to the “non-current investments”, whether these deferred taxes are included in the Statement of Financial Position or not. For items not included in the Statement of Financial Position, we refer to section 13.28.3 in the Consolidated Financial Statements 2018.

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

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

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

For the effect of exercise of options, convertibles and other equity interests (fully diluted basis) see the explanation in section 3.1.8 (3) “Explanation of adjustments calculation of EPRA Net Asset Value” above.

#### 3.1.12 Calculation of EPRA Triple Net Asset Value before distributions to shareholders

	Notes	30-06-2019 In € 1,000	31-12-2018 In € 1,000
Group equity in accordance with EPRA NNAV	3.1.10	42,059	43,209
<i>Exclude:</i>			
1. Cumulative distributions to shareholders		2,803	2,012
<b>Group equity in accordance with EPRA NNAV before distributions to shareholders</b>		<b>44,862</b>	<b>45,221</b>
Total number of shares in issue entitled to profit	11.30.3	3,165,149	3,165,149
2. Effect of exercise of options, convertibles and other equity interests (fully diluted basis)	11.30.6	-	-
<b>Total number of outstanding profit-sharing shares (fully diluted)</b>	11.30.6	<b>3,165,149</b>	<b>3,165,149</b>
<b>EPRA NNAV per profit-sharing share before distributions to shareholders (in €)</b>		<b>14.17</b>	<b>14.29</b>

## 4 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30-06-2019</b> In € 1,000	<b>31-12-2018</b> In € 1,000
<b>Assets</b>			
Investment property	11.2	79,533	89,032
Other investments	11.3	5	5
Deferred tax assets	11.4	324	236
Trade and other receivables	11.6	4	18
Prepayments and lease incentives	11.7	198	121
Cash and cash equivalents	11.8	300	300
<b>Total non-current assets</b>		<b>80,364</b>	<b>89,712</b>
Tax assets	11.9	66	124
Trade and other receivables	11.6	915	706
Prepayments and lease incentives	11.7	560	421
Cash and cash equivalents	11.8	1,640	1,694
Assets held for sale	11.10	11,177	-
<b>Total current assets</b>		<b>14,358</b>	<b>2,945</b>
<b>Total assets</b>		<b>94,722</b>	<b>92,657</b>
<b>Group equity</b> (attributable to Parent Company shareholders)	7	<b>40,356</b>	<b>40,911</b>
<b>Liabilities</b>			
Loans and borrowings	11.12	30,448	26,116
Trade and other payables	11.13	146	37
Deferred income and tenant deposits	11.14	407	366
Deferred tax liabilities	11.4	4,678	4,606
<b>Total non-current liabilities</b>		<b>35,679</b>	<b>31,125</b>
Tax liabilities	11.16	265	108
Loans and borrowings	11.12	16,881	18,733
Trade and other payables	11.13	1,351	1,595
Deferred income and tenant deposits	11.14	190	185
<b>Total current liabilities</b>		<b>18,687</b>	<b>20,621</b>
<b>Total liabilities</b>		<b>54,366</b>	<b>51,746</b>
<b>Total group equity and liabilities</b>		<b>94,722</b>	<b>92,657</b>

## 5 CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
Gross rental income	11.21	4,289	4,384
Service charge income		1,130	973
Service charge expenses		-/- 1,743	-/- 1,577
Property operating expenses	11.22	-/- 1,266	-/- 1,363
<b>Net rental and related income</b>		<b>2,410</b>	<b>2,417</b>
Valuation results of properties	11.23	-/- 281	-
Results on disposals of properties		-	-
<b>Net results on properties</b>	11.24	<b>-/- 281</b>	<b>-</b>
Financial income	11.25	52	162
Other operating income	11.26	267	86
<b>Other income</b>		<b>319</b>	<b>248</b>
<b>Total income</b>		<b>2,448</b>	<b>2,665</b>
Administrative expenses	11.27	335	348
Other operating expenses	11.28	626	561
		<b>961</b>	<b>909</b>
<b>Net operating result before financial expenses</b>		<b>1,487</b>	<b>1,756</b>
Financial expenses	11.29	1,134	904
<b>Profit before income tax</b>		<b>353</b>	<b>852</b>
Income tax expense		158	282
<b>Profit for the period</b>		<b>195</b>	<b>570</b>
<b>Attributable to:</b>			
Parent Company shareholders		195	570
<b>Profit for the period</b>		<b>195</b>	<b>570</b>
Basic earnings per share (€)	11.30.1	0.06	0.18
Diluted earnings per share (€)	11.30.4	0.06	0.18

## 6 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences on net investment in group companies		37	-/- 303
Income tax on foreign currency translation differences on net investments in group companies		4	45
		41	-/- 258
<b>Net gain / loss (-/-) recognised directly in group equity</b>		<b>41</b>	<b>-/- 258</b>
<b>Profit for the period</b>	5	195	570
<b>Total comprehensive income for the period</b>		<b>236</b>	<b>312</b>
<b>Attributable to:</b>			
Parent Company shareholders		236	312
<b>Total comprehensive income for the period</b>		<b>236</b>	<b>312</b>

## 7 CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Issued capital In € 1,000	Share premium In € 1,000	Revaluation reserve In € 1,000	Reserve currency translation differences In € 1,000	Equity component convertible bonds In € 1,000	Retained earnings In € 1,000	Total share- holders' equity In € 1,000
Balance as at 1 January 2019	15,826	15,350	7,661	2,136	210	-/- 272	40,911
Total comprehensive income	-	-	-	41	-	195	236
Distributions to shareholders	-	-/- 791	-	-	-	-	-/- 791
<b>Balance as at 30 June 2019</b>	<b>15,826</b>	<b>14,559</b>	<b>7,661</b>	<b>2,177</b>	<b>210</b>	<b>-/- 77</b>	<b>40,356</b>
Balance as at 1 January 2018	15,826	16,110	7,196	2,304	266	334	42,036
Total comprehensive income	-	-	22	-/- 258	-/- 56	604	312
Distributions to shareholders	-	-/- 443	-	-	-	-	-/- 443
<b>Balance as at 30 June 2018</b>	<b>15,826</b>	<b>15,667</b>	<b>7,218</b>	<b>2,046</b>	<b>210</b>	<b>938</b>	<b>41,905</b>

## 8 CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
<b>Cash flow from operating activities</b>			
Profit for the period	5	195	570
<i>Adjustments for:</i>			
Valuation results of properties <sup>1</sup>	11.23	281	-
Change in fair value of derivatives	11.29	-/- 129	-/- 18
Financial income	11.25	-/- 52	-/- 162
Financial expenses	11.29	1,134	904
Income tax expense		158	282
<i>Changes in:</i>			
Change in tax assets		2	-
Change in trade and other receivables		-/- 198	-/- 215
Change in prepayments and lease incentives		-/- 220	219
Change in tax liabilities		101	66
Change in trade and other payables		-/- 207	-/- 335
Change in deferred income and tenant deposits		43	-/- 114
<b>Cash generated from operating activities</b>		<b>1,108</b>	<b>1,197</b>
Interest received		5	23
Interest paid		-/- 812	-/- 840
Income tax paid / income tax received		-/- 63	-/- 66
<b>Net cash from / used in (-/-) operating activities</b>		<b>239</b>	<b>314</b>
<b>Cash flow from investing activities</b>			
Proceeds from the sale of properties		-	3,791
Acquisition of / additions to properties		-/- 110	-/- 128
<b>Net cash from / used in (-/-) investing activities</b>		<b>-/- 110</b>	<b>3,663</b>
<b>Cash flow from financing activities</b>			
Proceeds from secured bank loans		1,661	-
Repayment of secured bank loans		-/- 969	-/- 1,831
Repayment of convertible bonds		-	-/- 1,420
Payment of lease liabilities		-/- 93	-
Distributions to shareholders		-/- 791	-/- 443
<b>Net cash from / used in (-/-) financing activities</b>		<b>-/- 192</b>	<b>-/- 3,694</b>
Net increase / decrease (-/-) in cash and cash equivalents		-/- 64	283
Cash and cash equivalents as at 1 January	11.8	1,994	2,919
Effect of exchange and currency translation result on cash held		10	-/- 47
<b>Cash and cash equivalents as at 30 June</b>	11.8	<b>1,940</b>	<b>3,155</b>

<sup>1</sup> Transaction costs and transfer tax excluded.

## **9 ACCOUNTING PRINCIPLES CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **9.1 REPORTING ENTITY**

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

The Fund is registered in Amsterdam (the Netherlands), Kollenbergweg 56 and is entered in the Trade Register of the Chamber of Commerce under number 08110094.

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

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

### **9.2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” and the interpretations thereof adopted by the International Accounting Standards Board (“IASB”) as adopted by the European Union (hereinafter referred to as “EU-IFRS”) and in accordance with Part 9 of Book 2 of the Dutch Civil Code (Titel 9, Boek 2 van het Burgerlijk Wetboek) and the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”).

The Fund has initially adopted IFRS 16 as of 1 January 2019. The Fund has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. The details of the changes in significant accounting principles are described in section 9.4.2.

Income tax expense is recognised at an amount determined by multiplying the profit (or loss) before tax for the interim reporting period by management’s best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim financial period. As such, the effective tax rate in the Interim Consolidated Financial Statements may differ from management’s estimate of the effective tax rate for the Consolidated Financial Statements 2018.

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

Except as described below, the Fund has applied the significant accounting principles as set out in the Consolidated Financial Statements 2018 section 13.2 to 13.28.

The Managing Board authorised the Consolidated Interim Financial Statements for issue on 29 August 2019.

As at 30 June 2019, group equity of the Fund is positive. As stated in the liquidity forecast up to mid-2020, 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 Interim Financial Statements are based on assumptions of going concern.

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

### **9.4.1 General**

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

The accounting policies are equal to those applied in the Consolidated Financial Statements 2018 (section 13.2 to 13.28). The accounting principles have been consistently applied to the results, other gains and losses, assets, liabilities and cash flows of entities included in the Consolidated Interim Financial Statements and are consistent with those used in the prior period.

### **9.4.2 New and amended IFRS Standards and interpretations that are effective for the current period**

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

#### **IFRS 16 Leases**

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

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

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

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

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

The Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets a liabilities for leases with less than 12 months of lease term;

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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

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

The implementation of IFRS 16 is currently under review by market professionals and this may result in changes to implementation practice over the next six months.

#### 9.4.3 New and amended IFRS Standards and interpretations not yet applied

A number of new standards, changes to standards and interpretations have only taken effect after 1<sup>st</sup> January 2019 and therefore have not been applied to these Consolidated Interim Financial Statements. New standards that might be relevant for the Fund are set out in the Consolidated Financial Statements 2018. The Fund does not plan to apply early adoption of these standards.

## 9.5 EXCHANGE RATES

### 9.5.1 Exchange rates used for the Consolidated Statement of Financial Position

	<b>30-06-2019</b>	<b>31-12-2018</b>	<b>30-06-2018</b>
Czech Koruna (EUR / CZK)	25.4470	25.72400	26.02000
<i>% change</i>	1.1%	-/- 0.7%	1.9%
Polish Zloty (EUR / PLN)	4.24960	4.30140	4.37320
<i>% change</i>	1.2%	-/- 3.0%	4.7%
Pound Sterling (EUR / GBP)	0.89655	0.89453	0.88605
<i>% change</i>	-/- 0.2%	-/- 0.8%	0.0%

Source: European Central Bank (ECB)

### 9.5.2 Average exchange rates used for the Consolidated Income Statement

	<b>01-01-2019</b> to <b>30-06-2019</b>	<b>01-01-2018</b> to <b>31-12-2018</b>	<b>01-01-2018</b> to <b>30-06-2018</b>
Czech Koruna (EUR / CZK)	25.6808	25.6784	25.5790
Polish Zloty (EUR / PLN)	4.2840	4.2684	4.2407

## **10 SEGMENT INFORMATION**

For the segmentation criteria we refer to the Consolidated Financial Statements 2018 section 14.3.

## 10.1 SEGMENT RESULTS

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

Property (in € 1,000)	Gross rental income		Service charge income		Service charge expenses		Property operating expenses		Net rental & related income		Valuation results of properties		Results on disposal of properties		Total segment result	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
<b>Czech Republic:</b>																
Drahobejlova	Sold	Sold	Sold	33	Sold	-/-12	Sold	-/- 2	Sold	19	Sold	-	Sold	-	Sold	19
Palmovka	132	90	54	34	-/- 43	-/- 41	-/- 41	-/- 38	102	45	-	-	-	-	102	45
Karlin	203	204	90	78	-/- 73	-/- 63	-/- 83	-/- 61	137	158	-	-	-	-	137	158
VUP	106	119	81	87	-/- 83	-/- 86	-/- 36	-/- 56	68	64	-	-	-	-	68	64
PV 10	157	149	82	68	-/- 59	-/- 54	-/- 55	-/- 49	125	114	-	-	-	-	125	114
<b>Total CZECH REPUBLIC</b>	<b>598</b>	<b>562</b>	<b>307</b>	<b>300</b>	<b>-/- 258</b>	<b>-/- 256</b>	<b>-/- 215</b>	<b>-/- 206</b>	<b>432</b>	<b>400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>432</b>	<b>400</b>
<b>Slovakia:</b>																
Záhradnicka	187	193	5	4	-/- 51	-/- 171	-/- 45	-/- 92	96	-/- 66	-	-	-	-	96	-/- 66
Pražská 2	256	221	5	5	-/- 100	-/- 57	-/- 80	-/- 62	81	107	-	-	-	-	81	107
Pražská 4	183	182	2	3	-/- 64	-/- 90	-/- 71	-/- 52	50	43	-	-	-	-	50	43
Krivá 18	201	199	4	5	-/- 56	-/- 46	-/- 53	-/- 61	96	97	-	-	-	-	96	97
Krivá 23	216	213	4	3	-/- 63	-/- 52	-/- 59	-/- 51	98	113	-	-	-	-	98	113
Letná	606	580	10	11	-/- 92	-/- 57	-/- 121	-/- 92	403	442	-	-	-	-	403	442
Vural	236	244	43	60	-/- 127	-/- 121	-/- 76	-/- 70	76	113	-	-	-	-	76	113
Kosmalt	500	415	5	5	-/- 197	-/- 82	-/- 136	-/- 121	172	217	-	-	-	-	172	217
<b>Total SLOVAKIA</b>	<b>2,385</b>	<b>2,247</b>	<b>78</b>	<b>96</b>	<b>-/- 750</b>	<b>-/- 676</b>	<b>-/- 641</b>	<b>-/- 601</b>	<b>1,072</b>	<b>1,066</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,072</b>	<b>1,066</b>
<b>SUBTOTAL (transfer)</b>	<b>2,983</b>	<b>2,809</b>	<b>385</b>	<b>396</b>	<b>-/- 1,008</b>	<b>-/- 932</b>	<b>-/- 856</b>	<b>-/- 807</b>	<b>1,504</b>	<b>1,466</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,504</b>	<b>1,466</b>

Property (in € 1,000)	Gross rental Income		Service charge income		Service charge expenses		Property operating expenses		Net rental & related income		Valuation results of properties		Results on disposal of properties		Total segment result	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
	<b>SUBTOTAL (transfer)</b>	<b>2,983</b>	<b>2,809</b>	<b>385</b>	<b>396</b>	<b>-/- 1,008</b>	<b>-/- 932</b>	<b>-/- 856</b>	<b>-/- 807</b>	<b>1,504</b>	<b>1,466</b>	-	-	-	-	<b>1,504</b>
<b>Poland:</b>																
Laubitz	95	95	38	22	-/- 39	-/- 35	-/- 30	-/- 36	64	46	-	-	-	-	64	46
Lecia Inowroclawia	131	125	65	59	-/- 60	-/- 61	-/- 33	-/- 39	103	84	-	-	-	-	103	84
Krzemowa	119	125	69	65	-/- 67	-/- 55	-/- 41	-/- 35	80	100	-	-	-	-	80	100
Plutona	68	102	52	47	-/- 41	-/- 35	-/- 24	-/- 21	55	93	-	-	-	-	55	93
Kalinkowa	92	140	76	47	-/- 81	-/- 60	-/- 39	-/- 41	48	86	-	-	-	-	48	86
Wojska Polskiego	119	159	86	56	-/- 77	-/- 63	-/- 43	-/- 89	85	63	-	-	-	-	85	63
Wolnosci	79	77	32	30	-/- 43	-/- 32	-/- 31	-/- 30	37	45	-	-	-	-	37	45
Graniczna	-	-	-	-	-/- 23	-/- 26	-/- 20	-/- 19	-/- 43	-/- 45	-/- 239	-	-	-	-/- 282	-/- 45
Grzymaly Siedleckiego	21	113	45	35	-/- 40	-/- 30	-/- 14	-/- 44	12	74	-/- 20	-	-	-	-/- 8	74
Kardynala Wyszynskiego	118	117	55	35	-/- 69	-/- 49	-/- 21	-/- 57	83	46	-/- 16	-	-	-	67	46
Legionow	92	171	71	46	-/- 76	-/- 69	-/- 22	-/- 62	65	86	-/- 6	-	-	-	59	86
Maris	372	351	156	135	-/- 119	-/- 130	-/- 92	-/- 83	317	273	-	-	-	-	317	273
<b>Total POLAND</b>	<b>1,306</b>	<b>1,575</b>	<b>745</b>	<b>577</b>	<b>-/- 735</b>	<b>-/- 645</b>	<b>-/- 410</b>	<b>-/- 556</b>	<b>906</b>	<b>951</b>	<b>-/- 281</b>	-	-	-	<b>625</b>	<b>951</b>
<b>GRAND TOTAL</b>	<b>4,289</b>	<b>4,384</b>	<b>1,130</b>	<b>973</b>	<b>-/- 1,743</b>	<b>-/- 1,577</b>	<b>-/- 1,266</b>	<b>-/- 1,363</b>	<b>2,410</b>	<b>2,417</b>	<b>-/- 281</b>	-	-	-	<b>2,129</b>	<b>2,417</b>

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

The reconciliation between the total segment results as calculated in section 10.1.1 with the profit for the period, mentioned in the Consolidated Income Statement, is made below.

	<b>01-01-2019 to 30-06-2019 in € 1,000</b>	<b>01-01-2018 to 30-06-2018 in € 1,000</b>
<b>Total segment result (overview A)</b>	2,129	2,417
Unallocated income	319	248
Unallocated expenses	2,095	1,813
<b>Profit before income tax</b>	353	852
Income tax expense	158	282
<b>Profit for the period</b>	<b>195</b>	<b>570</b>

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

In € 1,000	Czech Republic		Slovakia		Poland		The Netherlands		Other countries		Total	
	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018
<b>Assets</b>												
Investment property	16,766	16,541	27,900	37,860	34,867	34,631	-	-	-	-	79,533	89,032
Other investments	5	5	-	-	-	-	-	-	-	-	5	5
Deferred tax assets	-	-	-	-	324	236	-	-	-	-	324	236
Tax assets	-	-	-	-	66	124	-	-	-	-	66	124
Trade and other receivables	114	72	165	173	640	479	-	-	-	-	919	724
Prepayments and lease incentives	81	74	351	198	272	266	54	4	-	-	758	542
Cash and cash equivalents	316	273	551	577	886	916	187	228	-	-	1,940	1,994
Assets held for sale	-	-	10,000	-	1,177	-	-	-	-	-	11,177	-
<b>Total geographic assets</b>	<b>17,282</b>	<b>16,965</b>	<b>38,967</b>	<b>38,808</b>	<b>38,232</b>	<b>36,652</b>	<b>241</b>	<b>232</b>	<b>-</b>	<b>-</b>	<b>94,722</b>	<b>92,657</b>
<b>Liabilities</b>												
Deferred tax liabilities	312	310	3,899	3,828	415	412	52	56	-	-	4,678	4,606
Tax liabilities	24	9	155	48	56	42	30	9	-	-	265	108
Loans and borrowings	8,746	7,073	10,094	10,569	17,289	16,029	6,490	6,468	4,710	4,710	47,329	44,849
Trade and other payables	188	124	190	268	358	360	690	869	71	11	1,497	1,632
Deferred income and tenant deposits	196	164	114	100	282	287	-	-	5	-	597	551
<b>Total geographic liabilities</b>	<b>9,466</b>	<b>7,680</b>	<b>14,452</b>	<b>14,813</b>	<b>18,400</b>	<b>17,130</b>	<b>7,262</b>	<b>7,402</b>	<b>4,786</b>	<b>4,721</b>	<b>54,366</b>	<b>51,746</b>
<b>Geographic assets less geographic liabilities</b>	<b>7,816</b>	<b>9,285</b>	<b>24,515</b>	<b>23,995</b>	<b>19,832</b>	<b>19,522</b>	<b>-/ 7,021</b>	<b>-/ 7,170</b>	<b>-/ 4,786</b>	<b>-/ 4,721</b>	<b>40,356</b>	<b>40,911</b>

# 11 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 11.1 SUBSIDIARIES

### 11.1.1 Consolidated subsidiaries

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

Name of subsidiary	Registered office	Country of incorporation	Proportion of shares held by the parent	Proportion of shares held by the group
			30-06-2019 In %	30-06-2019 In %
Arcona Capital RE Bohemia s.r.o.	Prague	Czech Republic	100.0	n.a.
Arcona Capital RE Slovakia s.r.o.	Bratislava	Slovakia	100.0	n.a.
Arcona Capital Real Estate Poland Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Capital Real Estate Trio Sp. z o.o.	Warsaw	Poland	100.0	n.a.
Arcona Real Estate B.V.	Amsterdam	The Netherlands	100.0	n.a.
Arcona Poland B.V.	Amsterdam	The Netherlands	n.a.	100.0
Arcona Poland B.V. Project 5 Sp.k.	Warsaw	Poland	n.a.	100.0

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

### 11.1.2 Subsidiaries acquired and incorporated during the period

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

## 11.2 INVESTMENT PROPERTY

### 11.2.1 Specification of owned investment properties

The following overview shows the value which has been assessed as per balance sheet date. These valuations are net fair value of owned investment property (including right of use land leases) minus the lease liabilities.

Name of property	Address	Fair value	Fair value
		30-06-2019	31-12-2018
		In € 1,000	In € 1,000
<b>In ownership of Arcona Capital RE Bohemia s.r.o. (Czech Republic)</b>			
Palmovka	Na Žertvách 34, Prague	2,903	2,863
Karlin	Prvního Pluku 621/8a, Prague	5,761	5,676
VUP	Šujanovo náměstí 3, Brno	2,542	2,507
PV 10	Politických Vězňů 10, Prague	5,560	5,495
<b>Subtotal</b>		<b>16,766</b>	<b>16,541</b>
<b>In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)</b>			
Záhradnícka	Záhradnícka 46, Bratislava	4,340	4,340
Pražská 2	Pražská 2, Košice	Held for sale	2,850
Pražská 4	Pražská 4, Košice	Held for sale	2,540
Krivá 18	Krivá 18, Košice	Held for sale	3,330
Krivá 23	Krivá 23, Košice	Held for sale	3,380
Letná	Letná 45, Košice	10,954	10,950
Vural	Alexandra Rudnaya 21, Žilina	4,370	4,360
Kosmalt	Kysucká 16, Košice	Held for sale	6,110
Subtotal before reclassification		19,664	37,860
Reclassification (from "Assets held for sale")		8,236	n.a.
<b>Subtotal after reclassification</b>		<b>27,900</b>	<b>37,860</b>
<b>In ownership of Arcona Capital Real Estate Poland Sp. z o.o. (Poland)</b>			
Laubitz	Laubitz 8, Inowroclaw	2,455	2,455
Lecia Inowroclawia	800-lecia Inowroclawia 27, Inowroclaw	2,859	2,859
Krzemowa	Krzemowa 1, Gdansk	3,050	3,050
Plutona	Plutona 1, Glogow	2,088	2,088
Kalinkowa	Kalinkowa 82, Grudziadz	2,481	2,481
Wojska Polskiego	Wojska Polskiego 137, Piotrkow Trybunalski	3,597	3,597
Wolnosc	Wolnosc 6, Slupsk	1,392	1,392
Graniczna	Graniczna 80-82, Kalisz	Held for sale	1,416
<b>Subtotal</b>		<b>17,922</b>	<b>19,338</b>
<b>In ownership of Arcona Capital Real Estate Trio Sp. z o.o. (Poland)</b>			
Grzymaly Siedleckiego	Grzymaly Siedleckiego 20, Bydgoszcz	1,487	1,487
Kardynala Wyszynskiego	Kardynala Wyszynskiego 107, Lodz	2,003	2,003
Legionow	Legionow 216, Torun	2,614	2,614
<b>Subtotal</b>		<b>6,104</b>	<b>6,104</b>
<b>In ownership of Arcona Capital Poland B.V. Project 5 Sp.k. (Poland)</b>			
Maris	Holdu Pruskiego 9 & 12 Malopolska 12, Szczecin	9,214	9,189
<b>Total fair value</b>		<b>77,906</b>	<b>89,032</b>

The Fund has recognised 5 properties mentioned above in ownership of Arcona Capital RE Slovakia s.r.o. as "Properties held for sale". The sales plan of the Managing Board is to sell a part of these 5 properties, to achieve € 10 million of total sales. Therefore, a reclassification of € 8,236,000 has been made from "Assets held for sale" in order to present the intended amount of "Properties held for sale" in ownership of Arcona Capital RE Slovakia s.r.o. (see also section 11.10.1).

## 11.2.2 Statement of changes in owned investment property

	<b>01-01-2019 to 30-06-2019</b>	<b>01-01-2018 to 31-12-2018</b>
	In € 1,000	In € 1,000
Balance as at 1 January	89,032	89,798
Additions to investment properties	110	690
Fair value adjustments	-	-/- 1,336
Exchange rate differences	180	-/- 120
Reclassification (to "Assets held for sale")	-/- 11,416	-
<b>Balance as at 30 June / 31 December</b>	<b>77,906</b>	<b>89,032</b>

## 11.2.3 Valuation of owned investment property

The investment properties, stated under section 11.2.1 "Specification of owned investment properties", were not valued by an external, independent appraiser as at Statement of Financial Position's date.

The Managing Board reviewed the appraised values of owned investment properties. The applied valuation method is the same as used by the external, independent appraiser, as described in the Consolidated Financial Statements 2018. The Managing Board will adjust the fair value of an owned investment property (in local currency) 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 owned investment property.

These conditions were not met. Therefore, the Managing Board will use the most recent external valuation (as at 31 December 2018), whereby additions done during the financial period are added to the most recent external valuation of the owned investment property.

There were no transfers from Level 2 to Level 1 during the financial period and no transfers in either direction during the financial period.

## 11.3 OTHER INVESTMENTS

### 11.3.1 Specification of other investments

Name of other investment	Proportion of shares held by the group 30-06-2019	Proportion of shares held by the group 31-12-2018
	In %	In %
Yellow Properties, s.r.o.	5.0	5.0
Eastern European Property Fund Limited	Sold	< 0.1

### 11.3.2 Analysis of other investments

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of other investments	5	5
Current part of other investments	-	-
	<b>5</b>	<b>5</b>

### 11.3.3 Statement of changes in other investments

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 31-12-2018 In € 1,000</b>
Balance as at 1 January	5	6
Fair value adjustments	-	-/- 1
<b>Balance as at 30 June / 31 December</b>	<b>5</b>	<b>5</b>

## 11.4 RECOGNISED DEFERRED TAXES

### 11.4.1 Specification of recognised deferred taxes

	<b>Deferred tax assets</b> In € 1,000	<b>Deferred tax liabilities</b> In € 1,000	<b>Total 30-06-2019</b> In € 1,000
Owned investment property	455	3,695	-/- 3,240
Receivables from shareholders and other group companies	-	52	-/- 52
Subtotal non-current investments	455	3,747	-/- 3,292
Tax losses (carried forward)	56	-	56
Trade and other receivables	32	32	-
Prepayments and lease incentives	-	17	-/- 17
Cash and cash equivalents	1	-	1
Properties held for sale	216	1,333	-/- 1,117
Secured bank loans	-	80	-/- 80
Loans due to shareholders and other group companies	-	87	-/- 87
Trade and other payables	91	-	91
Deferred income and tenant deposits	7	-	7
Current liabilities due to shareholders and other group companies	84	-	84
Deferred taxes before set-off	942	5,296	-/- 4,354
Set-off deferred taxes	-/- 618	-/- 618	-
	<b>324</b>	<b>4,678</b>	<b>-/- 4,354</b>

	<b>Deferred tax assets</b> In € 1,000	<b>Deferred tax liabilities</b> In € 1,000	<b>Total 31-12-2018</b> In € 1,000
Owned investment property	604	4,977	-/- 4,373
Receivables from shareholders and other group companies	-	56	-/- 56
Subtotal non-current investments	604	5,033	-/- 4,429
Tax losses (carried forward)	90	-	90
Trade and other receivables	40	24	16
Prepayments and lease incentives	-	33	-/- 33
Secured bank loans	-	60	-/- 60
Loans due to shareholders and other group companies	-	63	-/- 63
Trade and other payables	71	-	71
Current liabilities due to shareholders and other group companies	38	-	38
Deferred taxes before set-off	843	5,213	-/- 4,370
Set-off deferred taxes	-/- 607	-/- 607	-
	<b>236</b>	<b>4,606</b>	<b>-/- 4,370</b>

#### 11.4.2 Analysis of recognised deferred taxes

	<b>Will expire 30-06-2019</b> In € 1,000	<b>Will never expire 30-06-2019</b> In € 1,000	<b>Total 30-06-2019</b> In € 1,000
Owned investment property	-	-/- 3,240	-/- 3,240
Receivables from shareholders and other group companies	-	-/- 52	-/- 52
Tax losses (carried forward)	56	-	56
Prepayments and lease incentives	-	-/- 17	-/- 17
Cash and cash equivalents	-	1	1
Properties held for sale	-	-/- 1,117	-/- 1,117
Secured bank loans	-	-/- 80	-/- 80
Loans due to shareholders and other group companies	-	-/- 87	-/- 87
Trade and other payables	-	91	91
Deferred income and tenant deposits	-	7	7
Current liabilities due to shareholders and other group companies	-	84	84
	<b>56</b>	<b>-/- 4,410</b>	<b>-/- 4,354</b>

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

An allocation of the recognised deferred taxes to the various geographic segments is presented in section 10.1.3 "Overview of geographic assets and liabilities (overview B)".

#### 11.4.3 Analysis of recognised tax losses (carried forward)

	<b>30-06-2019</b> In € 1,000	<b>31-12-2018</b> In € 1,000
Expires in 2020	52	71
Expires in 2021	-	1
Expires in 2022	4	18
<b>Balance as at 30 June / 31 December</b>	<b>56</b>	<b>90</b>

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

## 11.5 DEFERRED TAX ASSETS

### 11.5.1 Analysis and specification of unrecognised deferred tax assets

	<b>Will expire 30-06-2019</b>	<b>Will never expire 30-06-2019</b>	<b>Total 30-06-2019</b>
	In € 1,000	In € 1,000	In € 1,000
Owned investment property	-	213	213
Secured bank loans	-	147	147
Current liabilities due to shareholders and other group companies	-	140	140
Tax losses (carried forward)	1,086	-	1,086
	<b>1,086</b>	<b>500</b>	<b>1,586</b>

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

### 11.5.2 Analysis of unrecognised tax losses (carried forward)

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Expires in 2020	75	75
Expires in 2022	126	123
Expires in 2023	59	59
Expires in 2024	37	37
Expires in 2025	451	353
Expires in 2026	179	179
Expires in 2027	159	159
<b>Balance as at 30 June / 31 December</b>	<b>1,086</b>	<b>985</b>

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

## 11.6 TRADE AND OTHER RECEIVABLES

### 11.6.1 Analysis of trade and other receivables

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of trade and other receivables	4	18
Current part of trade and other receivables	915	706
	<b>919</b>	<b>724</b>

### 11.6.2 Specification of trade and other receivables

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Trade receivables	856	639
Invoiceable amounts	7	50
Other receivables	56	35
	<b>919</b>	<b>724</b>

### 11.6.3 Analysis of trade receivables

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Trade receivables (gross)	1,453	1,352
Total expected credit losses for trade receivables	-/- 597	-/- 713
	<b>856</b>	<b>639</b>

The methodology for the calculation of the collective assessed expected credit losses of trade receivables is the same as is described in the Consolidated Financial Statements 2018.

The methodology for the calculation of the individually assessed expected credit losses for trade receivables with regard to Piotr & Pawel has been changed. The Managing Board has classified the outstanding amounts with regard to Piotr & Pawel into 2 stages (31 December 2018: 3 stages) based on an aging analysis of Piotr & Pawel:

Stage 1: low risk: expected credit loss rate of 0% is used (31 December 2018: 0%);

Stage 2: medium risk: expected credit loss rate of 0% is used (31 December 2018: 20%);

Stage 3: high risk: expected credit loss rate of 50% is used (31 December 2018: 50%).

Stage 3 represents the outstanding trade receivables from Piotr & Pawel, which is in administration. For the outstanding trade receivables from Piotr & Pawel after they entered administration an expected credit loss rate of 0% is used (stage 1). The reason for this is that it is now public information that Piotr & Pawel is about to be bought by SPAR and therefore the risk that their administration process results in insolvency has decreased. It is now more likely that Piotr & Pawel will survive as a company and be able to repay in full the debts incurred after the start of the administration process.

The individually assessed expected credit loss for Piotr & Pawel as at statement of financial position's date amounts to € 120,000 (31 December 2018: € 158,000).

During 2019 also an individually assessed expected credit loss for GEMAR supermarket has been booked for an amount of € 12,000, which represents an expected credit loss rate of 30% of overdue trade receivables of more than 3 – 6 months. There were no overdue trade receivables from GEMAR supermarket of more than 6 months.

## 11.7 PREPAYMENTS AND LEASE INCENTIVES

### 11.7.1 Analysis of prepayments and lease incentives

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of prepayments and lease incentives	198	121
Current part of prepayments and lease incentives	560	421
	<b>758</b>	<b>542</b>

### 11.7.2 Specification of prepayments and lease incentives

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Deferred expenses	268	263
Prepayments	303	185
Lease incentives	187	94
	<b>758</b>	<b>542</b>

## 11.8 CASH AND CASH EQUIVALENTS

### 11.8.1 Analysis of cash and cash equivalents

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of cash and cash equivalents	300	300
Current part of cash and cash equivalents	1,640	1,694
	<b>1,940</b>	<b>1,994</b>

### 11.8.2 Specification of cash and cash equivalents

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Bank balances	1,623	1,691
Deposits	301	301
Cash	16	2
	<b>1,940</b>	<b>1,994</b>

## 11.9 TAX ASSETS

### 11.9.1 Analysis of tax assets

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of tax assets	-	-
Current part of tax assets	66	124
	<b>66</b>	<b>124</b>

### 11.9.2 Specification of tax assets

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Corporate Income Tax (CIT)	63	118
Value Added Tax (VAT)	3	6
	<b>66</b>	<b>124</b>

## 11.10 ASSETS HELD FOR SALE

### 11.10.1 Analysis of assets held for sale

Name of property	Address	Fair value 30-06-2019	Fair value 31-12-2018
		In € 1,000	In € 1,000
<b>In ownership of Arcona Capital RE Slovakia s.r.o. (Slovakia)</b>			
Pražská 2	Pražská 2, Košice	2,850	Investment property
Pražská 4	Pražská 4, Košice	2,540	Investment property
Krivá 18	Krivá 18, Košice	3,355	Investment property
Krivá 23	Krivá 23, Košice	3,381	Investment property
Kosmalt	Kysucká 16, Košice	6,110	Investment property
Subtotal before reclassification		18,236	n.a.
Reclassification (to "Owned investment property")		-/- 8,236	n.a.
<b>Subtotal after reclassification</b>		<b>10,000</b>	<b>n.a.</b>
<b>In ownership of Arcona Capital Real Estate Poland Sp. z o.o. (Poland)</b>			
Graniczna	Graniczna 80-82, Kalisz	1,177	Investment property
<b>Total fair value</b>		<b>11,177</b>	<b>n.a.</b>

The Fund has recognised 5 properties mentioned above in ownership of Arcona Capital RE Slovakia s.r.o. as "Properties held for sale". The sales plan of the Managing Board is to sell a part of these 5 properties, to achieve € 10 million of total sales. Therefore, a reclassification of € 8,236,000 negative has been made to "Owned investment property" in order to present the intended amount of "Properties held for sale" in ownership of Arcona Capital RE Slovakia s.r.o.

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

	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 31-12-2018 In € 1,000
Balance as at 1 January	-	-
Reclassification (from "Owned investment property")	11,416	-
Fair value adjustments	-/- 239	-
<b>Balance as at 30 June / 31 December</b>	<b>11,177</b>	<b>-</b>

### 11.10.3 Valuation of assets held for sale

The assets held for sale, stated under section 11.10.1 "Analysis of assets held for sale", were not valued by an external, independent appraiser as at Statement of Financial Position's date. The assets held for sale are valued at fair value, without deduction of costs of sale.

The Managing Board reviewed the appraised values of assets held for sale. The applied valuation method is the same as used by the external, independent appraiser, as described in the Consolidated Financial Statements 2018. The Managing Board will adjust the fair value of an asset held for sale (in local currency) 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 asset held for sale.

These conditions were not met. Therefore, the Managing Board will use the most recent external valuation (as at 31 December 2018), whereby additions done during the financial period are added to the most recent external valuation of the assets held for sale, except for the asset held for sale "Graniczna". "Graniczna" is valued against expected sales price (in local currency) based on a conditional agreement.

## 11.11 GROUP EQUITY

### 11.11.1 Consolidated statement of changes in group equity

For the consolidated statement of changes in group equity we refer to section 7.

### 11.11.2 (Interim) distribution to shareholders

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

## 11.12 LOANS AND BORROWINGS

### 11.12.1 Analysis of loans and borrowings

	<b>Non-current liabilities</b> <b>30-06-2019</b> In € 1,000	<b>Current liabilities</b> <b>30-06-2019</b> In € 1,000	<b>Total</b> <b>30-06-2019</b> In € 1,000
Secured bank loans	25,553	8,930	34,483
Convertible bonds	3,426	1,064	4,490
Lease liabilities	1,469	177	1,646
Other loans and borrowings	-	6,710	6,710
	<b>30,448</b>	<b>16,881</b>	<b>47,329</b>

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

### 11.12.2 Statement of changes in secured bank loans

	<b>01-01-2019 to 30-06-2019</b> In € 1,000	<b>01-01-2018 to 31-12-2018</b> In € 1,000
Balance as at 1 January	33,671	36,551
New loans	1,676	-
Redemptions	-/- 969	-/- 2,885
(Amortisation) flat fee	13	64
Exchange rate differences	92	-/- 59
<b>Balance as at 30 June / 31 December</b>	<b>34,483</b>	<b>33,671</b>

### 11.12.3 Analysis of convertible bonds

<b>Date of issue</b>	<b>Convertible as of</b>	<b>Date of maturity</b>	<b>Nominal interest rate</b> In %	<b>Interest rate used<sup>2</sup></b> In %	<b>Conversion price</b> In €	<b>Face value</b> In € 1,000	<b>Carrying amount 30-06-2019</b> In € 1,000	<b>Carrying amount 31-12-2018</b> In € 1,000
01-12-2014	01-12-2015	01-12-2019	6.00	7.50	8.24	1,070	1,064	1,056
17-10-2016	01-11-2016	31-10-2021	6.50	7.50	8.76	3,500	3,426	3,412
						<b>4,570</b>	<b>4,490</b>	<b>4,468</b>

<sup>2</sup> The interest rate used is based on the estimated interest rate to be paid on comparable non-convertible bonds.

#### 11.12.4 Statement of changes in convertible bonds

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 31-12-2018 In € 1,000</b>
Balance as at 1 January	4,468	5,844
Redemptions	-	-/- 1,420
Accrued interest	22	44
<b>Balance as at 30 June / 31 December</b>	<b>4,490</b>	<b>4,468</b>

#### 11.12.5 Statement of changes in lease liabilities

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 31-12-2018 In € 1,000</b>
Balance as at 1 January	-	-
Effect of change in accounting principles	1,669	-
Redemptions	-/- 93	-
Accreted interest	51	-
Exchange rate differences	19	-
<b>Balance as at 30 June / 31 December</b>	<b>1,646</b>	<b>-</b>

#### 11.12.6 Analysis of other loans and borrowings

	<b>30-06-2019 In € 1,000</b>	<b>31-12-2018 In € 1,000</b>
Secured vendor loan Real Estate Central Europe AS	4,710	4,710
Unsecured loan H.M. van Heijst	2,000	2,000
	<b>6,710</b>	<b>6,710</b>

There were no changes in "Other loans and borrowings" during the financial period (2018: no).

### 11.13 TRADE AND OTHER PAYABLES

#### 11.13.1 Analysis of trade and other payables

	<b>30-06-2019 In € 1,000</b>	<b>31-12-2018 In € 1,000</b>
Non-current part of trade and other payables	146	37
Current part of trade and other payables	1,351	1,595
	<b>1,497</b>	<b>1,632</b>

### 11.13.2 Specification of trade and other payables

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Trade payables	327	279
Accruals	420	573
Interest rate swaps used for hedging	213	82
Interest payables	121	57
Administrative expenses	416	641
	<b>1,497</b>	<b>1,632</b>

### 11.14 DEFERRED INCOME AND TENANT DEPOSITS

#### 11.14.1 Analysis of deferred income and tenant deposits

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of deferred income and tenant deposits	407	366
Current part of deferred income and tenant deposits	190	185
	<b>597</b>	<b>551</b>

#### 11.14.2 Specification of deferred income and tenant deposits

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Deposits received from tenant	553	538
Advance payments received from tenants	6	9
Lease incentives	38	4
	<b>597</b>	<b>551</b>

### 11.15 DEFERRED TAX LIABILITIES

#### 11.15.1 Analysis of recognised deferred tax liabilities

For the specification of the recognised deferred tax liabilities see section 11.4.1 "Specification of recognised deferred taxes".

### 11.16 TAX LIABILITIES

#### 11.16.1 Analysis of tax liabilities

	<b>30-06-2019</b>	<b>31-12-2018</b>
	In € 1,000	In € 1,000
Non-current part of tax liabilities	-	-
Current part of tax liabilities	265	108
	<b>265</b>	<b>108</b>

## 11.16.2 Specification of tax liabilities

	30-06-2019	31-12-2018
	In € 1,000	In € 1,000
Value Added Tax (VAT)	125	83
Corporate Income Tax (CIT)	65	9
Withholding Tax (WHT)	9	16
Property Tax	66	-
	<b>265</b>	<b>108</b>

## 11.17 FINANCIAL INSTRUMENTS

As at Statement of Financial Position's date the Fund has contracted into the following derivatives:

	As at 30-06-2019				
	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 swap I	6,462	0.220	-	113	Trade and other payables
Interest rate swap II	6,428	1,995	-	100	Trade and other payables
Interest rate cap I	1,837	4.500	-	-	n.a.

	As at 31-12-2018				
	Nominal amount	Average fixed interest rate	Assets	Liabilities	Line item in the SFP where the hedging instrument is included
	In € 1,000	In %	In € 1,000	In € 1,000	
Interest rate swap I	6,646	0.220	-	82	Trade and other payables
Interest rate cap I	1,890	4.500	-	-	n.a.

## 11.18 CONTINGENT ASSETS

As at Statement of Financial Position's date the Fund has the following contingent assets:

- A. The Fund has a contingent asset towards the sellers of RECE Progress Sp. z o.o. (currently named: Arcona Capital Real Estate Trio Sp. z o.o.) for the amount of € 500,000 (the "shares' purchase price reduction"). The shares' purchase price reduction applies if Arcona Capital Real Estate Poland Sp. z o.o. is obliged to repay Tranche B of the secured bank loan (received from Raiffeisen Polbank for the amount of € 1,050,000) on or before the 3<sup>rd</sup> anniversary of the disbursement of Tranche B. The obligations of Arcona Capital Real Estate Poland Sp. z o.o. to repay Tranche B are referred to section 16.4. The shares' purchase price reduction shall take effect automatically on the date of full or partial repayment of Tranche B of the secured bank loan. In case of partial repayment of Tranche B, the share purchase price reduction will be adjusted in proportion to the Tranche B repayment. Simultaneously with the shares' purchase price reduction indicated above, the vendor loan amount towards "RECE" (see section 11.12.6) shall be reduced with the same amount.

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

## 11.19 NON-CONTINGENT LIABILITIES

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

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

## 11.20 CONTINGENT LIABILITIES

As at Statement of Financial Position’s date the Fund has the following contingent liabilities:

- A. Arcona Capital RE Bohemia s.r.o. has a contingent liability for the amount of CZK 5,901,000 (€ 232,000) towards the buyer of the investment property Štefánikova with regard to rent received in advance by Arcona Capital RE Bohemia s.r.o. for usage of the parking places (free of payment) by the lessee of Štefánikova. Based on the agreement (2012) the buyer of Štefánikova will pay the taxes with regard to this rent;

- B. Arcona Capital Real Estate Poland Sp. z o.o. has a contingent liability towards Raiffeisen Polbank with regard to Tranche B of the secured bank loan for the amount of € 1,050,000 relating to the investment property “Kalisz”, which is not currently leased to tenant. Tranche B has to be repaid together with Tranche A (based on 20-year amortisation of the loan) after their consolidation on the 2<sup>nd</sup> anniversary of disbursement (December 2019) when:

- the investment property should be leased and a valuation of the investment property results in a minimum “LTV” of 65% based on concluded lease agreements;
- “DSCR” for the tranche B is at minimum 1.20 x calculated on headline rents;
- all other covenants for the loan are met (verification forward-looking).

Currently Arcona Capital Real Estate Poland Sp. z o.o. has agreed a conditional sales agreement to sell the investment property “Kalisz”. Arcona Capital Real Estate Poland Sp. z o.o. agreed with Raiffeisen Polbank to the fully repayment of the secured bank loan for the amount of € 1,050,000, immediately after sales price is received.

- C. The Fund has a contingent liability towards the sellers of RECE Progress Sp. z o.o. (currently named: Arcona Capital Real Estate Trio Sp. z o.o.) for the maximum amount of € 1,500,000 (the “shares’ purchase price increase”).

The “shares’ purchase price increase” applies if:

- Arcona Capital Real Estate Poland Sp. z o.o. refinances the secured bank loan of Raiffeisen Polbank by 12<sup>th</sup> December 2022; or
- the Fund sells any of the 11 owned properties obtained through Arcona Capital Real Estate Poland Sp. z o.o. and Arcona Capital Real Estate Trio Sp. z o.o. (the acquisition of the 11 properties hereinafter mentioned as: (“RECE”)); or
- the Fund sells any part of the shares of Arcona Real Estate Trio Sp. z o.o. by 12<sup>th</sup> December 2022.

The shares’ purchase price will be increased:

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

sale of any of the owned properties obtained through “RECE” or shares of Arcona Capital Real Estate Trio Sp. z o.o., and (II) the relevant part of the net consideration.

In the event of refinancing referred to above, the “shares’ purchase price increase” shall take effect automatically on the date the refinanced amount is utilized to the Fund (“refinancing date”).

In the event of the sale referred to above, the “shares’ purchase price increase” will take place on the earlier of:

- on the day of the sale of the last of the owned properties obtained through “RECE” or the last of the shares of Arcona Capital Real Estate Trio Sp. z o.o.; or
- by 12<sup>th</sup> December 2022 (“sale settlement date”).

The payment of the relevant “shares’ purchase price increase” shall be made within 14 business days from the “refinancing date” or the “sale settlement date”.

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

#### 11.21 GROSS RENTAL INCOME

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Gross rental income collected / accrued	4,329	4,423
Amortisation lease incentives	-/- 40	-/- 39
	<b>4,289</b>	<b>4,384</b>

#### 11.22 PROPERTY OPERATING EXPENSES

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Property management	268	301
Asset management	326	323
Maintenance expenses in respect of investment properties	412	398
Taxes on investment properties	180	181
Land lease	-	92
Commission fees	52	33
Insurance premiums	26	26
Other property operating expenses	2	9
	<b>1,266</b>	<b>1,363</b>

As a result of applying IFRS 16 as of 1<sup>st</sup> of January 2019, the land lease amounts zero (see also section 9.4.2).

## 11.23 VALUATION RESULTS OF PROPERTIES

### 11.23.1 Analysis of valuation results of properties

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Investment properties	-/- 42	-
Properties held for sale	-/- 239	-
	<b>-/- 281</b>	<b>-</b>

### 11.23.2 Specification of valuation results of properties

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Unrealised value adjustments booked in current year	-/- 281	-
Unrealised value adjustments booked in prior years	-	-
	<b>-/- 281</b>	<b>-</b>

## 11.24 NET RESULTS ON PROPERTIES

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Valuation gains	-	-
Valuation losses	-/- 281	-
	-/- 281	-
Costs on sale of properties	-	-
	<b>-/- 281</b>	<b>-</b>

## 11.25 FINANCIAL INCOME

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Realised currency results on net investments in group companies	47	139
Interest on trade receivables	4	22
Other financial income	1	1
	<b>52</b>	<b>162</b>

## 11.26 OTHER OPERATING INCOME

	<b>01-01-2019 to 30-06-2019</b> In € 1,000	<b>01-01-2018 to 30-06-2018</b> In € 1,000
Early termination of rent contracts	258	81
Other operating income	9	5
	<b>267</b>	<b>86</b>

## 11.27 ADMINISTRATIVE EXPENSES

### 11.27.1 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 calculation of the Management fee is equal to that is described in the Consolidated Financial Statements 2018 section 15.28.2 "Management fee".

### 11.27.2 Specification Fund management fee

	<b>01-01-2019 to 30-06-2019</b> In € 1,000	<b>01-01-2018 to 30-06-2018</b> In € 1,000
Management fee	661	671
Asset Management fee Arcona Capital Czech Republic s.r.o.	-/- 237	-/- 233
Asset Management fee Arcona Capital Poland Sp. z o.o.	-/- 89	-/- 90
	<b>-/- 326<sup>3</sup></b>	<b>-/- 323</b>
Fund Management fee (Arcona Capital Fund Management B.V.)	<b>335</b>	<b>348</b>

### 11.27.3 Performance-related remuneration

The Managing Board is entitled to performance-related remuneration dependent on the Fund's total annual return. The calculation of the performance-related remuneration is equal to that is described in the Consolidated Financial Statements 2018 section 15.28.4 "Performance-related remuneration".

For the financial period 2019 the Managing Board received no performance-related remuneration (2018: no).

<sup>3</sup> See also section 11.22 "Property operating expenses".

## 11.28 OTHER OPERATING EXPENSES

### 11.28.1 Specification of other operating expenses

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Costs of service providers	405	479
Other operating expenses	28	82
	<b>433</b>	<b>561</b>
Costs of funding and acquisition	193	-
	<b>626</b>	<b>561</b>

### 11.28.2 Analysis of costs of service providers

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Accounting expenses	126	120
Audit fees	33	48
Consultancy fees	77	116
Marketing expenses	37	68
Custody fees	30	30
Appraisal expenses	1	11
Listing, Paying and Fund Agent fees	19	12
Supervisory Board fees	15	14
Insurance AIFMD	18	18
Supervisors' expenses	12	12
Court fees	1	5
Other costs of service providers	36	43
	<b>405</b>	<b>497</b>
Reimbursement of court fees	-	-/- 18
	<b>405</b>	<b>479</b>

### 11.28.3 Analysis of other operating expenses

	<b>01-01-2019 to 30-06-2019 In € 1,000</b>	<b>01-01-2018 to 30-06-2018 In € 1,000</b>
Change in provision for doubtful trade receivables	-/- 116	6
Irrecoverable trade receivables	89	21
Non-refundable Value Added Tax	52	52
Wages and salaries statutory Directors	3	3
	<b>28</b>	<b>82</b>

#### 11.28.4 Analysis of costs of funding and acquisition

	<b>01-01-2019 to 30-06-2019</b>	<b>01-01-2018 to 30-06-2018</b>
	In € 1,000	In € 1,000
Consultancy fees / legal fees	147	-
Due Diligence	46	-
	<b>193</b>	<b>-</b>

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

#### 11.28.5 Transaction costs

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

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

	<b>01-01-2019 to 30-06-2019</b>	<b>01-01-2018 to 30-06-2018</b>
	In € 1,000	In € 1,000
Transaction costs on purchase of investments	-	-
Transaction costs on sale of investments	-	-
	<b>-</b>	<b>-</b>

#### 11.29 FINANCIAL EXPENSES

	<b>01-01-2019 to 30-06-2019</b>	<b>01-01-2018 to 30-06-2018</b>
	In € 1,000	In € 1,000
Interest expense on secured bank loans	564	560
Interest expense on convertible bonds	168	181
Interest expense on lease liabilities	51	-
Interest expense on other loans and borrowings	163	84
Change in fair value of derivatives	129	18
Interest expense on derivatives	19	21
Other exchange and currency translation results	28	23
Withholding tax on loans due to shareholders and other group companies	9	8
Other financial expenses	3	9
	<b>1,134</b>	<b>904</b>

## 11.30 EARNINGS PER SHARE<sup>4</sup>

### 11.30.1 Calculation of “Basic earnings per share”

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

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

If the number of shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share and of the comparative figures is adjusted retrospectively.

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

	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
Profit for the financial period	195	570

### 11.30.3 Weighted average number of outstanding shares (basic)

	01-01-2019 to 30-06-2019 In pieces	01-01-2018 to 30-06-2018 In pieces
Issued shares as at 1 January	3,165,149	3,165,149
Effect on issued shares during the financial period	-	-
	<b>3,165,149</b>	<b>3,165,149</b>

### 11.30.4 Calculation of “Diluted earnings per share”

The “Diluted earnings per share” are calculated by dividing the profit for the period attributable to holders of shares, adjusted for costs relating to the convertible securities included in the profit for the period, by the weighted average number of shares during the financial period, adjusted for the maximum number of shares that could be converted during the financial period.

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

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

	01-01-2019 to 30-06-2019 In € 1,000	01-01-2018 to 30-06-2018 In € 1,000
Profit for the period	195	570
Interest expense on convertible bonds (net of tax)	168	181
	<b>363</b>	<b>751</b>

<sup>4</sup> The calculation of the “Earnings per share” includes all types of profit-sharing shares (e.g. ordinary and registered shares).

### 11.30.6 Weighted average number of shares outstanding (diluted)

	<b>01-01-2019 to 30-06-2019</b> In pieces	<b>01-01-2018 to 30-06-2018</b> In pieces
Weighted average number of shares outstanding during the financial period (basic)	3,165,149	3,165,149
Effect on conversion of convertible bonds	529,397	576,580
	<b>3,694,546</b>	<b>3,741,729</b>

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

## **11.31 RISK MANAGEMENT**

### **11.31.1 General**

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

The Fund's investment activities result in exposure to various risks, as also defined in this prospectus, the Registration Document dated 19<sup>th</sup> October 2016 in conjunction with the Security Note dated 28<sup>th</sup> of October 2016, as well in the Consolidated Financial Statements 2018 section 15.35 "Risk Management". As at statement of financial position's date the exposure to the risks, as described in the Consolidated Financial Statements 2018, deviates not materially from their exposure as at 31 December 2018.

## **11.32 RELATED PARTIES**

### **11.32.1 Identity of related parties**

For the Fund the following categories of related parties were identified during the financial period:

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

### **11.32.2 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 € 237,000 (30 June 2018: € 233,000);
- B. The Managing Board of Arcona Capital Fund Management B.V. decided to reduce its own Management fee by an amount equivalent to the Asset Management fees paid by the Fund (and / or its subsidiaries) to Arcona Capital Poland Sp. z o.o. for the amount of € 89,000 (30 June 2018: € 90,000).

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

Personal interests of members of the Managing and Supervisory Board are defined in section 12.1 "Personal interests".

The remuneration for the Managing Board is described in section 11.27 "Administrative expenses".

The remuneration for the Supervisory Board and the remuneration for the statutory directors are described in section 11.28.2 "Analysis of costs of service providers" and 11.28.3 "Analysis of other operating expenses".

### 11.32.3 Specification major investors<sup>5</sup>

	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 <sup>6</sup>	n.a.	21.94
	Convertible bonds	n.a.	n.a.	11.05	11.05
Stichting Prioriteit MERE	Priority shares	100.00	n.a.	n.a.	100.00

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

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

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

		01-01-2019 to 30-06-2019	30-06-2019
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	-	2,000
H.M. van Heijst	Payable Interest private unsecured loan	61	3
H.M. van Heijst	Providing convertible bonds	-	3,000
H.M. van Heijst	Payable interest convertible bonds	95	27

		01-01-2018 to 30-06-2018	31-12-2018
Name of major investor	Kind of transaction	Amount of transaction during financial period In € 1,000	Outstanding amount (face value) In € 1,000
H.M. van Heijst	Providing private unsecured loan	-	2,000
H.M. van Heijst	Payable interest private unsecured loan	60	2
H.M. van Heijst	Providing convertible bonds	-	3,000
H.M. van Heijst	Payable interest convertible bonds	107	27

<sup>5</sup> Major investors: more than 20% voting rights.

<sup>6</sup> Through “Stichting Value Partners”.

### 11.32.5 Transactions with other related parties (III-IV-V)

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

01-01-2019 to 30-06-2019			30-06-2019	
Name of other related party	Kind of transaction	Other information	Amount of transaction during financial period In € 1,000	Outstanding amount In € 1,000
Arcona Capital Czech Republic s.r.o.	Asset Management fee	-	237	-
Arcona Capital Poland Sp. z o.o.	Asset Management fee	-	89	-
			326	-
Arcona Capital Czech Republic s.r.o.	Advisory services	-	11	-
Several	Rental income	268 m <sup>2</sup>	27	-
Statutory directors	Wages and salaries	-	3	-

01-01-2018 to 30-06-2018			31-12-2018	
Name of other related party	Kind of transaction	Other information	Amount of transaction during financial period In € 1,000	Outstanding amount In € 1,000
Arcona Capital Czech Republic s.r.o.	Asset Management fee	-	233	-
Arcona Capital Poland Sp. z o.o.	Asset Management fee	-	90	-
			323	-
Arcona Capital Poland Sp. z o.o.	Property Management fee	-	14	-
Arcona Capital Czech Republic s.r.o.	Advisory services	-	8	-
Several	Rental income	268 m <sup>2</sup>	23	-
Statutory directors	Wages and salaries	-	3	-

### 11.32.6 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 In %	The Fund In %	Total 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 2018: all properties are sold).

### 11.32.7 Agreements with related parties

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

### 11.33 EVENTS AFTER STATEMENT OF FINANCIAL POSITION'S DATE

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

- A. On 7 August 2019 the Fund announced it has signed a formal agreement with Secure Property Development & Investments Ltd (SPDI) for the purchase of SPDI's real estate holdings in Romania, Bulgaria and Ukraine. The purchase, which is structured in three phases, is expected to be completed before the end of the year.

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

### 11.34 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. Market rents per type of property;
- D. Property prices;
- E. Availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
- F. Measurement of "expected credit losses" allowance for trade receivables.

In section 11.2.3 "Valuation of investment properties" and 11.10.3 "Valuation of assets held for sale" the critical assessments by the Managing Board in applying the Fund's principles of the valuation of the properties are stated.

Amsterdam, 29 August 2019

The Managing Board:

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

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

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

H.H. Visscher  
*Managing Director*

The Supervisory Board:

H.H. Kloos RBA  
*Chairman*

B. Vos M.Sc.

## **12 OTHER INFORMATION**

### **12.1 PERSONAL INTERESTS**

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by the Parent Company, except for B. Vos M.Sc. who had 4,400 ordinary shares (31 December 2018: 4,400) in private possession and 4,562 ordinary shares (31 December 2018: 4,562) in possession through Bas Vos B.V.

As at statement of financial position's date Arcona Capital GmbH held 0 registered shares (31 December 2018: 26,991) in the Fund. Arcona Capital GmbH transferred these 26,991 shares on April 23 2019 to one of the former owners of the manager to fulfil a commitment under a Sale and Purchase agreement from 2012.

### **12.2 INDEPENDENT AUDITOR'S REPORT**

The information in these Consolidated Interim Financial Statements 2019 has not been audited by an expert pursuant to article 393, Part 9 of Book 2 of the Dutch Civil Code (auditor's report).