Arcona Property Fund N.V.

www.arconapropertyfund.com

Extraordinary General Meeting of Shareholders
5 October 2021

Notes to the Agenda

for the Extraordinary General Meeting of Shareholders of

Arcona Property Fund N.V.

To be held on:
Tuesday 5 October 2021 at 14:00
Hotel Van der Valk Amsterdam-Amstel | Joan Muyskenweg 20 | 1096 CJ | Amsterdam

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1 Introduction

During the annual general meeting (hereafter GM) on June 16, 2021 the managing board (hereafter the Board) and the supervisory board (hereafter SB) promised the shareholders to organize an extra General Meeting to discuss the future of Arcona Property Fund (hereafter the Fund).

This Note provides an explanation as to why the Board has put agenda item 3 – approval of a share buyback programme – on the agenda for shareholders´ approval.

2. Steps taken in 2020/2021

A shareholders` meeting to discuss the future of the Fund was originally planned for March 2020 and cancelled due to the COVID-19 outbreak.The Board published the presentation planned for this meeting on the website of the Fund. The recommendation of the Board was, as an urgent priority, to re-finance the short-term bank loans and the loans at Fund level. During 2020 and the first half year of 2021 the Board succeeded in refinancing the majority of these loans. There remain around EUR 5 million of loans outstanding which need to be paid back or refinanced in the next six months.

After the re-financing of these loans, proceeds from sales would be used for a share buyback programme of shares with the aim to decrease the current gap between the share price and the NAV. The Board is still progressing with this plan and expects that it will be able to finalize/to start with the share buyback programme at the end of 2021.

Against the background of the COVID pandemic and related economic developments the following options for the future of the Fund have been discussed between the Board and the SB:

a) Continuation of the current growth and dividend strategy;

b) A formal liquidation of the Fund;

c) Sale of the Fund to a third party (taking private);

d) Managed asset sale and share buyback programme.

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The Board and the SB discussed in meetings the advantages and disadvantages of the options described above and came to the conclusion that neither the active continuation of the 2016 growth strategy nor a formal liquidation of the Fund are in the interest of the shareholders. The liquidation of the Fund brings significant risks with it which could substantially impact shareholder value and the concomitant cessation of trading in the Fund´s shares would be problematic for many shareholders. Equally, a growth strategy is very difficult to implement when the discount between intrinsic value and the stock market price is so high.

During the EGM the Board will provide more details of each scenario to inform the shareholders about the advantages and disadvantages of each option.

3. Agenda item 3 – Approval of a share buyback programme

Over the past three to six months, the Board has seen the impact on the share price of a sustained buying programme by some individual parties. Since the end of April 2021 the share price has increased from EUR 3.90 to EUR 6.20 with a turnover of 275,000 shares. The total volume traded was EUR 1.5 million.

This is 7.3% of outstanding shares. The share price increased by 56%. There is a consensus that a share buyback programme undertaken by the Fund would continue to narrow the gap between share price and NAV.

<u>Selling (more liquid) non-core assets</u>

To fund a share buyback programme it will be necessary to sell assets to create a substantial cash position for the Fund. However, the current priority of the Board is to repay the loans at NV level (currently ca. EUR 5 million) before the year end. A sale programme must therefore generate at least EUR 7 million of liquidity after repayment of secured bank loans and tax, whilst sustaining the Fund´s operational cash flow in the medium term.

The Fund´s largest asset is the Letna office building in Kosice with a valuation of EUR 12.93 million. This property is primarily leased to AT&T until April 2025. The property is arguably a “lump risk” in a provincial city in a non-core country (Slovakia), and a sale now would crystallise substantial value gains achieved here over the past few years. A sale at current valuation would create a cash position of EUR 5 million which will be used to pay back loans at NV-level. The remaining part (after some Fund costs) would then be available for the funding the start of a share buyback programme end 2021/H1 2022. In parallel, the Fund will also continue to sell non-core Ukrainian, Bulgarian and Slovakian assets, with the realistic expectation of realizing a further EUR 2.5 – EUR 5 million of liquidity.

With this amount the Board is of the view it is possible to buy back a substantial amount of shares. This is likely positively to influence the share price. For shareholders this will be a quicker way to realize an exit whilst preserving the ability to trade in the shares of the Fund. It should be possible to achieve this in a shorter period than a liquidation, which could take up to four years to complete.

After paying back the loans at Fund level and having repaid all short-term bank loans, the Fund has then a stable debt situation going forward (LTV ca. 35%) and a realistic expectation that the market capitalization will reflect no more than a market standard discount to the net asset value.

Amsterdam, August 23, 2021

The Management Board, **Arcona Capital Fund Management B.V.**