

**Klosterstræde 1 ApS
Central Business Registration No
36392703
C/O Deloitte, Weidekampsgade 6
2300 Copenhagen S**

Annual report 2015/2016

The Annual General Meeting adopted the annual report on 29.12.2016

Chairman of the General Meeting

Name: Jakob Schou Midtgaard

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Entity details

Entity

Klosterstræde 1 ApS
C/O Deloitte, Weidekampsgade 6
2300 Copenhagen S

Central Business Registration No: 36392703

Registered in: Copenhagen

Financial year: 01.10.2015 - 31.07.2016

Executive Board

Peter John Baxter
Jakob Schou Midtgaard

Auditors

ERNST & YOUNG Godkendt Revisionspartnerselskab
Osvald Helmuths Vej 4
Postboks 250
2000 Frederiksberg

Statement by Management on the annual report

The Executive Board have today considered and approved the annual report of Klosterstræde 1 ApS for the financial year 01.10.2015 - 31.07.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.07.2016 and of the results of its operations for the financial year 01.10.2015 - 31.07.2016.

We recommend the annual report for adoption at the Annual General Meeting.

København, 29.12.2016

Executive Board

Peter John Baxter

Jakob Schou Midtgaard

Independent auditor's report

To the owner of Klosterstræde 1 ApS

Report on the financial statements

We have audited the financial statements of Klosterstræde 1 ApS for the financial year 01.10.2015 - 31.07.2016, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.07.2016 and of the results of its operations for the financial year 01.10.2015 - 31.07.2016 in accordance with the Danish Financial Statements Act.

København, 29.12.2016

ERNST & YOUNG

Godkendt Revisionspartnerselskab

Henrik Reedtz

State Authorised Public Accountant

CVR-nr. 30700228

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The annual report comprised a financial period of 10 months.

Non-comparability

In the financial year under review, the Company has changed its financial reporting period to end 31 July 2016 instead of 30 September 2016. This means that the financial statements cover a period of 10 months whereas the comparative figures cover a period of 12 months.

Changes in accounting policies

This financial year, the Company has changed its accounting policies to the effect that, pursuant to S 38 Danish Financial Statements Act, the property is recognised at its estimated fair value. Previously, the property was recognised at cost less accumulated depreciation and impairment losses. At 30 September 2015, the property was recognised at DKK 15.4m. The reasons for the change in accounting policies are that, effective from 24 February 2016, the property has a new owner who recognises their properties at fair value in the consolidated financial statements and that this is considered to give a more true and fair view of the Company's financial position. The monetary effect of this change is a reduction of equity by DKK 1.2m after correction of deferred tax. The comparative figures have been restated to the effect that the open market value at 24 February 2016 reflects fair value at 30 September 2015 as no significant changes are considered to have taken place in the market and the property's conditions in the intervening time. After restatement of the comparative figures, the property has been recognised at DKK 13.9m at 30 September 2015. Management has assessed that it has not been possible to determine a reliable fair value of the investment property at 30.09.2014, for which reason the comparative figures do not include a fair value adjustment of the investment property in the income statement. Otherwise, the accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Accounting policies

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, property costs and external expenses.

Revenue

Revenue comprise rental income and tenant's contribution to overhead costs and is recognized in the income statement. Rental income is accrued to cover the period up to the end of the financial year.

Fair value adjustment of investment properties

Fair value adjustment of investment properties comprises adjustments for the financial year of the Entity's investment properties at fair value.

Other external expenses

Other external expenses comprise costs for administration.

Property costs

Property costs include costs incurred to operate the Entity's properties in the financial year, including repair and maintenance costs, property tax and electricity, water and heating, which are not charged directly from the lessee.

Depreciation

Depreciation relating to property, plant and equipment comprise depreciation for the prior financial year, calculated on the basis of the residual values and useful lives of the individual assets.

Accounting policies

Other financial income from group enterprises

Other financial income from group enterprises comprises interest income on receivables from group enterprises.

Other financial expenses

Other financial expenses comprise interest expenses and amortisation of loan cost.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Company participates in a Danish joint taxation arrangement in which Vimmelskftet 30 Holding ApS serves as the administration company. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Investment properties

On initial recognition, investment properties are measured at cost consisting of the acquisition price of the properties plus any directly related acquisition costs.

After initial recognition, the properties are measured at fair value which represents the amount at which the individual property may be sold to an independent buyer. The investment property has been valued based on an external estate agent's valuation using the Direct Capitalisation approach. Fair value adjustments for the financial year are recognised in the income statement.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Accounting policies

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet as a receivable from or payable to group enterprises, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash

Cash comprises bank deposits.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Deferred income

Deferred income comprises prepaid rent for recognition in subsequent financial years. Deferred income is measured at cost.

Income statement for 2015/2016

| | Notes | 01.10.2015 - 31.07.2016 DKK'000 10 months | 01.10.2014 - 30.09.2015 DKK'000 12 months |
|---|--------------|--|--|
| Gross loss | | (103) | 879 |
| Depreciation | | 0 | (153) |
| Operating profit/loss | | (103) | 726 |
| Other financial income from group enterprises | | 0 | 19 |
| Other financial expenses | | (60) | 0 |
| Profit/loss from ordinary activities before fair value adjustments and tax | | (163) | 745 |
| Fair value adjustment of investment properties | | 500 | 0 |
| Profit/loss from ordinary activities before tax | | 337 | 745 |
| Tax on profit/loss from ordinary activities | 1 | (74) | 492 |
| Profit/loss for the year | | 263 | 1.237 |
| Proposed distribution of profit/loss | | | |
| Extraordinary dividend | | 8.865 | 0 |
| Retained earnings | | (8.602) | 1.237 |
| | | 263 | 1.237 |

Balance sheet at 31.07.2016

| | <u>Notes</u> | <u>31.07.2016 DKK'000</u> | <u>30.09.2015 DKK'000</u> |
|--|--------------|---------------------------------|---------------------------------|
| Investment property | | <u>14.500</u> | <u>13.896</u> |
| Property, plant and equipment | 2 | <u>14.500</u> | <u>13.896</u> |
| Fixed assets | | <u>14.500</u> | <u>13.896</u> |
| Receivables from group enterprises | | 18 | 517 |
| Deferred tax assets | | 742 | 817 |
| Other short-term receivables | | 52 | 297 |
| Income tax receivable | | <u>13</u> | <u>13</u> |
| Receivables | | <u>825</u> | <u>1.644</u> |
| Cash | | <u>1.567</u> | <u>0</u> |
| Current assets | | <u>2.392</u> | <u>1.644</u> |
| Assets | | <u><u>16.892</u></u> | <u><u>15.540</u></u> |

Balance sheet at 31.07.2016

| | <u>Notes</u> | <u>31.07.2016 DKK'000</u> | <u>30.09.2015 DKK'000</u> |
|--|--------------|-------------------------------|-------------------------------|
| Contributed capital | | 50 | 50 |
| Share premium | | 0 | 15.429 |
| Retained earnings | | 6.866 | 39 |
| Equity | | <u>6.916</u> | <u>15.518</u> |
| Mortgage debts | | 8.879 | 0 |
| Non-current liabilities other than provisions | 3 | <u>8.879</u> | <u>0</u> |
| Trade payables | | 173 | 13 |
| Other payables | | 671 | 9 |
| Deferred income | | 253 | 0 |
| Current liabilities other than provisions | | <u>1.097</u> | <u>22</u> |
| Liabilities other than provisions | | <u>9.976</u> | <u>22</u> |
| Equity and liabilities | | <u><u>16.892</u></u> | <u><u>15.540</u></u> |
| Contingent liabilities | 4 | | |
| Assets charged and collateral | 5 | | |
| Related parties with control | 6 | | |
| Main activity | 7 | | |

Statement of changes in equity for 2015/2016

| | Contri- buted capital DKK'00 | Share premium DKK'00 | Retained earnings DKK'00 | Total DKK'00 |
|--|---------------------------------------|----------------------------|--------------------------------|---------------------|
| | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Equity beginning of year | 50 | 15.429 | 1.235 | 16.714 |
| Increase (decrease) of equity through changes in accounting policies | 0 | 0 | (1.196) | (1.196) |
| Extraordinary dividend paid | 0 | 0 | (8.865) | (8.865) |
| Other adjustments | 0 | (15.429) | 15.429 | 0 |
| Profit/loss for the year | <u>0</u> | <u>0</u> | <u>263</u> | <u>263</u> |
| Equity end of year | <u>50</u> | <u>0</u> | <u>6.866</u> | <u>6.916</u> |

Notes

| | 01.10.2015 - 31.07.2016 DKK'000 10 months | 01.10.2014 - 30.09.2015 DKK'000 12 months |
|--|--|--|
| 1. Tax on ordinary profit/loss for the year | | |
| Current tax | 0 | (13) |
| Change in deferred tax for the year | 74 | (479) |
| | 74 | (492) |
| 2. Property, plant and equipment | | Invest- ment pro- perty DKK'000 |
| Cost beginning of year | | 15.647 |
| Additions | | 104 |
| Cost end of year | | 15.751 |
| Changes in accounting policies | | (1.751) |
| Fair value adjustments for the year | | 500 |
| Fair value adjustments end of year | | (1.251) |
| Carrying amount end of year | | 14.500 |

The investment property has been valued based on an external estate agent's valuation using the Direct Capitalisation approach. The estate agent has set the required rate of return at 4.17 %. The budgeted rental income has been determined based on leases entered into. The operating expenses of the property – including maintenance costs that often have an aperiodic structure – have been determined using an on-average basis. The return set for the year has been capitalised by the required rate of return defined. Based on this, the investment property has been recognised at DKK 14.500k.

The sensitivity related to the calculation can be reflected as follows:

| | |
|---|-------------|
| Value at a rate of return of 3.92% (4.17% less 0.25%) | DKK 15.400k |
| Value at a rate of return of 4.42% (4.17% plus 0.25%) | DKK 13.700k |

The valuation of the property is based on estimates and relies on a number of uncertain factors, including expected developments in the property market and the attractiveness of the property. The Company believes that the external estate agent's valuation is the best measure of the value of the property at 31 July 2016.

Notes

| | Outstanding after 5 years 2015/2016 DKK'000 |
|---|--|
| 3. Long-term liabilities other than provisions | |
| Mortgage debts | 8.879 |
| | 8.879 |

4. Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which Vimmelskftet 30 Holding ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2015 for income taxes etc for the jointly taxed companies and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

5. Assets charged and collateral

Conservative gearing in form of third party senior bank debt are secured in way of first ranking property.

6. Related parties with control

- The company is 100 % owned by Vimmelskftet 30 Holding ApS.
- Klosterstræde 1 ApS is included in the consolidated financial statements for M&G European Property Fund SICAV-FIS at the lowest and highest level.

7. Main activity

The company's main activity is to own and manage real estate and related services.