

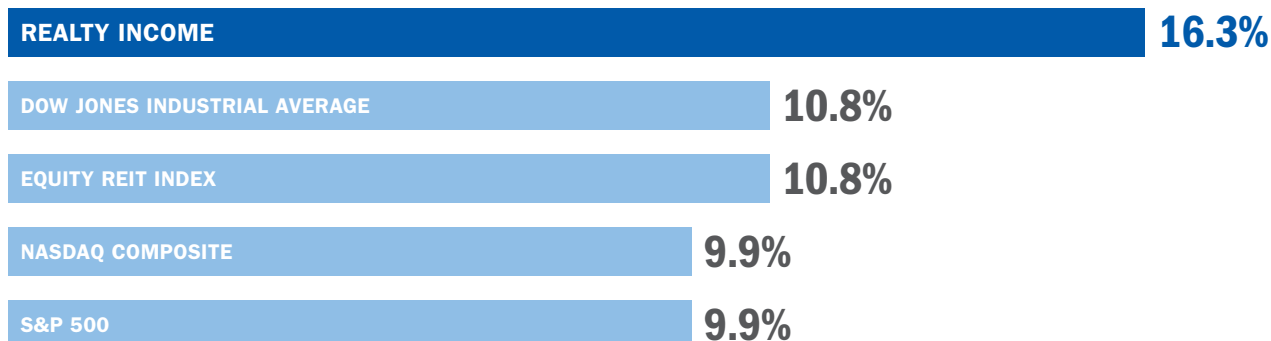
CONSISTENCY BY DESIGN



2017 ANNUAL REPORT

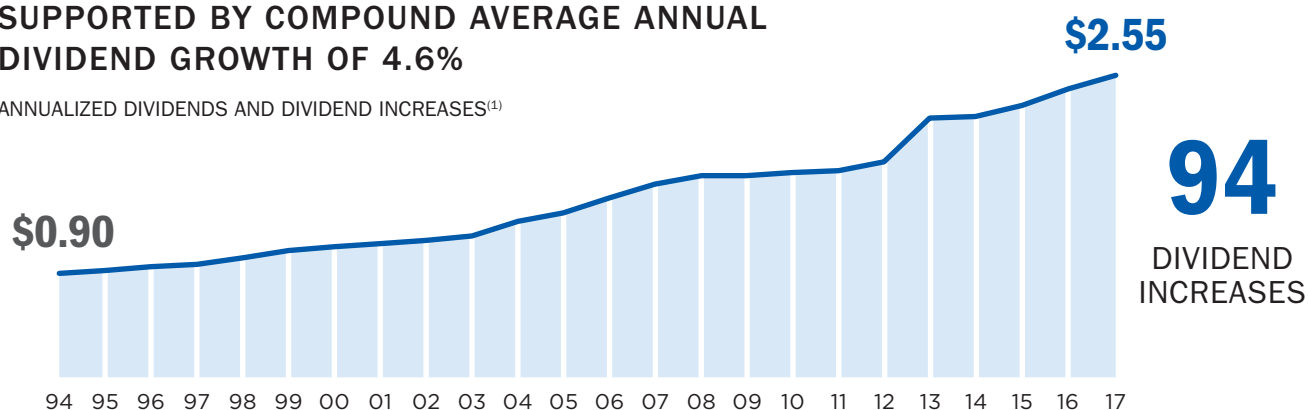
# PATTERN OF POSITIVE RESULTS

## COMPOUND AVERAGE ANNUAL TOTAL SHAREHOLDER RETURN SINCE 1994 NYSE LISTING



## SUPPORTED BY COMPOUND AVERAGE ANNUAL DIVIDEND GROWTH OF 4.6%

ANNUALIZED DIVIDENDS AND DIVIDEND INCREASES<sup>(1)</sup>



<sup>(1)</sup> Annualized dividend amount reflects the December declared dividend rate per share multiplied by 12

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# 2017 PERFORMANCE HIGHLIGHTS

**6.3%**

AFFO PER SHARE  
GROWTH

**5.6%**

DIVIDEND PER  
SHARE GROWTH

**\$3.4 Billion**

ATTRACTIVELY PRICED  
CAPITAL RAISED

**\$1.52 Billion**

INVESTMENT VOLUME

**98.4%**

OCCUPANCY

**105.5%**

RECAPTURE RATE  
ON EXPIRING LEASES



# HISTORICAL FINANCIAL PERFORMANCE

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

For the Years Ended December 31,	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total revenue<sup>(1)</sup></b>	<b>\$1,170</b>	<b>\$1,060</b>	<b>\$980</b>	<b>\$895</b>	<b>\$760</b>	<b>\$484</b>	<b>\$422</b>	<b>\$346</b>	<b>\$329</b>
Net income available to common stockholders	\$302	\$288	\$257	\$228	\$204	\$115	\$133	\$107	\$107
Funds from operations ("FFO") <sup>(2)</sup>	\$773	\$735	\$652	\$563	\$462	\$269	\$249	\$194	\$191
Adjusted funds from operations ("AFFO") <sup>(2)</sup>	\$839	\$736	\$647	\$562	\$463	\$274	\$253	\$197	\$193
Dividends paid to common stockholders	\$689	\$611	\$533	\$479	\$409	\$236	\$219	\$183	\$178
<b>AT YEAR END</b>									
Real estate at cost, before accumulated depreciation <sup>(3)</sup>	\$15,016	\$13,864	\$12,297	\$11,154	\$9,899	\$5,921	\$4,972	\$4,113	\$3,439
Number of properties	5,172	4,944	4,538	4,327	3,896	3,013	2,634	2,496	2,339
Gross leasable square feet (millions)	90	83	76	71	63	38	27	21	19
Properties acquired <sup>(4)</sup>	303	505	286	506	974	423	164	186	16
<b>Cost of properties acquired<sup>(4)</sup></b>	<b>\$1,519</b>	<b>\$1,859</b>	<b>\$1,259</b>	<b>\$1,402</b>	<b>\$4,670</b>	<b>\$1,165</b>	<b>\$1,016</b>	<b>\$714</b>	<b>\$58</b>
Property dispositions	59	77	38	46	75	44	26	28	25
Net proceeds from property dispositions	\$167	\$91	\$66	\$107	\$134	\$51	\$24	\$27	\$20
Number of commercial tenants <sup>(5)</sup>	249	248	240	234	205	150	136	122	118
Number of industries	47	47	47	47	47	44	38	32	30
Number of states	49	49	49	49	49	49	49	49	49
<b>Portfolio occupancy rate</b>	<b>98.4%</b>	<b>98.3%</b>	<b>98.4%</b>	<b>98.4%</b>	<b>98.2%</b>	<b>97.2%</b>	<b>96.7%</b>	<b>96.6%</b>	<b>96.8%</b>
Remaining weighted average lease term (years)	9.5	9.8	10.0	10.2	10.8	11.0	11.3	11.4	11.2
<b>PER COMMON SHARE DATA<sup>(6)</sup></b>									
<b>Net income (diluted)</b>	<b>\$1.10</b>	<b>\$1.13</b>	<b>\$1.09</b>	<b>\$1.04</b>	<b>\$1.06</b>	<b>\$0.86</b>	<b>\$1.05</b>	<b>\$1.01</b>	<b>\$1.03</b>
Funds from operations ("FFO") <sup>(2)</sup>	\$2.82	\$2.88	\$2.77	\$2.58	\$2.41	\$2.02	\$1.98	\$1.83	\$1.84
<b>Adjusted funds from operations ("AFFO")<sup>(2)</sup></b>	<b>\$3.06</b>	<b>\$2.88</b>	<b>\$2.74</b>	<b>\$2.57</b>	<b>\$2.41</b>	<b>\$2.06</b>	<b>\$2.01</b>	<b>\$1.86</b>	<b>\$1.86</b>
<b>Dividends paid</b>	<b>\$2.527</b>	<b>\$2.392</b>	<b>\$2.271</b>	<b>\$2.192</b>	<b>\$2.147</b>	<b>\$1.772</b>	<b>\$1.737</b>	<b>\$1.722</b>	<b>\$1.707</b>
Annualized dividend amount <sup>(7)</sup>	\$2.55	\$2.43	\$2.29	\$2.20	\$2.19	\$1.82	\$1.75	\$1.73	\$1.72
Common shares outstanding (millions)	284	260	250	225	207	133	133	118	104
<b>INVESTMENT RESULTS</b>									
Closing price on December 31,	\$57.02	\$57.48	\$51.63	\$47.71	\$37.33	\$40.21	\$34.96	\$34.20	\$25.91
Dividend yield <sup>(8)(9)</sup>	4.5%	4.6%	4.4%	5.9%	5.3%	5.1%	5.1%	6.6%	7.4%
<b>Total return to stockholders<sup>(10)</sup></b>	<b>3.6%</b>	<b>16.0%</b>	<b>13.0%</b>	<b>33.7%</b>	<b>(1.8%)</b>	<b>20.1%</b>	<b>7.3%</b>	<b>38.6%</b>	<b>19.3%</b>

<sup>(1)</sup> For years prior to 2016, total revenue includes amounts reclassified to income from discontinued operations, but excludes gain on sales, tenant reimbursements, and revenue from Crest Net Lease, a subsidiary of Realty Income. Consistent with Realty Income's financial reporting methodology changes, 2016 and 2017 total revenue includes revenue from Crest Net Lease

<sup>(2)</sup> Refer to Management's Discussion and Analysis for FFO and AFFO definition and reconciliation to net income available to common stockholders in the 2017 Form 10-K section. For 2012 and 2013, FFO has been adjusted to add back American Realty Capital Trust merger-related costs

<sup>(3)</sup> Does not include properties held for sale

<sup>(4)</sup> Includes new properties acquired by Realty Income and Crest Net Lease and properties under development or expansion

<sup>(5)</sup> Commercial tenants are defined as retailers with over 50 locations and non-retailers with over \$500 million in annual revenues

2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>\$331</b>	<b>\$296</b>	<b>\$241</b>	<b>\$198</b>	<b>\$178</b>	<b>\$150</b>	<b>\$138</b>	<b>\$121</b>	<b>\$116</b>	<b>\$105</b>	<b>\$85</b>	<b>\$68</b>	<b>\$57</b>	<b>\$52</b>	<b>\$49</b>
\$108	\$116	\$99	\$90	\$90	\$77	\$69	\$58	\$45	\$41	\$41	\$35	\$32	\$26	\$15
\$186	\$190	\$156	\$130	\$121	\$105	\$95	\$78	\$67	\$66	\$63	\$52	\$48	\$40	\$39
\$192	\$193	\$159	\$131	\$126	\$107	\$96	\$79	\$68	\$66	\$62	\$52	\$47	\$40	\$39
\$170	\$158	\$130	\$109	\$97	\$84	\$78	\$65	\$58	\$56	\$52	\$44	\$43	\$37	\$39
\$3,409	\$3,239	\$2,744	\$2,096	\$1,691	\$1,533	\$1,286	\$1,178	\$1,074	\$1,017	\$890	\$700	\$565	\$515	\$451
2,348	2,270	1,955	1,646	1,533	1,404	1,197	1,124	1,068	1,076	970	826	740	685	630
19	19	17	13	12	11	10	10	9	9	8	6	5	5	4
108	357	378	156	194	302	111	117	22	110	149	96	62	58	4
<b>\$190</b>	<b>\$534</b>	<b>\$770</b>	<b>\$487</b>	<b>\$215</b>	<b>\$372</b>	<b>\$139</b>	<b>\$156</b>	<b>\$99</b>	<b>\$181</b>	<b>\$193</b>	<b>\$142</b>	<b>\$56</b>	<b>\$65</b>	<b>\$3</b>
29	10	13	23	43	35	35	35	21	3	5	10	7	3	5
\$28	\$7	\$11	\$23	\$35	\$23	\$20	\$40	\$45	\$9	\$3	\$4	\$4	\$1	\$4
119	115	103	101	93	85	79	78	72	72	65	40	24	22	23
30	30	29	29	30	28	26	25	24	24	22	14	8	7	5
49	49	48	48	48	48	48	48	46	45	45	43	42	42	41
<b>97.0%</b>	<b>97.9%</b>	<b>98.7%</b>	<b>98.5%</b>	<b>97.9%</b>	<b>98.1%</b>	<b>97.7%</b>	<b>98.2%</b>	<b>97.7%</b>	<b>98.4%</b>	<b>99.5%</b>	<b>99.2%</b>	<b>99.1%</b>	<b>99.3%</b>	<b>99.4%</b>
11.9	13.0	12.9	12.4	12.0	11.8	10.9	10.4	9.8	10.7	10.2	9.8	9.5	9.2	9.5
\$1.06	\$1.16	\$1.11	\$1.12	\$1.15	\$1.08	\$1.01	\$0.99	\$0.84	\$0.76	\$0.78	\$0.74	\$0.70	\$0.63	\$0.39
\$1.83	\$1.89	\$1.73	\$1.62	\$1.53	\$1.47	\$1.40	\$1.33	\$1.26	\$1.23	\$1.18	\$1.11	\$1.04	\$1.00	\$0.98
<b>\$1.90</b>	<b>\$1.92</b>	<b>\$1.77</b>	<b>\$1.63</b>	<b>\$1.61</b>	<b>\$1.50</b>	<b>\$1.41</b>	<b>\$1.34</b>	<b>\$1.27</b>	<b>\$1.24</b>	<b>\$1.17</b>	<b>\$1.10</b>	<b>\$1.03</b>	<b>\$0.98</b>	<b>\$0.98</b>
<b>\$1.662</b>	<b>\$1.560</b>	<b>\$1.437</b>	<b>\$1.346</b>	<b>\$1.241</b>	<b>\$1.181</b>	<b>\$1.151</b>	<b>\$1.121</b>	<b>\$1.091</b>	<b>\$1.043</b>	<b>\$0.983</b>	<b>\$0.946</b>	<b>\$0.931</b>	<b>\$0.913</b>	<b>\$0.300</b>
\$1.70	\$1.64	\$1.52	\$1.40	\$1.32	\$1.20	\$1.17	\$1.14	\$1.11	\$1.08	\$1.02	\$0.96	\$0.95	\$0.93	\$0.90
104	101	101	84	79	76	70	66	53	54	54	51	46	46	39
\$23.15	\$27.02	\$27.70	\$21.62	\$25.29	\$20.00	\$17.50	\$14.70	\$12.44	\$10.31	\$12.44	\$12.72	\$11.94	\$11.25	\$8.56
6.1%	5.6%	6.7%	5.3%	6.2%	6.7%	7.8%	9.0%	10.6%	8.4%	7.7%	7.9%	8.3%	10.7%	9.9%
<b>(8.2%)</b>	<b>3.2%</b>	<b>34.8%</b>	<b>(9.2%)</b>	<b>32.7%</b>	<b>21.0%</b>	<b>26.9%</b>	<b>27.2%</b>	<b>31.2%</b>	<b>(8.7%)</b>	<b>5.5%</b>	<b>14.5%</b>	<b>15.4%</b>	<b>42.0%</b>	<b>28.5%</b>

<sup>(6)</sup> All share and per share amounts reflect the 2-for-1 stock split on December 31, 2004

<sup>(7)</sup> Annualized dividend amount reflects the December declared dividend rate per share multiplied by 12

<sup>(8)</sup> Dividend yield was calculated by dividing the dividend paid per share, during the year, by the closing share price on December 31 or the last trading day of the preceding year. Dividend yield excludes special dividends

<sup>(9)</sup> The 1994 dividend yield is based on the annualized dividends for the period from August 15, 1994 (the date of the consolidation of the predecessors to the Company) to December 31, 1994. The 1994 total return is based on the price change from the opening on October 18, 1994 (the Company's first day of trading) to December 31, 1994 plus the annualized dividend yield

<sup>(10)</sup> Total return calculated by dividing the net change in the share price plus the dividends paid per share during the year by the closing share price on the last trading day of the preceding year



# DEAR FELLOW SHAREHOLDERS,

We are pleased to report that 2017 was another year of successful operating performance for Realty Income. In fact, we selected the artwork on the cover of this year's Annual Report, well known for the consistency of its patterns of perpendicular lines and primary colors, to reflect the consistency of our company's performance over time. Our company's disciplined approach to managing our business has created a track record of achievement that has resulted in our becoming the only S&P 500 REIT in the net lease sector. We continue to maintain focus on the quality of our real estate portfolio, the safety of our balance sheet, and the experience of our team members. By running our company in this manner, we strive to achieve a consistent pattern of positive performance year after year.



We achieved many milestones in 2017. We raised just over \$3.4 billion in attractively priced permanent and long-term capital, the most capital raised in any given year in our company's history. We used the capital to fund just over \$1.5 billion of high-quality property acquisitions and to continue to fortify our balance sheet. Moody's, a major credit rating agency, also upgraded our credit rating to A3, giving us the highest credit rating of any net lease real estate company and one of the highest ratings in the real estate sector. Our earnings per share, as measured by Adjusted Funds from Operations (AFFO), grew by 6.3% to \$3.06, a growth rate substantially higher than our long-term historical annual average. The earnings growth enabled us to increase the dividend by 5.6% during the year while strengthening our dividend coverage ratio.

## MISSION

Our mission of providing dependable monthly dividends that increase over time to our shareholders has guided us throughout our history and consistently positions us for favorable results.

Achieving our mission involves effectively executing our business plan to:

- Pay 12 monthly dividends
- Raise the dividend
- Remain disciplined in our investment underwriting approach
- Acquire additional properties according to our selective investment strategy
- Create shareholder value through active portfolio and asset management
- Maintain a conservative balance sheet
- Continue to grow investor interest in The Monthly Dividend Company®

This business plan has served us well through various economic environments and provides us with the flexibility to adjust to ongoing changes in the retail and industrial real estate markets, which is crucial to our consistent performance. We are pleased to report that during 2017 we successfully executed on all aspects of this plan. We paid 12 monthly dividends and raised the dividend five times throughout the year. We accomplished these results

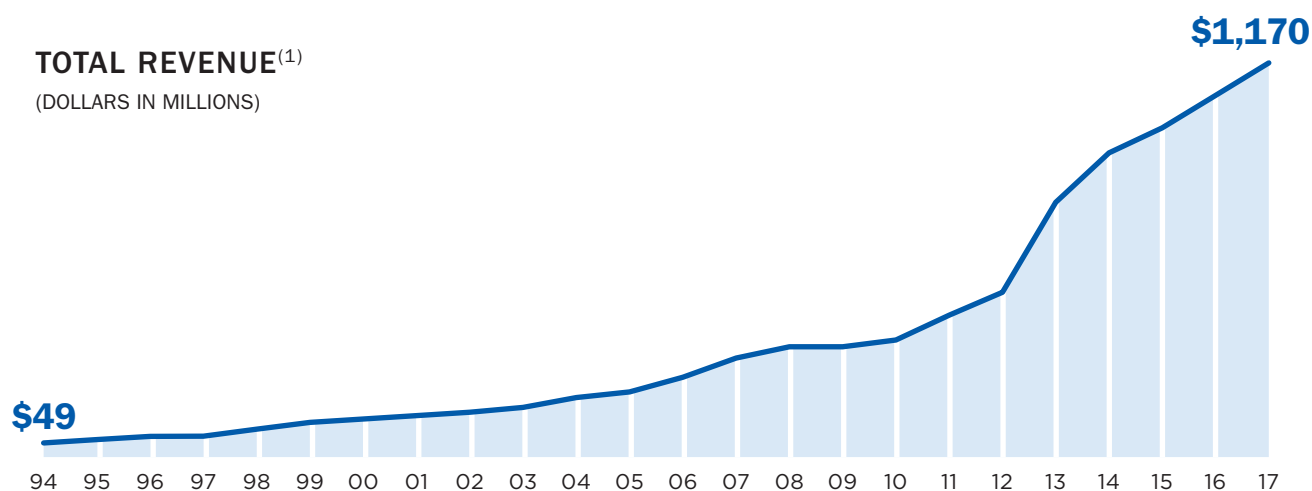
by completing our third-highest volume of property acquisitions in the company's history, maintaining consistently high portfolio occupancy, and accessing the public capital markets at favorable terms to position our balance sheet for future growth.

## SHAREHOLDER RETURNS

Our focus on providing dependable monthly dividends that increase over time helps drive total shareholder returns. In 2017, the shareholders who owned our common stock for the full calendar year realized a total return of 3.6%, which captures changes to our stock price as well as the dividends paid throughout the year. We always like to remind our shareholders that our company's total return results do not always move in parallel with our operating performance in any given year. Other factors beyond our operating performance can impact the price of our shares including, but not limited to, macroeconomic events, interest rate trends, and conditions in the broader stock market.

## TOTAL REVENUE<sup>(1)</sup>

(DOLLARS IN MILLIONS)



<sup>(1)</sup> See page 2, footnote 1, for the definition of total revenue

## REALTY INCOME PERFORMANCE VS. MAJOR STOCK INDICES

	Realty Income		Equity REIT Index <sup>(1)</sup>		Dow Jones Industrial Average		S&P 500		NASDAQ Composite	
	DIVIDEND YIELD	TOTAL RETURN <sup>(2)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(4)</sup>
10/18-12/31										
1994	10.5%	10.8%	7.7%	0.0%	2.9%	(1.6%)	2.9%	(1.2%)	0.5%	(1.7%)
1995	8.3%	42.0%	7.4%	15.3%	2.4%	36.9%	2.3%	37.6%	0.6%	39.9%
1996	7.9%	15.4%	6.1%	35.3%	2.2%	28.9%	2.0%	23.0%	0.2%	22.7%
1997	7.5%	14.5%	5.5%	20.3%	1.8%	24.9%	1.6%	33.4%	0.5%	21.6%
1998	8.2%	5.5%	7.5%	(17.5%)	1.7%	18.1%	1.3%	28.6%	0.3%	39.6%
1999	10.5%	(8.7%)	8.7%	(4.6%)	1.3%	27.2%	1.1%	21.0%	0.2%	85.6%
2000	8.9%	31.2%	7.5%	26.4%	1.5%	(4.7%)	1.2%	(9.1%)	0.3%	(39.3%)
2001	7.8%	27.2%	7.1%	13.9%	1.9%	(5.5%)	1.4%	(11.9%)	0.3%	(21.1%)
2002	6.7%	26.9%	7.1%	3.8%	2.6%	(15.0%)	1.9%	(22.1%)	0.5%	(31.5%)
2003	6.0%	21.0%	5.5%	37.1%	2.3%	28.3%	1.8%	28.7%	0.6%	50.0%
2004	5.2%	32.7%	4.7%	31.6%	2.2%	5.6%	1.8%	10.9%	0.6%	8.6%
2005	6.5%	(9.2%)	4.6%	12.2%	2.6%	1.7%	1.9%	4.9%	0.9%	1.4%
2006	5.5%	34.8%	3.7%	35.1%	2.5%	19.0%	1.9%	15.8%	0.8%	9.5%
2007	6.1%	3.2%	4.9%	(15.7%)	2.7%	8.8%	2.1%	5.5%	0.8%	9.8%
2008	7.3%	(8.2%)	7.6%	(37.7%)	3.6%	(31.8%)	3.2%	(37.0%)	1.3%	(40.5%)
2009	6.6%	19.3%	3.7%	28.0%	2.6%	22.6%	2.0%	26.5%	1.0%	43.9%
2010	5.1%	38.6%	3.5%	27.9%	2.6%	14.0%	1.9%	15.1%	1.2%	16.9%
2011	5.0%	7.3%	3.8%	8.3%	2.8%	8.3%	2.3%	2.1%	1.3%	(1.8%)
2012	4.5%	20.1%	3.5%	19.7%	3.0%	10.2%	2.5%	16.0%	2.6%	15.9%
2013	5.8%	(1.8%)	3.9%	2.9%	2.3%	29.6%	2.0%	32.4%	1.4%	38.3%
2014	4.6%	33.7%	3.6%	28.0%	2.3%	10.0%	2.0%	13.7%	1.3%	13.4%
2015	4.4%	13.0%	3.9%	2.8%	2.6%	0.2%	2.2%	1.4%	1.4%	5.7%
2016	4.2%	16.0%	4.0%	8.6%	2.5%	16.5%	2.1%	12.0%	1.4%	7.5%
2017	4.5%	3.6%	3.9%	8.7%	2.2%	28.1%	1.9%	21.8%	1.1%	28.2%
COMPOUND AVERAGE ANNUAL TOTAL RETURN <sup>(5)</sup>	16.3%		10.8%		10.8%		9.9%		9.9%	

Note: All of these dividend yields are calculated as annualized dividends based on the last dividend paid in applicable time period divided by the closing price as of period end. Dividend yield sources: NAREIT website and Bloomberg, except for the 1994 NASDAQ dividend yield which was sourced from Datastream / Thomson Financial.

<sup>(1)</sup> FTSE NAREIT US Equity REIT Index, as per NAREIT website.

<sup>(2)</sup> Calculated as the difference between the closing stock price as of period end less the closing stock price as of previous period, plus dividends paid in period, divided by closing stock price as of end of previous period. Does not include reinvestment of dividends for the annual percentages.

<sup>(3)</sup> Includes reinvestment of dividends. Source: NAREIT website and Factset.

<sup>(4)</sup> Price only index, does not include dividends as NASDAQ did not report total return metrics for the entirety of the measurement period. Source: Factset.

<sup>(5)</sup> All of these Compound Average Annual Total Return rates are calculated in the same manner: from Realty Income's NYSE listing on October 18, 1994 through December 31, 2017, and (except for NASDAQ) assuming reinvestment of dividends. Past performance does not guarantee future performance. Realty Income presents this data for informational purposes only and makes no representation about its future performance or how it will compare in performance to other indices in the future.



During 2017, we significantly exceeded our historical average earnings per share growth rate even though our total return was 3.6%. We believe this inconsistency was largely attributable to market concerns regarding traditional brick-and-mortar retailers, in addition to expectations of rising inflation and higher interest rates due to economic policies in Washington. These sentiments affected all retail-focused REITs in 2017 which, on average, experienced total returns to their shareholders of negative 5%. We believe our relative outperformance is primarily due to the market understanding that our portfolio is more resilient to e-commerce threats (see page 9 for additional discussion).

While external macroeconomic trends and events can notably influence our share price in the short run, over the long term, our strong and consistent operating performance has led to advances in our stock price and dividends. The result has been a compound average annual total shareholder return of 16.3% since our public listing in 1994 (see the table on page 6). We are proud of these results, and our goal is to continue advancing the company in a manner that supports sustainable, long-term value creation for our shareholders.

## ACQUISITIONS

Our real estate acquisitions continue to be the primary driver of our earnings growth. As fiduciaries of your investment, we are committed to acquiring properties that

preserve the stability and growth of our earnings and the dividend. During 2017, we completed \$1.52 billion in property acquisitions, which notably exceeded our initial estimate of approximately \$1 billion at this time last year. We remained quite selective in what we pursued, acquiring just 5% of the \$30.4 billion in real estate acquisition opportunities that we generated and reviewed.

While the flow of opportunities continued to be active throughout the year, we remained committed to our investment strategy, targeting those opportunities with quality real estate locations, high-credit tenants, and favorably structured lease terms. We believe this measured approach should support the achievement of favorable risk-adjusted returns for our shareholders.

The \$1.52 billion in property acquisitions were purchased at an average initial yield of 6.4%, which resulted in very attractive investment spreads relative to our first-year nominal weighted average cost of capital. We continued to maintain investment spreads well above our historical average given our cost of capital advantage in the industry.

Beyond increasing earnings, our acquisitions further strengthened the position of the company by continuing to diversify the portfolio and improve our tenant credit quality. Diversification continues to be central to our investment strategy as it enhances the stability of our revenues by limiting the amount of rent

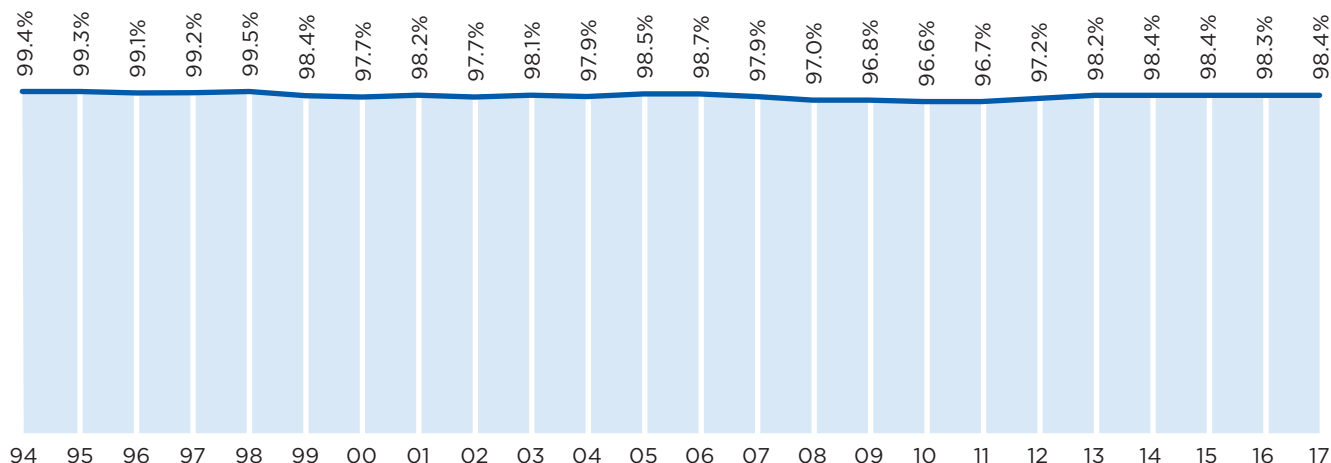
we receive from any single tenant, industry, or market. The 303 properties acquired in 2017 are leased to tenants that operate in 23 different industries located in 40 states. Retail properties continue to be our principal property type and comprised 95% of 2017 acquisitions as a percentage of rental revenue, with the balance represented by industrial properties. Additionally, approximately half of the rental revenue from our acquisitions was from tenants with investment-grade credit ratings. The properties acquired reflect our disciplined underwriting approach and commitment to our stringent investment parameters.

## PORTFOLIO AND ASSET MANAGEMENT

We experienced a very active and successful year in 2017 with our portfolio and asset management activities. The quality of our real estate portfolio as well as the caliber and experience of our team continued to contribute to earnings growth driven by high portfolio occupancy, positive re-leasing results, and the sale of non-strategic assets at attractive returns.

We ended 2017 with occupancy of 98.4%, which matches our highest year-end occupancy level in 10 years. We re-leased 259 properties to existing or new tenants, achieving rental rates that were approximately 106% of the expiring rent, well above our long-term average recapture rate of 100%. We are pleased to have grown the cash flow generated from our properties that we re-leased, and believe our positive

## PORTFOLIO OCCUPANCY<sup>(1)</sup>



<sup>(1)</sup> Calculated at the end of each year by the number of properties

2017 results reflect our proven, disciplined, and selective underwriting approach based on many years of investing in net lease properties. Our experience has enabled us to assemble a high-quality real estate portfolio that has produced favorable long-term, risk-adjusted returns for our shareholders.

We continue to strive for additional value creation opportunities through our asset management efforts. In 2017, we selectively invested \$30 million for capital improvements in properties with expiring leases, generating an incremental 7.7% yield on this invested capital. We also selectively sell non-strategic and vacant assets with carrying costs at attractive returns and redeploy the proceeds into properties that better meet our investment strategy. In 2017, we sold 58 properties for \$166 million and realized an unlevered internal rate of return of 9.9% on these investments. These activities enable us to maintain the quality of our portfolio and support the stability and growth in earnings and the dividend.

In 2017, we continued to expand and refine our Portfolio & Asset Management Department. This group has done an excellent job in further developing our asset management activities and will be integral in the ongoing effective management of our growing portfolio.

### CAPITAL MARKETS ACTIVITY

We continue to enjoy excellent access to multiple forms of capital to fund our business. Within the net lease sector, we view our low cost of capital as a distinct competitive advantage as it positions us to grow earnings while acquiring the highest quality real estate properties in the marketplace. In 2017, our relative cost of capital advantage improved when Moody's upgraded our senior unsecured rating to A3 from Baa1, recognizing the continued strengthening of our credit profile. Our investment-grade credit ratings of A3/BBB+/BBB+ are the highest in the net lease sector and demonstrate our track record of financial discipline in operating our company.

In 2017, we again took steps to strengthen our balance sheet to ensure a conservative capital structure benefiting our shareholders. During the year, we raised over \$1.4 billion in common equity capital at an average price of approximately \$60 per share. Additionally, with one of the highest credit ratings in the REIT industry, we raised \$2 billion in long-term, fixed-rate debt at a yield of 3.7%. The debt we issued carried an initial average term of over 14 years, which extended the average remaining term of our existing unsecured notes and bonds from 6.6 years to 9.3 years.

By primarily utilizing equity and long-term, fixed-rate debt to fund our liquidity needs, we have preserved our financial flexibility and limited future refinancing risks. As we entered 2018, common equity represented 73% of our total market capitalization and our fixed charge coverage ratio was a healthy 4.8x, the highest level in our company's history. While these levels will fluctuate from year to year, we remain committed to managing our balance sheet in a conservative manner.

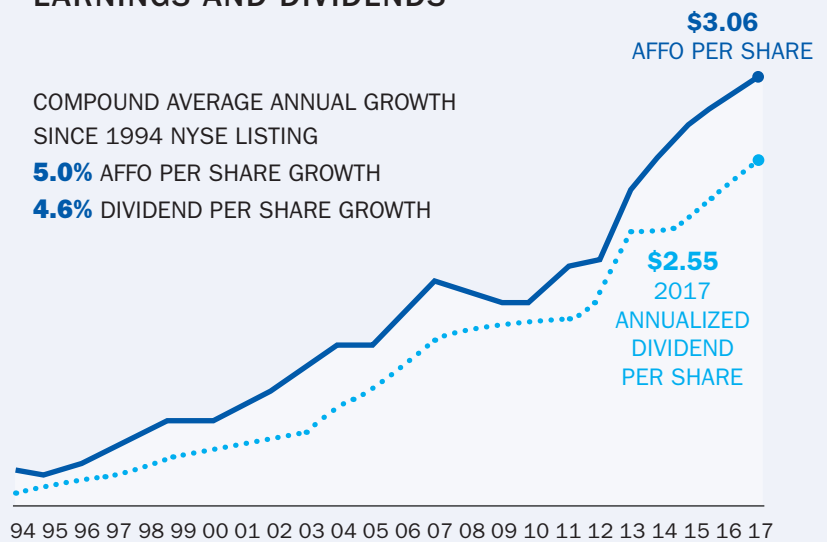


## EARNINGS AND DIVIDENDS

COMPOUND AVERAGE ANNUAL GROWTH  
SINCE 1994 NYSE LISTING

**5.0%** AFFO PER SHARE GROWTH

**4.6%** DIVIDEND PER SHARE GROWTH



## RESOURCES

The continued success of our company is made possible by the quality of our Board of Directors and team members. We have an experienced, diverse, talented, and highly-engaged independent Board who encourages us to be best-in-class in all areas of our business. I also continue to be impressed by the breadth, depth, and commitment of our team. We currently have 152 dedicated team members who range in tenure from one month to 34 years. Our senior officers who oversee our real estate operations have an average tenure of 12 years with the company. Our team members ensure our business operates effectively. I am proud of our team's accomplishments in 2017 and believe we will continue to serve our shareholders well into the future.

Our goal is always to maximize our operational efficiency by ensuring that we have the right people, processes, and systems in place. In 2017, our general and administrative expenses as a percentage of revenue were 5%, the lowest amongst our peers in the net lease sector. We continue to capitalize on the scalability of our

business platform, delivering the highest percentage of our revenue to earnings for our shareholders of any publicly-traded net lease company.

An extension of our mission as The Monthly Dividend Company® is to take an active role in the betterment of our community. As part of our Corporate Responsibility program (see page 17 for additional discussion), this past year we devoted over 725 employee volunteer hours to various charitable organizations including San Diego Habitat for Humanity where our team members helped construct several local homes. We also made corporate donations to multiple charitable organizations. We have had a significant presence in San Diego County since our founding in 1969 and believe it is important for us to continue to impact our local community positively as a responsible corporate citizen. We also remain focused on environmental and sustainability initiatives at our headquarters and in our operations, subject to our net lease orientation.

## EARNINGS AND DIVIDENDS

Our activities contributed to healthy 2017 earnings growth. We continued to grow our AFFO, or the cash earnings available to pay the dividend, while maintaining the strength of our balance sheet. In 2017, we grew our AFFO per share by 6.3% to \$3.06, which allowed us to increase the dividend five times throughout the year, and again in February 2018, raising the dividend by 4% as compared to February 2017. The continued strength of our operations allowed us to increase the dividend while achieving a payout ratio of just under 83%, providing a comfortable margin of safety for our shareholders.

## MACROECONOMIC ENVIRONMENT AND OUR POSITION

As I write this letter, we are operating in a domestic economy characterized by improving GDP growth, low unemployment, and growth-oriented economic policies from Washington that have led to higher interest rates. Amid this strong economic backdrop, consumer shopping behavior continues to evolve. Traditional brick-and-mortar



retailers have had to adapt their business models to better compete with e-commerce retailers which are gaining market share. We have been closely monitoring the growing presence of e-commerce for many years and have taken a proactive approach to address these changes and adjust our investment strategy accordingly.

Today, over 90% of our rental revenue from our retail properties, which represents approximately 80% of our total rental revenue, is generated from tenants with a service, non-discretionary, and/or low price point component to their business. We believe these characteristics better position our tenants to operate in a variety of economic environments and to compete more effectively with e-commerce. Our investment strategy also prioritizes retail tenants who are well capitalized and can invest in their omnichannel platforms, further incorporating their brick-and-mortar real estate into their online activities. Additionally, approximately 20% of our overall rental revenue is generated from

non-retail properties, primarily industrial and distribution properties supporting e-commerce fulfillment.

We have also taken deliberate steps to position our portfolio to be diversified by tenant, industry, geography, and to a certain extent, property type, enhancing the stability of our revenue. Our tenant credit profile remains strong with 50% of our rental revenue today derived from investment-grade rated tenants. We have also conservatively underwritten non-investment-grade retail tenants who have sound property level financial metrics and have demonstrated resiliency throughout varying economic environments. Our track record of maintaining high occupancy, which has never been below 96% in our company's history, reflects the overall health of our tenant base and the reliability of our revenue that supports the monthly dividend.

We continue to monitor the impact of potentially disruptive technologies,

macroeconomic conditions, and changing demographics on our business. While we cannot control these external factors or know how they might change in the future, we believe our continued focus on the execution of our strategy has created a strong real estate portfolio and well-capitalized balance sheet that should, by design, perform in virtually any economic and operating environment. As stewards of your capital, we take pride in proactively refining our business strategy in anticipation of potential threats.

## OUTLOOK

We are proud of our company's position of strength as we enter 2018 and are committed to continuing to grow your company responsibly.

We are sourcing ample acquisition opportunities and remain disciplined and selective in our underwriting approach. We anticipate completing \$1 billion to \$1.5 billion in high-quality acquisitions in





2018 at attractive investment spreads and favorable risk-adjusted returns.

To fund our acquisition activities, we maintain a \$2 billion line of credit, that can be expanded to \$3 billion, and continue to enjoy excellent access to permanent and long-term capital. Our leverage metrics remain conservative, providing us with the flexibility to fund the growth of our portfolio with the full spectrum of capital sources available to us.

We believe that our existing portfolio will continue to perform well. We expect occupancy in 2018 to remain around 98%, with same store rent growing by approximately 1.0%, consistent with our 2017 results. Additionally, we are committed to maximizing the revenue generated from our existing real estate properties through our active portfolio and asset management activities. These aforementioned activities should contribute to what we believe will be another year of positive operating results for the company.

## CONCLUSION

We are pleased to have upheld our long-term pattern of successful operating performance in 2017. We had many accomplishments during the year that led to solid earnings and dividend growth. As we move into 2018 and beyond, we will continue to consistently manage the business with a long-term focus, high degree of discipline, and dedication to the dividend.

Our mission as The Monthly Dividend Company® is to provide our shareholders with dependable monthly dividends that increase over time. This mission has served us well throughout our 49-year operating history and will continue to drive the quality of properties we acquire, the types of capital we raise, and the talents required of our team. As your CEO, I am committed to continuing to lead our company in the execution of our business plan and the achievement of our mission. While we remain confident in our ability to operate the company in a manner that supports our

mission, we cannot guarantee that we will be as successful in 2018 as we have been in the past. Therefore, we always remind our shareholders how important it is to rely on Realty Income for only a portion of their income needs.

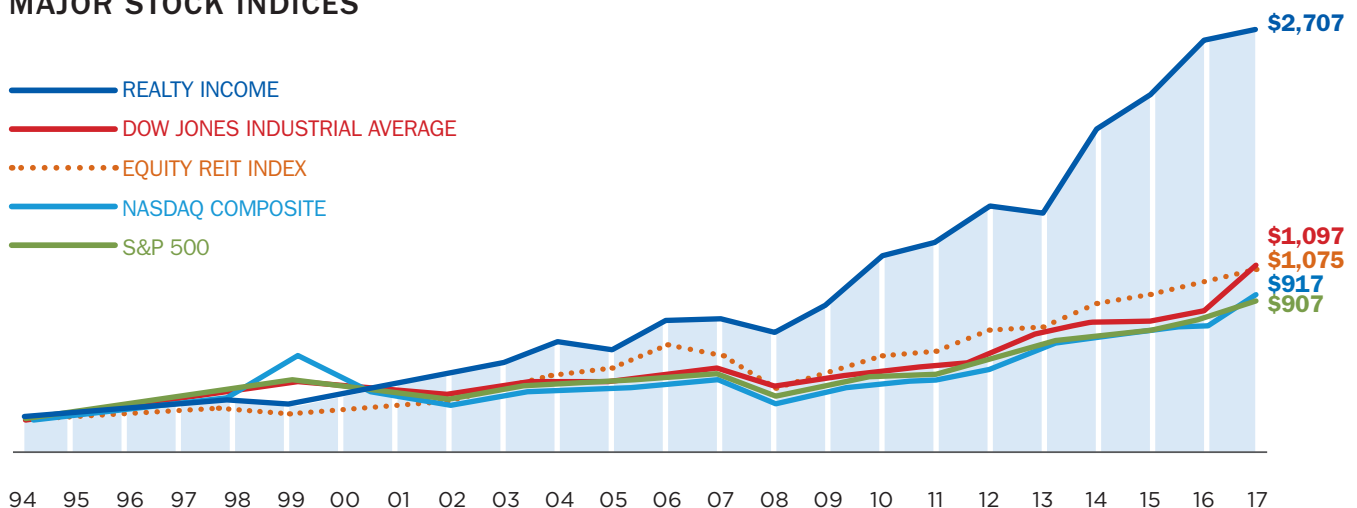
We thank you for your continued support of our company and will keep you apprised of our progress throughout the year.



Sincerely,

John P. Case  
Chief Executive Officer

## COMPARISON OF \$100 INVESTED IN REALTY INCOME IN 1994 VS. MAJOR STOCK INDICES



# WELL-DESIGNED PORTFOLIO

Our real estate portfolio consists of 5,172 freestanding, single-tenant commercial properties that are diversified by tenant, industry, geography, and to a certain extent, property type. At the end of 2017, our properties were leased to 249 commercial tenants operating across 47 industries and located in 49 states and Puerto Rico. The majority of our properties continue to be retail, with the largest component outside of retail being industrial properties. Our tenant base remains healthy with approximately 46% of the revenue generated from properties leased to tenants with investment-grade credit ratings. Maintaining a diversified portfolio leased to strong tenants helps ensure the stability of our revenue that supports the payment of monthly dividends.

The strength of our portfolio is further enhanced by the experience of our portfolio and asset management teams in maximizing the revenue generated from our properties. As one of the most seasoned net lease companies, we have re-leased or sold over 2,600 properties with expiring leases throughout our history as a public company. This is unprecedented in our industry and as a result, we have achieved stable occupancy that has never been below 96%.

## PROPERTY TYPE DIVERSIFICATION

Property Type	Number of Properties	% of Revenue <sup>(1)</sup>
Retail	4,999	80.7%
Industrial	116	12.5%
Office	42	4.6%
Agriculture	15	2.2%

<sup>(1)</sup> Based on rental revenue for the quarter ended 12/31/17





## INDUSTRY DIVERSIFICATION

% of Revenue <sup>(1)</sup>	Industry
10.6%	Drug Stores
9.4%	Convenience Stores
7.7%	Dollar Stores
7.5%	Health and Fitness
5.7%	Theaters
5.5%	Restaurants - Quick Service
5.3%	Transportation Services
4.5%	Grocery Stores
3.7%	Restaurants - Casual Dining
3.2%	Wholesale Clubs

<sup>(1)</sup> Based on rental revenue for the quarter ended 12/31/17

## TENANT DIVERSIFICATION

% of Revenue <sup>(1)</sup>	Number of Properties	Tenant
6.5%	203	Walgreens*
5.1%	43	FedEx*
4.0%	53	LA Fitness
3.9%	532	Dollar General*
3.6%	468	Dollar Tree / Family Dollar
3.6%	32	AMC Theatres
3.0%	51	Walmart / Sam's Club*
2.5%	298	Circle K (Couche-Tard)*
2.2%	15	BJ's Wholesale Clubs
2.1%	17	Treasury Wine Estates
2.0%	11	Life Time Fitness
1.9%	25	Regal Cinemas
1.9%	76	CVS Pharmacy*
1.8%	134	Super America (Andeavor)*
1.8%	216	GPM Investments / Fas Mart
1.7%	69	Rite Aid
1.7%	111	7-Eleven*
1.5%	159	TBC Corporation (Sumitomo)*
1.5%	14	Kroger*
1.2%	19	FreedomRoads / Camping World

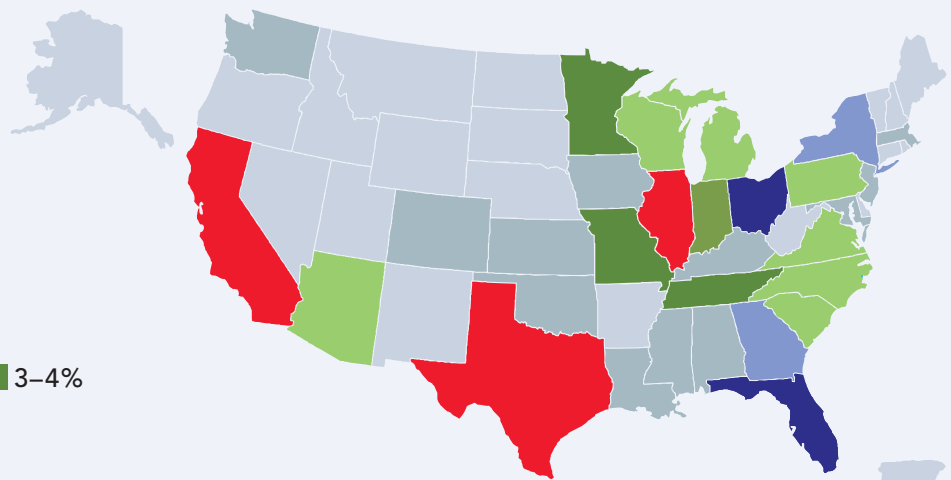
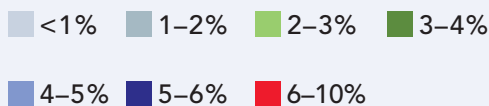
<sup>(1)</sup> Based on annualized rental revenue as of 12/31/17

\*Investment-grade rated

## GEOGRAPHIC DIVERSIFICATION

AS A % OF REVENUE<sup>(1)</sup>

TEXAS **9.4%**  
 CALIFORNIA **9.3%**  
 ILLINOIS **6.2%**  
 FLORIDA **5.8%**  
 OHIO **5.2%**  
 NEW YORK **5.0%**



ALASKA AND PUERTO RICO NOT TO SCALE

<sup>(1)</sup> Based on rental revenue for the quarter ended 12/31/17



# DISCIPLINED INVESTMENT PROCESS

We focus on acquiring freestanding, single-tenant commercial properties leased to high-quality tenants under long-term, net lease agreements, typically in excess of 10 years. During 2017, we reviewed approximately \$30.4 billion of investment opportunities that generally satisfied one or more of these criteria. These opportunities went through a rigorous, multi-step internal underwriting and legal diligence process, resulting in the selection of \$1.52 billion in properties that we ultimately acquired.

The process begins with a review of the real estate. We target properties located in significant markets or strategic locations critical to generating revenue for the tenant. We examine the property-level attributes such as access and signage, demographic trends relative to the property's intended use, potential alternative use, and overall viability of the market.

In addition to the real estate, we also carefully review the characteristics and financial strength of the tenant and its industry. Our team of research professionals conducts a thorough financial review and analysis of the tenant, including an assessment of the store-level performance of the retail operations to ensure we own the tenant's highest-performing locations. Our team stays abreast of trends in the various industries and frequently meets with management representatives within these industries to better understand our tenants' operations.

The information gathered on the real estate, tenant, and industry determines the appropriate price for an investment. We ensure the real estate is appropriately priced relative to replacement cost and leased at rental rates that are generally in line with market rent in order to support strong long-term investment returns generated by each asset. Our Investment Committee collectively reviews these characteristics and metrics to decide which properties to acquire. This rigorous selection process maintains the quality of our investment portfolio and supports the stability of our cash flow over time.



## ACQUISITIONS SELECTIVITY

(DOLLARS IN BILLIONS)

Year	Amount Sourced	Amount Acquired	Selectivity <sup>(1)</sup>
2017	\$30.4	\$1.52	5%
2016	\$28.5	\$1.86	7%
2015	\$31.7	\$1.26	4%
2014	\$24.3	\$1.40	6%
2013	\$39.4	\$4.67	12%
2012	\$17.0	\$1.16	7%
2011	\$13.3	\$1.02	8%
2010	\$5.7	\$0.71	12%

<sup>(1)</sup> Selectivity is calculated as the amount of acquisitions acquired divided by the amount of acquisitions sourced



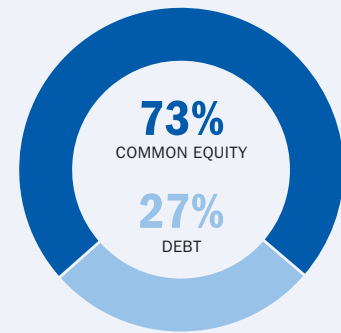
# CONSERVATIVE CAPITAL STRUCTURE

Our commitment to the dividend is demonstrated by the way we manage our balance sheet. We believe it is important to maintain a conservative capital structure that is primarily equity-focused in order to protect the dividend. At the end of 2017, our total market capitalization was \$22.4 billion, of which \$16.2 billion, or 73%, was common equity.

When we use debt to fund our growth, we structure it in a conservative manner. Over the life of the company, over 95% of the bond volume we have issued has been for terms of 10 years or longer and 100% of our outstanding bonds are fixed-rate and unsecured. As of December 31, 2017, our debt-to-EBITDA ratio was a healthy 5.5x. We maintain a \$2.0 billion line of credit, which provides us flexibility to close on acquisitions quickly and then opportunistically raise equity and/or long-term debt when capital market dynamics are most favorable to us. Our investment-grade credit ratings of A3/BBB+/BBB+ (Moody's/S&P/Fitch), with a "Positive" outlook by S&P, continue to provide us with a low cost of public unsecured debt.



## BALANCE SHEET STRENGTH<sup>(1)</sup>



<sup>(1)</sup> At 12/31/17



# DESIGNED FOR MONTHLY DIVIDENDS

As The Monthly Dividend Company®, we remain committed to operating our company in a manner that provides our shareholders with dependable monthly dividends that increase over time. At the core of every business decision we make is the focus on protecting and growing the dividend. Our commitment is evidenced by our track record of dividend performance. Since our company's listing on the NYSE in 1994, we have increased the dividend every year at a compound average annual growth rate of approximately 5% and have never cut the dividend. We are one of only five REITs in the S&P High Yield Dividend Aristocrats® index, which includes companies that have increased their dividend every year for at least 20 years.



**570**

CONSECUTIVE MONTHLY  
DIVIDENDS DECLARED

**\$5.1**

BILLION IN  
DIVIDENDS PAID

**94**

DIVIDEND INCREASES  
SINCE 1994 NYSE LISTING

**0**

DIVIDEND  
REDUCTIONS





# CORPORATE RESPONSIBILITY



Our company is committed to being socially and environmentally responsible, and to conducting our business according to the highest ethical standards. Our employees are awarded compensation that is in line with those of our peers and competitors, including generous healthcare benefits for employees and their families, participation in a 401(k) plan with a matching contribution by Realty Income, competitive paid time-off benefits, and an infant-at-work program for new parents. We

also play an active role in supporting the community through civic involvement with charitable organizations and through corporate donations.

Additionally, we focus on environmentally conscious and sustainable practices through how we manage our activities at our corporate headquarters. At our headquarters, we promote energy efficiency and encourage practices such as powering down office equipment at the end of the day, implementing file-sharing

technology, adopting an electronic approval system, carpooling to our headquarters, and recycling paper waste. In 2017, we established an internal “Green Team” whose mission is to encourage environmentally-smart choices at our headquarters to further reduce our environmental impact as a company. Given the net lease nature of our leases, we also encourage our tenants to institute environmentally conscious practices in their day-to-day operations at our properties.



# 2017

## FORM 10-K

Certain exhibits and schedules to the Form 10-K are not reproduced here, but can be obtained from our website at [www.realtyincome.com](http://www.realtyincome.com) or from the SEC's website at [www.sec.gov](http://www.sec.gov). The Form 10-K includes the section 302 certifications filed with the SEC.



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**Consolidated Balance Sheets**

At December 31, 2017 and 2016

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2017	2016
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 4,080,400	\$ 3,752,204
Buildings and improvements	10,936,069	10,112,212
Total real estate, at cost	15,016,469	13,864,416
Less accumulated depreciation and amortization	(2,346,644)	(1,987,200)
Net real estate held for investment	12,669,825	11,877,216
Real estate held for sale, net	6,674	26,575
Net real estate	12,676,499	11,903,791
Cash and cash equivalents	6,898	9,420
Accounts receivable, net	119,533	104,584
Acquired lease intangible assets, net	1,194,930	1,082,320
Goodwill	14,970	15,067
Other assets, net	45,336	37,689
Total assets	\$ 14,058,166	\$ 13,152,871
<b>LIABILITIES AND EQUITY</b>		
Distributions payable	\$ 60,799	\$ 55,235
Accounts payable and accrued expenses	109,523	121,156
Acquired lease intangible liabilities, net	268,796	264,206
Other liabilities	116,869	85,616
Line of credit payable	110,000	1,120,000
Term loans, net	445,286	319,127
Mortgages payable, net	325,941	466,045
Notes payable, net	5,230,244	3,934,433
Total liabilities	6,667,458	6,365,818
Commitments and contingencies		
Stockholders' equity:		
Preferred stock and paid in capital, par value \$0.01 per share, 69,900,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 16,350,000 issued and outstanding as of December 31, 2016, liquidation preference \$25.00 per share	-	395,378
Common stock and paid in capital, par value \$0.01 per share, 370,100,000 shares authorized, 284,213,685 shares issued and outstanding as of December 31, 2017 and 260,168,259 shares issued and outstanding as of December 31, 2016	9,624,264	8,228,594
Distributions in excess of net income	(2,252,763)	(1,857,168)
Total stockholders' equity	7,371,501	6,766,804
Noncontrolling interests	19,207	20,249
Total equity	7,390,708	6,787,053
Total liabilities and equity	\$ 14,058,166	\$ 13,152,871

***The accompanying notes to consolidated financial statements are an integral part of these statements.***

**Consolidated Statements of Income**

Years ended December 31, 2017, 2016 and 2015

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2017	2016	2015
<b>REVENUE</b>			
Rental	\$ 1,166,224	\$ 1,057,413	\$ 976,865
Tenant reimbursements	46,082	43,104	42,015
Other	3,462	2,655	4,405
<b>Total revenue</b>	<b>1,215,768</b>	<b>1,103,172</b>	<b>1,023,285</b>
<b>EXPENSES</b>			
Depreciation and amortization	498,788	449,943	409,215
Interest	247,413	219,974	233,079
General and administrative	58,446	51,966	49,298
Property (including reimbursable)	69,480	62,865	55,352
Income taxes	6,044	3,262	3,169
Provisions for impairment	14,751	20,664	10,560
<b>Total expenses</b>	<b>894,922</b>	<b>808,674</b>	<b>760,673</b>
Gain on sales of real estate	40,898	21,979	22,243
Loss on extinguishment of debt	(42,426)	-	-
<b>Net income</b>	<b>319,318</b>	<b>316,477</b>	<b>284,855</b>
Net income attributable to noncontrolling interests	(520)	(906)	(1,089)
<b>Net income attributable to the Company</b>	<b>318,798</b>	<b>315,571</b>	<b>283,766</b>
Preferred stock dividends	(3,911)	(27,080)	(27,080)
Excess of redemption value over carrying value of preferred shares redeemed	(13,373)	-	-
<b>Net income available to common stockholders</b>	<b>\$ 301,514</b>	<b>\$ 288,491</b>	<b>\$ 256,686</b>

Amounts available to common stockholders per common share:

Net income, basic and diluted	\$ 1.10	\$ 1.13	\$ 1.09
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Weighted average common shares outstanding:

Basic	273,465,680	255,066,500	235,767,932
Diluted	273,936,752	255,624,250	236,208,390

***The accompanying notes to consolidated financial statements are an integral part of these statements.***



**Consolidated Statements of Equity**

Years ended December 31, 2017, 2016, and 2015

(DOLLARS IN THOUSANDS)

	Shares of preferred stock	Shares of common stock	Preferred stock and paid in capital	Common stock and paid in capital	Distributions in excess of net income	Total stockholders' equity	Noncontrolling interests	Total equity
Balance, December 31, 2014	16,350,000	224,881,192	\$ 395,378	\$ 6,464,987	\$ (1,246,964)	\$ 5,613,401	\$ 27,698	\$ 5,641,099
Net income	-	-	-	-	283,766	283,766	1,089	284,855
Distributions paid and payable	-	-	-	-	(567,012)	(567,012)	(1,652)	(568,664)
Share issuances, net of costs	-	25,322,655	-	1,190,006	-	1,190,006	-	1,190,006
Redemption of common units	-	168,182	-	4,347	-	4,347	(4,347)	-
Reallocation of equity	-	-	-	1,051	-	1,051	(1,051)	-
Share-based compensation, net	-	44,728	-	6,037	-	6,037	-	6,037
Balance, December 31, 2015	16,350,000	250,416,757	\$ 395,378	\$ 7,666,428	\$ (1,530,210)	\$ 6,531,596	\$ 21,737	\$ 6,553,333
Net income	-	-	-	-	315,571	315,571	906	316,477
Distributions paid and payable	-	-	-	-	(642,529)	(642,529)	(12,682)	(655,211)
Share issuances, net of costs	-	9,449,167	-	557,636	-	557,636	-	557,636
Contributions by noncontrolling interests	-	-	-	-	-	-	15,906	15,906
Redemption of common units	-	103,182	-	(2,865)	-	(2,865)	(6,161)	(9,026)
Reallocation of equity	-	-	-	(543)	-	(543)	543	-
Share-based compensation, net	-	199,153	-	7,938	-	7,938	-	7,938
Balance, December 31, 2016	16,350,000	260,168,259	\$ 395,378	\$ 8,228,594	\$ (1,857,168)	\$ 6,766,804	\$ 20,249	\$ 6,787,053
Net income	-	-	-	-	318,798	318,798	520	319,318
Distributions paid and payable	-	-	-	-	(701,020)	(701,020)	(2,047)	(703,067)
Share issuances, net of costs	-	23,957,741	-	1,388,080	-	1,388,080	-	1,388,080
Contributions by noncontrolling interests	-	-	-	-	-	-	-	-
Preferred shares redeemed	(16,350,000)	-	(395,378)	-	(13,373)	(408,751)	-	(408,751)
Reallocation of equity	-	-	-	(485)	-	(485)	485	-
Share-based compensation, net	-	87,685	-	8,075	-	8,075	-	8,075
Balance, December 31, 2017	-	284,213,685	\$ -	\$ 9,624,264	\$ (2,252,763)	\$ 7,371,501	\$ 19,207	\$ 7,390,708

*The accompanying notes to consolidated financial statements are an integral part of these statements.*

**Consolidated Statements of Cash Flows**

Years ended December 31, 2017, 2016 and 2015

(DOLLARS IN THOUSANDS)

	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 319,318	\$ 316,477	\$ 284,855
Adjustments to net income:			
Depreciation and amortization	498,788	449,943	409,215
Loss on extinguishment of debt	42,426	-	-
Amortization of share-based compensation	13,946	12,007	10,391
Non-cash revenue adjustments	(3,927)	(10,154)	(8,607)
Amortization of net premiums on mortgages payable	(466)	(3,414)	(7,482)
Amortization of deferred financing costs	9,158	8,904	9,044
(Gain) loss on interest rate swaps	(3,250)	(1,639)	3,043
Gain on sales of real estate	(40,898)	(21,979)	(22,243)
Provisions for impairment on real estate	14,751	20,664	10,560
Change in assets and liabilities			
Accounts receivable and other assets	(92)	(5,414)	(1,377)
Accounts payable, accrued expenses and other liabilities	26,096	34,468	6,168
Net cash provided by operating activities	875,850	799,863	693,567
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in real estate	(1,413,270)	(1,798,892)	(1,266,885)
Improvements to real estate, including leasing costs	(15,247)	(13,426)	(11,541)
Proceeds from sales of real estate	166,976	99,096	65,817
Insurance proceeds received	14,411	-	-
Collection of loans receivable	123	12,515	-
Non-refundable escrow deposits for pending acquisitions	(7,500)	-	-
Net cash used in investing activities	(1,254,507)	(1,700,707)	(1,212,609)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash distributions to common stockholders	(689,294)	(610,516)	(533,238)
Cash dividends to preferred stockholders	(6,168)	(27,080)	(27,080)
Borrowings on line of credit	1,465,000	3,879,000	1,448,000
Payments on line of credit	(2,475,000)	(2,997,000)	(1,433,000)
Proceeds from notes and bonds payable issued	2,033,041	592,026	-
Principal payment on notes payable	(725,000)	(275,000)	(150,000)
Proceeds from mortgages payable	-	9,963	-
Payments upon extinguishment of debt	(41,643)	-	-
Principal payments on mortgages payable	(139,725)	(231,743)	(198,353)
Proceeds from term loans	-	-	250,000
Redemption of preferred stock	(408,750)	-	-
Proceeds from common stock offerings, net	704,938	383,572	793,559
Proceeds from dividend reinvestment and stock purchase plan	69,931	10,252	363,029
Proceeds from At-the-Market (ATM) program	621,697	166,781	36,348
Redemption of preferred units	-	-	(6,750)
Redemption of common units	-	(9,026)	-
Distributions to noncontrolling interests	(2,043)	(12,725)	(1,679)
Debt issuance costs	(17,510)	(5,274)	(10,259)
Other items, including shares withheld upon vesting	(14,356)	(7,038)	(7,383)
Net cash provided by financing activities	375,118	866,192	523,194
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,539)	(34,652)	4,152
Cash, cash equivalents and restricted cash, beginning of period	15,681	50,333	46,181
Cash, cash equivalents and restricted cash, end of period	\$ 12,142	\$ 15,681	\$ 50,333

For supplemental disclosures, see note 15.

***The accompanying notes to consolidated financial statements are an integral part of these statements.***

## Notes to Consolidated Financial Statements

December 31, 2017, 2016 and 2015

### 1. Organization and Operation

Realty Income Corporation ("Realty Income," the "Company," "we," "our" or "us") is organized as a Maryland corporation. We invest in commercial real estate and have elected to be taxed as a real estate investment trust, or REIT.

At December 31, 2017, we owned 5,172 properties, located in 49 states and Puerto Rico, containing over 89.6 million leasable square feet.

Information with respect to number of properties, square feet, average initial lease term and weighted average contractual lease rate is unaudited.

### 2. Summary of Significant Accounting Policies

**Federal Income Taxes.** We have elected to be taxed as a REIT, as defined above, under the Internal Revenue Code of 1986, as amended, or the Code. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our taxable net income, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for federal income taxes of our taxable REIT subsidiaries. The income taxes recorded on our consolidated statements of income represent amounts paid by Realty Income and its subsidiaries for city and state income and franchise taxes.

Earnings and profits that determine the taxability of distributions to stockholders differ from net income reported for financial reporting purposes due to differences in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investments in properties for tax purposes, among other things.

We regularly analyze our various federal and state filing positions and only recognize the income tax effect in our financial statements when certain criteria regarding uncertain income tax positions have been met. We believe that our income tax positions would more likely than not be sustained upon examination by all relevant taxing authorities. Therefore, no provisions for uncertain income tax positions have been recorded in our financial statements.

**Net Income per Common Share.** Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to common stockholders, plus income attributable to dilutive shares and convertible common units, for the period by the weighted average number of common shares that would have been outstanding assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period.



The following is a reconciliation of the denominator of the basic net income per common share computation to the denominator of the diluted net income per common share computation.

	2017	2016	2015
Weighted average shares used for the basic net income per share computation	273,465,680	255,066,500	235,767,932
Incremental shares from share-based compensation	154,050	240,728	123,436
Weighted average partnership common units convertible to common shares that were dilutive	317,022	317,022	317,022
Weighted average shares used for diluted net income per share computation	273,936,752	255,624,250	236,208,390
Unvested shares from share-based compensation that were anti-dilutive	32,205	475	106,103
Weighted average partnership common units convertible to common shares that were anti-dilutive	88,182	198,429	417,060

**Revenue Recognition and Accounts Receivable.** All leases are accounted for as operating leases. Under this method, leases that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term. Any rental revenue contingent upon a tenant's sales is recognized only after the tenant exceeds their sales breakpoint. Rental increases based upon changes in the consumer price indexes are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursements in the period when such costs are incurred.

We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was \$337,000 at December 31, 2017 and \$74,000 at December 31, 2016.

Other revenue, which comprises property-related revenue not included in rental revenue or tenant reimbursements, was \$3.5 million in 2017, \$2.7 million in 2016 and \$4.4 million in 2015.

**Principles of Consolidation.** The accompanying consolidated financial statements include the accounts of Realty Income and other subsidiaries for which we make operating and financial decisions (i.e. control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see note 10). We have no unconsolidated investments.

**Cash Equivalents and Restricted Cash.** We consider all short-term, highly liquid investments that are readily convertible to cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Our cash equivalents are primarily investments in United States government money market funds. Restricted cash includes cash proceeds from the sale of assets held by qualified intermediaries in anticipation of the acquisition of replacement properties in tax-free exchanges under Section 1031 of the Code, impounds related to mortgages payable and cash that is not immediately available to Realty Income (i.e. escrow deposits for future acquisitions).

Cash accounts maintained on behalf of Realty Income in demand deposits at commercial banks and money market funds may exceed federally insured levels or may be held in accounts without any federal insurance or any other insurance or guarantee. However, Realty Income has not experienced any losses in such accounts.

**Gain on Sales of Properties.** When real estate is sold, the related net book value of the applicable assets is removed and a gain from the sale is recognized in our consolidated statements of income. We record a gain from the sale of real estate provided that various criteria, relating to the terms of the sale and any subsequent involvement by us with the real estate, have been met.

**Allocation of the Purchase Price of Real Estate Acquisitions.** During the first quarter of 2017, the FASB issued Accounting Standards Update, or ASU, 2017-01 to clarify the definition of a business with the objective of adding

guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We elected to adopt this ASU early, effective October 1, 2017. As a result of this new guidance, our real state acquisitions during the fourth quarter of 2017 qualified as asset acquisitions and the transaction costs associated with those acquisitions were capitalized. When acquiring a property for investment purposes, we typically allocate the cost of real estate acquired, inclusive of transaction costs, to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their relative estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases and the value of in-place leases. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and is often based upon the expected future cash flows of the property and various characteristics of the markets where the property is located. In addition, any assumed mortgages receivable or payable are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash flows using applicable interest rates that have been adjusted for factors, such as industry type, tenant investment grade, maturity date, and comparable borrowings for similar assets. The initial allocation of the purchase price is based on management's preliminary assessment, which may differ when final information becomes available. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

Our estimated fair value determinations are based on management's judgment, utilizing various factors, including: (1) market conditions, (2) industry that the tenant operates in, (3) characteristics of the real estate, i.e.: location, size, demographics, value and comparative rental rates, (4) tenant credit profile, (5) store profitability and the importance of the location of the real estate to the operations of the tenant's business, and/or (6) real estate valuations, prepared internally by our real estate research department or, in rare circumstances, by an independent valuation firm. Our methodologies for measuring fair value related to the allocation of the purchase price of real estate acquisitions include both observable market data (and thus should be categorized as level 2 on the Financial Accounting Standards Board, or FASB's, three-level valuation hierarchy) and unobservable inputs that reflect our own internal assumptions and calculations (and thus should be categorized as level 3 on FASB's three-level valuation hierarchy).

The fair value of the tangible assets of an acquired property with an in-place operating lease (which includes land and buildings/improvements) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and buildings/improvements based on our determination of the fair value of these assets. Our fair value determinations are based primarily on internally prepared real estate valuations for each property, and consider estimates of carrying costs during the expected lease-up periods, current market conditions, as well as costs to execute similar leases. In allocating the fair value to identified intangibles for above-market or below-market leases, an amount is recorded based on the present value of the difference between (i) the contractual amount to be paid pursuant to the in-place lease and (ii) our estimate of fair market lease rate for the corresponding in-place lease, measured over the remaining term of the lease.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is amortized to depreciation and amortization expense over the remaining periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are recorded to revenue or expense as appropriate.

In allocating the fair value to assumed mortgages, amounts are recorded to debt premiums or discounts based on the present value of the estimated cash flows, which is calculated to account for either above or below-market interest rates. Our assumed net debt premiums are amortized as a reduction to interest expense over the remaining term of the respective mortgages.

In allocating noncontrolling interests, amounts are recorded based on the proportional share of equity issued or contributions made at the date of acquisition, as determined by the terms of the applicable agreement.

**Depreciation and Amortization.** Land, buildings and improvements are recorded and stated at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. Buildings and

improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction, development, construction, interest and other costs incurred during the period of development are capitalized. We cease capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	25 years or 35 years
Building improvements	4 to 20 years
Tenant improvements and lease commissions	The shorter of the term of the related lease or useful life
Acquired in-place leases	Remaining terms of the respective leases

**Provision for Impairment.** We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value of the property. Key factors that we utilize in this analysis include projected rental rates, estimated holding periods, historical sales and releases, capital expenditures and property sales capitalization rates. If a property is classified as held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell, and depreciation of the property ceases.

If a property was previously reclassified as held for sale but the applicable criteria for this classification are no longer met, the property is reclassified to real estate held for investment. A property that is reclassified to held for investment is measured and recorded at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

Nine properties were classified as held for sale at December 31, 2017. We do not depreciate properties that are classified as held for sale.

In 2017, we recorded total provisions for impairment of \$14.8 million on three properties classified as held for sale, five properties classified as held for investment, and 18 sold properties. In 2016, we recorded total provisions for impairment of \$20.7 million on four properties classified as held for investment and 35 sold properties. In 2015, we recorded total provisions for impairment of \$10.6 million on two properties classified as held for investment, 12 sold properties, and one property disposed of other than by sale.

**Goodwill.** Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. Based on our analysis of goodwill during the second quarters of 2017, 2016 and 2015, we determined, that the fair values of our reporting units were not more likely than not to be less than their respective carrying amounts and no impairment was recorded on our existing goodwill during 2017, 2016 or 2015.

**Equity Offering Costs.** Underwriting commissions and offering costs have been reflected as a reduction of additional paid-in-capital on our consolidated balance sheets.

**Noncontrolling Interests.** Noncontrolling interests are reflected on our consolidated balance sheets as a component of equity. Noncontrolling interests acquired prior to our adoption of ASU 2017-01, were recorded initially at fair value based on the price of the applicable units issued or contributions made, and subsequently adjusted each period for distributions, additional contributions and the allocation of net income attributable to the noncontrolling interests. Noncontrolling interests issued or assumed subsequent to our adoption of ASU 2017-01 on October 1, 2017, were recorded based on the proportional share of equity in the entity.

As consideration for two separate acquisitions during 2013, partnership units of Tau Operating Partnership, L.P. and Realty Income, L.P. were issued to third parties. These common units (discussed in note 10) do not have voting rights, are entitled to monthly distributions equal to the amount paid to our common stockholders, and are redeemable in cash or our common stock, at our option and at a conversion ratio of one to one, subject to certain

exceptions. As the general partner for each of these partnerships, we have operating and financial control over these entities, consolidate them in our financial statements, and record the partnership units held by third parties as noncontrolling interests.

Additionally, in 2016 we completed the acquisition of two properties by acquiring a controlling interest in two separate joint ventures. We are the managing member of each of these joint ventures, and possess the ability to control the business and manage the affairs of these entities. As the managing member for each of these joint ventures, we have operating and financial control over these entities, consolidate them in our financial statements, and record the ownership interests held by third parties as noncontrolling interests.

**Use of Estimates.** The consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles, or GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements.** In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU, as amended by ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers, and will apply to transactions such as the sale of real estate. This ASU, which is effective for interim and annual periods beginning after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also to provide certain additional disclosures. We adopted this standard effective as of January 1, 2018 and utilized the cumulative effect transition method of adoption. The adoption of this guidance did not have a material impact on our financial position or results of operations.

In February 2016, FASB issued ASU 2016-02 (Topic 842, *Leases*), which amended Topic 840, *Leases*. Under this amended topic, the accounting applied by a lessor is largely unchanged from that applied under Topic 840, *Leases*. The large majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. The amendments included in this topic are effective, for interim and annual periods beginning after December 15, 2018. We have not yet adopted this topic and are currently evaluating the impact this amendment may have on our consolidated financial statements.

In November 2016, FASB issued ASU 2016-18, which amends Topic 230, *Statement of Cash Flows: Restricted Cash*. The amendments in this ASU, which are effective for interim and annual periods beginning after December 15, 2017, require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We have elected adoption of this ASU early, as of December 31, 2017. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. The adoption of this topic required retrospective revision to the statement of cash flows for the year's 2016 and 2015, and additional disclosure for items classified as restricted cash, see note 15. The adoption of this topic did not have a material impact on our consolidated financial statements or related disclosures.

In January 2017, FASB issued ASU 2017-01, which amends Topic 805, *Business Combinations*. The FASB issued this ASU to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We elected to adopt this ASU early, effective October 1, 2017. As a result of this new guidance, we believe the majority of our future real estate transactions will qualify as asset acquisitions (or disposals), and future transaction costs associated with these acquisitions will be capitalized. The adoption of this topic did not have a material impact on our consolidated financial statements or related disclosures.



### 3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

A. Acquired lease intangible assets, net, consist of the following (dollars in thousands) at:	December 31, 2017	December 31, 2016
Acquired in-place leases	\$ 1,272,897	\$ 1,164,075
Accumulated amortization of acquired in-place leases	(444,221)	(358,040)
Acquired above-market leases	487,933	365,005
Accumulated amortization of acquired above-market leases	(121,679)	(88,720)
	<u>\$ 1,194,930</u>	<u>\$ 1,082,320</u>
B. Other assets, net, consist of the following (dollars in thousands) at:	December 31, 2017	December 31, 2016
Prepaid expenses	\$ 12,851	\$ 14,406
Non-refundable escrow deposits for pending acquisitions	7,500	-
Corporate assets, net	6,074	3,585
Notes receivable issued in connection with property sales	5,267	5,390
Impounds related to mortgages payable	4,565	2,015
Credit facility origination costs, net	4,366	7,303
Receivable for property rebuilds	3,919	-
Restricted escrow deposits	679	4,246
Other items	115	744
	<u>\$ 45,336</u>	<u>\$ 37,689</u>
C. Distributions payable consist of the following declared distributions (dollars in thousands) at:	December 31, 2017	December 31, 2016
Common stock distributions	\$ 60,713	\$ 52,896
Preferred stock dividends	-	2,257
Noncontrolling interests distributions	86	82
	<u>\$ 60,799</u>	<u>\$ 55,235</u>
D. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:	December 31, 2017	December 31, 2016
Notes payable - interest payable	\$ 64,058	\$ 60,668
Property taxes payable	11,718	16,949
Accrued costs on properties under development	2,681	9,049
Mortgages, term loans, credit line - interest payable and interest rate swaps	2,360	5,432
Other items	28,706	29,058
	<u>\$ 109,523</u>	<u>\$ 121,156</u>
E. Acquired lease intangible liabilities, net, consist of the following (dollars in thousands) at:	December 31, 2017	December 31, 2016
Acquired below-market leases	\$ 340,906	\$ 318,926
Accumulated amortization of acquired below-market leases	(72,110)	(54,720)
	<u>\$ 268,796</u>	<u>\$ 264,206</u>
F. Other liabilities consist of the following (dollars in thousands) at:	December 31, 2017	December 31, 2016
Rent received in advance and other deferred revenue <sup>(1)</sup>	\$ 105,284	\$ 74,098
Security deposits	6,259	6,502
Capital lease obligations	5,326	5,016
	<u>\$ 116,869</u>	<u>\$ 85,616</u>

<sup>(1)</sup> In connection with Diageo's sale of its wine business to Treasury Wine Estates, we agreed to release Diageo from its guarantee of our leases in exchange for Diageo's payment of \$75 million of additional rent to us. The additional rent was paid in two equal installments, one of which was received in August 2016 for \$37.5 million and was recorded as prepaid rent. The final payment of \$37.5 million was received in January 2017, at which time Treasury Wine Estates became the guarantor of our leases on those properties. We have accounted for this transaction as a lease modification and the additional rent will be recognized on a straight-line basis over the remaining lease terms of approximately 15 years.

#### 4. Investments in Real Estate

We acquire land, buildings and improvements necessary for the successful operations of commercial tenants.

##### A. Acquisitions during 2017 and 2016

During 2017, we invested \$1.52 billion in 303 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.4%. The 303 new properties and properties under development or expansion are located in 40 states, will contain approximately 7.8 million leasable square feet, and are 100% leased with a weighted average lease term of 14.4 years. The tenants occupying the new properties operate in 23 industries and the property types consist of 94.5% retail and 5.5% industrial, based on rental revenue. None of our investments during 2017 caused any one tenant to be 10% or more of our total assets at December 31, 2017.

The \$1.52 billion invested during 2017 was allocated as follows: \$354.1 million to land, \$955.1 million to buildings and improvements, \$228.0 million to intangible assets related to leases, and \$17.8 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during 2017 generated total revenues of \$37.1 million and net income of \$17.9 million during the year ended December 31, 2017.

In comparison, during 2016, we invested \$1.86 billion in 505 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.3%. The 505 new properties and properties under development or expansion were located in 40 states, contained approximately 8.2 million leasable square feet, and were 100% leased with a weighted average lease term of 14.7 years. The tenants occupying the new properties operated in 28 industries and the property types consisted of 86.4% retail and 13.6% industrial, based on rental revenue.

The \$1.86 billion invested during 2016 was allocated as follows: \$517.6 million to land, \$1.18 billion to buildings and improvements, \$204.5 million to intangible assets related to leases, and \$38.8 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during 2016 generated total revenues of \$44.6 million and net income of \$22.0 million during the year ended December 31, 2016.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.52 billion we invested during 2017, \$21.2 million was invested in 17 properties under development or expansion with an estimated initial weighted average contractual lease rate of 6.9%. Of the \$1.86 billion we invested during 2016, \$103.8 million was invested in 33 properties under development or expansion with an estimated initial weighted average contractual lease rate of 7.1%.

##### B. Acquisition Transaction Costs

Acquisition transaction costs of \$255,000 and \$346,000 were recorded to general and administrative expense on our consolidated statements of income during 2017 and 2016, respectively. Subsequent to our adoption of ASU 2017-01 in October 2017, \$34,000 of acquisition transactions costs incurred were capitalized as part of the costs of acquisitions.

### C. Investments in Existing Properties

During 2017, we capitalized costs of \$12.7 million on existing properties in our portfolio, consisting of \$1.6 million for re-leasing costs, \$912,000 for recurring capital expenditures and \$10.2 million for non-recurring building improvements. In comparison, during 2016, we capitalized costs of \$16.3 million on existing properties in our portfolio, consisting of \$797,000 for re-leasing costs, \$679,000 for recurring capital expenditures and \$14.9 million for non-recurring building improvements.

### D. Properties with Existing Leases

Of the \$1.52 billion we invested during 2017, approximately \$1.1 billion was used to acquire 178 properties with existing leases. In comparison, of the \$1.86 billion we invested during 2016, approximately \$748.9 million was used to acquire 91 properties with existing leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheets, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheets.

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for 2017, 2016, and 2015 were \$104.8 million, \$94.0 million, and \$87.9 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for 2017, 2016, and 2015 were \$14.0 million, \$9.3 million, and \$7.9 million, respectively. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

The following table presents the estimated impact during the next five years and thereafter related to the amortization of the acquired above-market and below-market lease intangibles and the amortization of the in-place lease intangibles for properties held for investment at December 31, 2017 (in thousands):

	<b>Net decrease to rental revenue</b>	<b>Increase to amortization expense</b>
2018	\$ (16,527)	\$ 104,612
2019	(15,545)	94,374
2020	(14,776)	88,679
2021	(13,484)	80,513
2022	(11,753)	69,700
Thereafter	(25,373)	390,798
<b>Totals</b>	<b>\$ (97,458)</b>	<b>\$ 828,676</b>

## 5. Credit Facility

We have a \$2.0 billion unsecured revolving credit facility, or our credit facility, with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a \$1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of December 31, 2017 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.85%, with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings were to change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2017, credit facility origination costs of \$4.4 million are included in other assets, net on our consolidated balance sheet. These costs are being amortized over the remaining term of our credit facility.

At December 31, 2017, we had a borrowing capacity of \$1.89 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$110.0 million, as compared to an outstanding balance of \$1.12 billion at December 31, 2016.

The weighted average interest rate on outstanding borrowings under our credit facility was 2.0% during 2017 and 1.4% during 2016. At December 31, 2017 and 2016, the weighted average interest rate on borrowings outstanding was 4.5% and 1.7%, respectively. Our credit facility is subject to various leverage and interest coverage ratio limitations, and at December 31, 2017, we were in compliance with the covenants on our credit facility.

## **6. Term Loans**

In December 2017, in conjunction with the acquisition of a portfolio of properties, we entered into a \$125.9 million promissory note, maturing in January 2018. Borrowings under this note bore interest at 1.52%. This note was paid in full at maturity.

In June 2015, in conjunction with entering into our credit facility, we entered into a \$250 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.90%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.62%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a \$70 million senior unsecured term loan with an initial maturity date of January 2018. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 1.10%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.05%. In January 2018, we entered into a six-month extension of this loan, which now matures in July 2018 and includes, at our option, two additional six-month extensions. Borrowing during the extension periods bear interest at the current one-month LIBOR, plus 0.90%. The interest rate swap terminated upon the initial maturity in January 2018.

Deferred financing costs of \$1.2 million incurred in conjunction with the \$250 million term loan and \$303,000 incurred in conjunction with the \$70 million term loan are being amortized over the remaining terms of each respective term loan. The net balance of these deferred financing costs, which was \$580,000 at December 31, 2017 and \$873,000 at December 31, 2016, is included within term loans, net on our consolidated balance sheets.

## **7. Mortgages Payable**

During 2017, we made \$139.7 million in principal payments, including the repayment of eight mortgages in full for \$133.5 million. No mortgages were assumed during 2017.

During 2016, we made \$231.7 million in principal payments, including the repayment of 11 mortgages in full for \$201.8 million, and we assumed mortgages totaling \$44.1 million, excluding net premiums. During 2016, we refinanced one of these assumed mortgages and received an additional \$10.0 million in proceeds. The assumed mortgages are secured by the properties on which the debt was placed and are considered non-recourse debt with limited customary exceptions for items such as solvency, bankruptcy, misrepresentation, fraud, misapplication of payments, environmental liabilities, failure to pay taxes, insurance premiums, liens on the property, violations of the single purpose entity requirements, and uninsured losses. We expect to pay off our mortgages as soon as prepayment penalties make it economically feasible to do so.

During 2016, a premium totaling \$692,000 was recorded upon the assumption of a mortgage with an above-market interest rate. Amortization of our net premiums is recorded as a reduction to interest expense over the remaining term of the respective mortgages, using a method that approximates the effective-interest method. Our mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage without the prior consent of the lender. At December 31, 2017, we were in compliance with these covenants.

The balance of our deferred financing costs, which are classified as part of mortgages payable, net, on our consolidated balance sheets, was \$236,000 at December 31, 2017 and \$324,000 at December 31, 2016. These costs are being amortized over the remaining term of each mortgage.



The following is a summary of all our mortgages payable as of December 31, 2017 and 2016, respectively (dollars in thousands):

As Of	Number of Properties <sup>(1)</sup>	Weighted Average Stated Interest Rate <sup>(2)</sup>	Weighted Average Effective Interest Rate <sup>(3)</sup>	Weighted Average Remaining Years Until Maturity	Remaining Principal Balance	Unamortized Premium and Deferred Finance Costs Balance, net	Mortgage Payable Balance
12/31/17	62	5.0%	4.4%	4.0	\$ 320,283	\$ 5,658	\$ 325,941
12/31/16	127	4.9%	4.3%	4.0	\$ 460,008	\$ 6,037	\$ 466,045

<sup>(1)</sup> At December 31, 2017, there were 28 mortgages on 62 properties, while at December 31, 2016, there were 36 mortgages on 127 properties. The mortgages require monthly payments with principal payments due at maturity. The mortgages are at fixed interest rates, except for three mortgages on three properties with a principal balance totaling \$29.9 million at December 31, 2017, and six mortgages on 15 properties with a principal balance totaling \$76.3 million at December 31, 2016. After factoring in arrangements which limit our exposure to interest rate risk and effectively fix our per annum interest rates, our mortgage debt subject to variable rates totals \$22.4 million at December 31, 2017 and \$38.2 million at December 31, 2016.

<sup>(2)</sup> Stated interest rates ranged from 3.4% to 6.9% at December 31, 2017, while stated interest rates ranged from 2.4% to 6.9% at December 31, 2016.

<sup>(3)</sup> Effective interest rates ranged from 2.6% to 5.5% at December 31, 2017, while effective interest rates ranged from 2.5% to 8.8% at December 31, 2016.

The following table summarizes the maturity of mortgages payable, excluding net premiums of \$5.9 million and deferred financing costs of \$236,000, as of December 31, 2017 (dollars in millions):

Year of Maturity	Principal
2018	\$ 21.9
2019	20.7
2020	82.4
2021	67.0
2022	109.7
Thereafter	18.6
Totals	\$ 320.3

## 8. Notes Payable

### A. General

Our senior unsecured notes and bonds consist of the following, sorted by maturity date (dollars in millions):

	December 31, 2017	December 31, 2016
5.375% notes, issued in September 2005 and due in September 2017	\$ -	\$ 175
2.000% notes, issued in October 2012 and due in January 2018	350	350
6.750% notes, issued in September 2007 and due in August 2019	-	550
5.750% notes, issued in June 2010 and due in January 2021	250	250
3.250% notes, \$450 issued in October 2012 and \$500 issued in December 2017, both due in October 2022	950	450
4.650% notes, issued in July 2013 and due in August 2023	750	750
3.875% notes, issued in June 2014 and due in July 2024	350	350
4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026	650	250
3.000% notes, issued in October 2016 and due in January 2027	600	600
3.650% notes, issued in December 2017 and due in January 2028	550	-
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035	250	250
4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047	550	-
Total principal amount	5,250	3,975
Unamortized net original issuance premiums and deferred financing costs	(20)	(41)
	\$ 5,230	\$ 3,934

The following table summarizes the maturity of our notes and bonds payable as of December 31, 2017, excluding unamortized net original issuance premiums and deferred financing costs (dollars in millions):

<b>Year of Maturity</b>	<b>Principal</b>
2018	\$ 350 <sup>(1)</sup>
2019	-
2020	-
2021	250
2022	950
Thereafter	3,700
<b>Totals</b>	<b>\$ 5,250</b>

<sup>(1)</sup> In January 2018, we repaid all \$350 million of outstanding 2.000% notes, plus accrued and unpaid interest.

As of December 31, 2017, the weighted average interest rate on our notes and bonds payable was 3.9% and the weighted average remaining years until maturity was 9.3 years.

Interest incurred on all of the notes and bonds was \$197.1 million for 2017, \$171.5 million for 2016 and \$179.5 million for 2015. The interest rate on each of these notes and bonds is fixed.

Our outstanding notes and bonds are unsecured; accordingly, we have not pledged any assets as collateral for these or any other obligations. Interest on all of the senior note and bond obligations is paid semiannually.

All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At December 31, 2017, we were in compliance with these covenants.

#### *B. Note Issuances*

During the three year period ended December 31, 2017 we issued the following notes and bonds (dollars in millions):

<b>2017 Issuances</b>	<b>Date of Issuance</b>	<b>Maturity date</b>	<b>Principal amount issued</b>	<b>Public offering price</b>	<b>Effective yield to maturity</b>
4.125% notes	March 2017	October 2026 <sup>(1)</sup>	\$ 400	102.98%	3.75%
4.650% notes	March 2017	March 2047	300	99.97%	4.65%
3.250% notes	December 2017	October 2022 <sup>(2)</sup>	500	101.77%	2.84%
3.650% notes	December 2017	January 2028	550	99.78%	3.68%
4.650% notes	December 2017	March 2047 <sup>(3)</sup>	250	105.43%	4.32%
<b>2016 Issuances</b>					
3.000% notes	October 2016	January 2027	\$ 600	98.67%	3.15%

<sup>(1)</sup> This issuance constitutes a further issuance of, and formed a single series with the senior notes due 2026 issued in September 2014.

<sup>(2)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2022 issued in October 2012.

<sup>(3)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2047 issued in March 2017.

The net proceeds of \$1.3 billion from the December 2017 note offerings were used to redeem all \$550.0 million aggregate principal amount of our outstanding 2019 notes, including accrued and unpaid interest, and to repay borrowings outstanding under our \$2.0 billion revolving credit facility and, to the extent not used for those purposes, to fund the development and acquisitions of additional properties and for other general corporate

purposes. The net proceeds of \$705.2 million from the March 2017 note offerings were used to repay borrowings outstanding under our credit facility to fund investment opportunities and for other general corporate purposes.

The net proceeds of approximately \$586.7 million from the October 2016 offering were used to repay borrowings outstanding under our credit facility.

#### *C. Note Repayment*

In December 2017, we completed the early redemption on all \$550.0 million of outstanding 6.75% notes due August 2019, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$42.4 million loss on extinguishment of debt, which represents \$0.15 on a diluted per common share basis.

In September 2017, we repaid our \$175.0 million of outstanding 5.375% notes, plus accrued and unpaid interest.

In September 2016, we repaid all \$275.0 million of outstanding 5.950% notes, plus accrued and unpaid interest.

In November 2015, we repaid \$150.0 million of outstanding 5.500% notes, plus accrued and unpaid interest.

### **9. Equity**

#### *A. Issuance of Common Stock*

In March 2017, we issued 11,850,000 shares of common stock. After underwriting discounts and other offering costs of \$29.8 million, the net proceeds of \$704.9 million were used to repay borrowings under our credit facility.

In May 2016, we issued 6,500,000 shares of common stock. After underwriting discounts and other offering costs of \$12.1 million, the net proceeds of \$383.6 million were used to repay borrowings under our credit facility.

In October 2015, we issued 11,500,000 shares of common stock. After underwriting discounts and other offering costs of \$22.0 million, a portion of the net proceeds of \$517.1 million was used to repay borrowings under our credit facility and the remaining portion was used for other general corporate purposes, including acquisitions.

In April 2015, we issued 5,500,000 shares of common stock. After underwriting discounts and other offering costs of \$1.4 million, the net proceeds of \$276.4 million were used to repay borrowings under our credit facility.

#### *B. Redemption of Preferred Stock*

In April 2017, we redeemed all of the 16,350,000 shares of our 6.625% Monthly Income Class F Preferred Stock for \$25 per share, plus accrued dividends. During 2017, we incurred a non-cash charge of \$13.4 million, representing the 6.625% Monthly Income Class F Preferred Stock original issuance costs that we paid in 2012.

#### *C. Dividend Reinvestment and Stock Purchase Plan*

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSP authorizes up to 26,000,000 common shares to be issued. During 2017, we issued 1,193,653 shares and raised approximately \$69.9 million under our DRSP. During 2016, we issued 170,027 shares and raised approximately \$10.3 million under our DRSP. From the inception of our DRSP through December 31, 2017, we have issued 14,063,542 shares and raised \$661.8 million.

Our DRSP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. During 2017, we issued 927,695 shares and raised \$54.7 million under the waiver approval process. These shares are included in the total activity for 2017 noted in the preceding paragraph. During 2016, we did not issue shares under the waiver approval process.

#### *D. At-the-Market (ATM) Programs*

In September 2015, we established an "at-the-market" equity distribution program, or our prior ATM program, pursuant to which we were permitted to offer and sell up to 12,000,000 shares of common stock to, or through, a consortium of banks acting as our sales agents by means of ordinary brokers' transactions on the NYSE at prevailing market prices or at negotiated prices. In October 2017, following the issuance and sale of the remaining shares under our prior ATM program, we established a new "at-the-market" equity distribution plan, or our new

ATM program and, together with our prior ATM program, our ATM programs, pursuant to which we are permitted to offer and sell up to 17,000,000 additional shares of common stock. During 2017, we issued 10,914,088 shares and raised gross proceeds of \$621.7 million under our ATM programs. During 2016, we issued 2,779,140 shares and raised \$166.8 million under the ATM program. From the inception of our ATM programs through December 31, 2017, we have issued 14,407,529 shares authorized by our ATM programs and raised \$824.8 million.

## 10. Noncontrolling Interests

In January 2013, we completed our acquisition of ARCT. Equity issued as consideration for this transaction included common and preferred partnership units issued by Tau Operating Partnership, L.P., or Tau Operating Partnership, the consolidated subsidiary which owns properties acquired through the ARCT acquisition. We and our subsidiaries hold a 99.4% interest in Tau Operating Partnership, and consolidate the entity.

In June 2013, we completed the acquisition of a portfolio of properties by issuing common partnership units in Realty Income, L.P. The units were issued as consideration for the acquisition. At December 31, 2017, the remaining units from this issuance represent a 0.4% ownership in Realty Income, L.P. We hold the remaining 99.6% interests in this entity and consolidate the entity.

Neither of the common partnership units have voting rights. Both common partnership units are entitled to monthly distributions equal to the amount paid to common stockholders of Realty Income, and are redeemable in cash or Realty Income common stock, at our option, and at a conversion ratio of one to one, subject to certain exceptions. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the balance sheet was appropriate. We determined that the units meet the requirements to qualify for presentation as permanent equity.

In 2016, we completed the acquisition of two properties by acquiring a controlling interest in two separate joint ventures. We are the managing member of each of these joint ventures, and possess the ability to control the business and manage the affairs of these entities. At December 31, 2017, we and our subsidiaries held 95.0% and 74.0% interests, respectively, and fully consolidated these entities in our consolidated financial statements.

The following table represents the change in the carrying value of all noncontrolling interests through December 31, 2017 (dollars in thousands):

	Tau Operating Partnership units <sup>(1)</sup>	Realty Income, L.P. units <sup>(2)</sup>	Other Noncontrolling Interests	Total
Carrying value at December 31, 2015	\$ 13,410	\$ 8,327	\$ -	\$ 21,737
Reallocation of equity	491	52	-	543
Redemptions	-	(6,161)	-	(6,161)
Contributions	-	-	15,906	15,906
Distributions	(762)	(459)	(11,461)	(12,682)
Allocation of net income	266	457	183	906
Carrying value at December 31, 2016	\$ 13,405	\$ 2,216	\$ 4,628	\$ 20,249
Reallocation of equity	492	(26)	19	485
Redemptions	-	-	-	-
Distributions	(804)	(224)	(1,019)	(2,047)
Allocation of net income	229	194	97	520
Carrying value at December 31, 2017	\$ 13,322	\$ 2,160	\$ 3,725	\$ 19,207

<sup>(1)</sup> 317,022 Tau Operating Partnership units were issued on January 22, 2013 and remained outstanding as of December 31, 2017 and December 31, 2016.

<sup>(2)</sup> 534,546 Realty Income, L.P. units were issued on June 27, 2013, and 88,182 remain outstanding as of December 31, 2017 and December 31, 2016.



Both Tau Operating Partnership and Realty Income, L.P. are considered variable interest entities, or VIEs, in which we are deemed the primary beneficiary based on our controlling financial interests. Below is a summary of selected financial data of consolidated VIEs, including the joint ventures acquired during 2016, for which we are the primary beneficiary included in the consolidated balance sheets at December 31, 2017 and 2016 (in thousands):

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Net real estate	\$ 2,936,397	\$ 3,040,903
Total assets	3,342,443	3,499,481
Total debt	210,384	251,047
Total liabilities	313,295	364,797

## 11. Distributions Paid and Payable

### A. Common Stock

We pay monthly distributions to our common stockholders. The following is a summary of monthly distributions paid per common share for 2017, 2016 and 2015:

<b>Month</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
January	\$ 0.2025000	\$ 0.1910000	\$ 0.1834167
February	0.2105000	0.1985000	0.1890000
March	0.2105000	0.1985000	0.1890000
April	0.2110000	0.1990000	0.1895000
May	0.2110000	0.1990000	0.1895000
June	0.2110000	0.1990000	0.1895000
July	0.2115000	0.1995000	0.1900000
August	0.2115000	0.1995000	0.1900000
September	0.2115000	0.2015000	0.1900000
October	0.2120000	0.2020000	0.1905000
November	0.2120000	0.2020000	0.1905000
December	0.2120000	0.2020000	0.1905000
<b>Total</b>	<b>\$ 2.5270000</b>	<b>\$ 2.3915000</b>	<b>\$ 2.2714167</b>

The following presents the federal income tax characterization of distributions paid or deemed to be paid per common share for the years:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Ordinary income	\$ 1.9402085	\$ 1.8771975	\$ 1.7307023
Nontaxable distributions	0.5478464	0.5143025	0.5407144
Total capital gain distribution	0.0389451	-	-
<b>Totals</b>	<b>\$ 2.5270000</b>	<b>\$ 2.3915000</b>	<b>\$ 2.2714167</b>

At December 31, 2017, a distribution of \$0.2125 per common share was payable and was paid in January 2018. At December 31, 2016, a distribution of \$0.2025 per common share was payable and was paid in January 2017.

### B. Class F Preferred Stock

In April 2017, we redeemed all 16,350,000 shares of our Class F preferred stock. During the first three months of 2017, we paid three monthly dividends to holders of our Class F preferred stock totaling \$0.414063 per share, or \$3.9 million. In April 2017, we paid a final monthly dividend of \$0.101215 per share, or \$1.7 million, which was recorded as interest expense. For 2017, dividends per share of \$0.5073368 were characterized as ordinary income and dividends per share of \$0.0079412 were characterized as total capital gain distribution for federal income tax purposes. During 2016 and 2015, we paid twelve monthly dividends to holders of our Class F preferred stock totaling \$1.656252 per share, or \$27.1 million, which were characterized as ordinary income for federal income tax purposes.

## 12. Operating Leases

A. At December 31, 2017, we owned 5,172 properties in 49 states and Puerto Rico. Of the 5,172 properties, 5,144, or 99.5%, are single-tenant properties, and the remaining are multi-tenant properties.

At December 31, 2017, 83 properties were available for lease or sale.

Substantially all leases are net leases where the tenant pays or reimburses us for property taxes and assessments, maintains the interior and exterior of the building and leased premises, and carries insurance coverage for public liability, property damage, fire and extended coverage.

Rent based on a percentage of a tenants' gross sales (percentage rents) was \$6.1 million for 2017, \$5.3 million for 2016 and \$4.5 million for 2015.

At December 31, 2017, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2018	\$	1,196,996
2019		1,157,394
2020		1,108,319
2021		1,058,806
2022		990,585
Thereafter		6,319,359
Total	\$	11,831,459

B. Major Tenants - No individual tenant's rental revenue, including percentage rents, represented more than 10% of our total revenue for each of the years ended December 31, 2017, 2016 or 2015.

### 13. Gain on Sales of Real Estate

During 2017, we sold 59 properties for \$167.0 million, which resulted in a gain of \$40.9 million.

During 2016, we sold 77 properties for \$90.5 million, which resulted in a gain of \$22.0 million. Additionally, during 2016 we sold our former corporate headquarters building for \$8.6 million.

During 2015, we sold 38 properties for \$65.8 million, which resulted in a gain of \$22.2 million.

These property sales do not represent a strategic shift that will have a major effect on our operations and financial results, and therefore do not require presentation as discontinued operations.

### 14. Fair Value of Financial Instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The disclosure for assets and liabilities measured at fair value requires allocation to a three-level valuation hierarchy. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We believe that the carrying values reflected in our consolidated balance sheets reasonably approximate the fair values for cash and cash equivalents, accounts receivable, escrow deposits, loans receivable, line of credit payable, term loans and all other liabilities, due to their short-term nature or interest rates and terms that are consistent with market, except for our notes receivable issued in connection with property sales, mortgages payable and our senior notes and bonds payable, which are disclosed as follows (dollars in millions):

<b>At December 31, 2017</b>	<b>Carrying value</b>	<b>Estimated fair value</b>
Notes receivable issued in connection with property sales	\$ 5.3	\$ 5.3
Mortgages payable assumed in connection with acquisitions <sup>(1)</sup>	320.3	334.2
Notes and bonds payable <sup>(2)</sup>	5,250.0	5,475.3

<b>At December 31, 2016</b>	<b>Carrying value</b>	<b>Estimated fair value</b>
Notes receivable issued in connection with property sales	\$ 5.4	\$ 5.5
Mortgages payable assumed in connection with acquisitions <sup>(1)</sup>	460.0	468.7
Notes and bonds payable <sup>(2)</sup>	3,975.0	4,143.3

<sup>(1)</sup> Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums is \$5.9 million at December 31, 2017, and \$6.4 million at December 31, 2016. Also excludes deferred financing costs of \$236,000 at December 31, 2017, and \$324,000 at December 31, 2016.

<sup>(2)</sup> Excludes non-cash net original issuance premiums and discounts recorded on notes payable. The unamortized balance of the net original issuance premiums is \$14.3 million at December 31, 2017, and the unamortized balance of the net original issuance discounts of \$19.8 million at December 31, 2016. Also excludes deferred financing costs of \$34.1 million at December 31, 2017 and \$20.8 million at December 31, 2016.

The estimated fair values of our notes receivable issued in connection with property sales and our mortgages payable have been calculated by discounting the future cash flows using an interest rate based upon the relevant forward interest rate curve, plus an applicable credit-adjusted spread. Because this methodology includes unobservable inputs that reflect our own internal assumptions and calculations, the measurement of estimated fair values related to our notes receivable and mortgages payable is categorized as level three on the three-level valuation hierarchy.

The estimated fair values of our senior notes and bonds payable are based upon indicative market prices and recent trading activity of our senior notes and bonds payable. Because this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values, related to our notes and bonds payable, is categorized as level two on the three-level valuation hierarchy.

We record interest rate swaps on the consolidated balance sheet at fair value. At December 31, 2017, interest rate swaps in a liability position valued at \$473,000 were included in accounts payable and accrued expenses and interest rate swaps in an asset position valued at \$1.7 million were included in other assets, net on the consolidated balance sheet. The fair value of our interest rate swaps are based on valuation techniques including discounted cash flow analysis on the expected cash flows of each swap, using both observable and unobservable market-based inputs, including interest rate curves. Because this methodology uses observable and unobservable inputs, and the unobservable inputs are not significant to the fair value measurement, the measurement of interest rate swaps is categorized as level two on the three-level valuation hierarchy.

## **15. Supplemental Disclosures of Cash Flow Information**

Cash paid for interest was \$240.4 million in 2017, \$214.3 million in 2016, and \$229.5 million in 2015.

Interest capitalized to properties under development was \$461,000 in 2017, \$469,000 in 2016, and \$594,000 in 2015.

Cash paid for income taxes was \$3.8 million in 2017, \$3.6 million in 2016, and \$3.1 million in 2015.

The following non-cash activities are included in the accompanying consolidated financial statements:

- A. See note 9 for a discussion of the \$13.4 million excess of redemption value over carrying value of preferred shares subject to redemption charge recorded in 2017.
- B. During 2017, we completed the acquisition of a portfolio of properties by entering into a note payable in the amount of \$125.9 million with the seller, maturing in January 2018. This note was paid in full at maturity.
- C. During 2016, we assumed mortgages payable to third-party lenders of \$44.1 million and recorded a premium of \$692,000.

D. During 2016, consolidated joint venture members made real estate contributions of \$15.9 million, net of contributed mortgages payable included in the figures disclosed above in note 15.C.

E. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of \$2.6 million at December 31, 2016.

Per the requirements of ASU 2016-18, the following table provides a reconciliation of cash and cash equivalents reported within the consolidated balance sheets to the total of the cash, cash equivalents and restricted cash reported within the consolidated statements of cash flows.

	December 31, 2017	December 31, 2016
Cash and cash equivalents shown in the consolidated balance sheets	\$ 6,898	\$ 9,420
Impounds related to mortgages payable <sup>(1)</sup>	4,565	2,015
Restricted escrow deposits <sup>(1)</sup>	679	4,246
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 12,142</u>	<u>\$ 15,681</u>

<sup>(1)</sup> Included within other assets, net on the consolidated balance sheets (See note 3). These amounts consist of cash we are legally entitled to that is not immediately available to us, hence, they were considered restricted as of the dates presented.

## 16. Employee Benefit Plan

We have a 401(k) plan covering substantially all of our employees. Under our 401(k) plan, employees may elect to make contributions to the plan up to a maximum of 60% of their compensation, subject to limits under the Code. We match 50% of each of our employee's salary deferrals up to the first 6% of the employee's eligible compensation. Our aggregate matching contributions each year have been immaterial to our results of operations.

## 17. Common Stock Incentive Plan

In 2012, our Board of Directors adopted and stockholders approved the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, to enable us to motivate, attract and retain the services of directors and employees considered essential to our long-term success. The 2012 Plan offers our directors and employees an opportunity to own our stock or rights that will reflect our growth, development and financial success. Under the terms of the 2012 plan, the aggregate number of shares of our common stock subject to options, restricted stock, stock appreciation rights, restricted stock units and other awards, will be no more than 3,985,734 shares. The 2012 Plan has a term of ten years from the date it was adopted by our Board of Directors.

The amount of share-based compensation costs recognized in general and administrative expense on our consolidated statements of income was \$13.9 million during 2017, \$12.0 million during 2016, and \$10.4 million during 2015.

### A. Restricted Stock

The following table summarizes our common stock grant activity under our 2012 Plan. Our outstanding restricted stock vests over periods ranging from immediately to five years.

	2017		2016		2015	
	Number of shares	Weighted average price <sup>(1)</sup>	Number of shares	Weighted average price <sup>(1)</sup>	Number of shares	Weighted average price <sup>(1)</sup>
Outstanding nonvested shares, beginning of year	513,523	\$ 48.33	456,282	\$ 30.46	527,176	\$ 29.02
Shares granted	149,264	\$ 59.21	260,171	\$ 54.14	161,949	\$ 50.87
Shares vested	(183,381)	\$ 46.65	(200,066)	\$ 43.26	(205,248)	\$ 37.70
Shares forfeited	(3,638)	\$ 56.57	(2,864)	\$ 48.15	(27,595)	\$ 45.58
Outstanding nonvested shares, end of each period	<u>475,768</u>	\$ 52.32	<u>513,523</u>	\$ 48.33	<u>456,282</u>	\$ 30.46

<sup>(1)</sup> Grant date fair value.

The vesting schedule for shares granted to non-employee directors is as follows:

- For directors with less than six years of service at the date of grant, shares vest in 33.33% increments on each of the first three anniversaries of the date the shares of stock are granted;
- For directors with six years of service at the date of grant, shares vest in 50% increments on each of the first two anniversaries of the date the shares of stock are granted;
- For directors with seven years of service at the date of grant, shares are 100% vested on the first anniversary of the date the shares of stock are granted; and
- For directors with eight or more years of service at the date of grant, there is immediate vesting as of the date the shares of stock are granted.

During 2017, 28,000 shares were granted to our Board of Directors, of which 20,000 vested immediately and 8,000 shares vest annually in equal parts over a three-year service period.

Shares granted to employees typically vest annually in equal parts over a four-year or five-year service period. During 2017, 121,264 shares were granted to our employees, of which 48,338 will vest over a five-year service period and 72,926 will vest over a four-year service period.

As of December 31, 2017, the remaining unamortized share-based compensation expense related to restricted stock totaled \$18.0 million, which is being amortized on a straight-line basis over the service period of each applicable award. The amount of share-based compensation is based on the fair value of the stock at the grant date. We define the grant date as the date the recipient and Realty Income have a mutual understanding of the key terms and condition of the award, and the recipient of the grant begins to benefit from, or be adversely affected by, subsequent changes in the price of the shares.

#### *B. Performance Shares*

During 2017, 2016 and 2015, we granted performance share awards, as well as dividend equivalent rights, to our executive officers. The number of performance shares that vest is based on the achievement of the following performance goals:

<u>2017 Performance Awards Metrics</u>	<u>Weighting</u>
Total shareholder return ("TSR") relative to RMS Index	45%
TSR relative to JP Morgan Net Lease Peers	26%
Dividend per share growth rate	16%
Debt-to-EBITDA ratio	13%
<u>2016 &amp; 2015 Performance Awards Metrics</u>	<u>Weighting</u>
Total shareholder return ("TSR") relative to MSCI US REIT Index	50%
TSR relative to NAREIT Freestanding Index	20%
Dividend per share growth rate	20%
Debt-to-EBITDA ratio	10%

The performance shares are earned based on our performance, and vest 50% on the first and second January 1 after the end of the three year performance period, subject to continued service. The performance period for the 2015 performance awards began on January 1, 2015 and ended on December 31, 2017. The performance period for the 2016 performance awards began on January 1, 2016 and will end on December 31, 2018. The performance period for the 2017 performance awards began on January 1, 2017 and will end on December 31, 2019.



The fair value of the performance shares was estimated on the date of grant using a Monte Carlo Simulation model. The following table summarizes our performance share grant activity:

	2017		2016		2015	
	Number of performance shares	Weighted average price <sup>(1)</sup>	Number of performance shares	Weighted average price <sup>(1)</sup>	Number of performance shares	Weighted average price <sup>(1)</sup>
Outstanding nonvested shares, beginning of year	159,751	\$ 49.95	115,121	\$ 46.94	59,405	\$ 41.46
Shares granted	124,681	\$ 71.79	58,575	\$ 55.07	55,716	\$ 52.78
Shares vested	(39,123)	\$ 41.60	(10,454)	\$ 44.54	-	\$ -
Shares forfeited	-	\$ -	(3,491)	\$ 52.55	-	\$ -
Outstanding nonvested shares, end of each period	<u>245,309</u>	\$ 62.49	<u>159,751</u>	\$ 49.95	<u>115,121</u>	\$ 46.94

<sup>(1)</sup> Grant date fair value.

As of December 31, 2017, the remaining share-based compensation expense related to the performance shares totaled \$7.9 million and is being recognized on a tranche-by-tranche basis over the service period.

### C. Restricted Stock Units

During 2017 and 2016 we also granted restricted stock units that vest over a four-year or a five-year service period and have the same economic rights as shares of restricted stock:

	2017		2016		2015	
	Number of restricted stock units	Weighted average price <sup>(1)</sup>	Number of restricted stock units	Weighted average price <sup>(1)</sup>	Number of restricted stock units	Weighted average price <sup>(1)</sup>
Outstanding nonvested shares, beginning of year	18,460	\$ 52.65	10,136	\$ 52.21	-	\$ -
Shares granted	10,467	\$ 60.56	14,783	\$ 52.76	10,136	\$ 52.21
Shares vested	(4,058)	\$ 52.70	(6,459)	\$ 52.21	-	\$ -
Outstanding nonvested shares, end of each period	<u>24,869</u>	\$ 55.97	<u>18,460</u>	\$ 52.65	<u>10,136</u>	\$ 52.21

<sup>(1)</sup> Grant date fair value.

As of December 31, 2017, the remaining share-based compensation expense related to the restricted stock units totaled \$935,000 and is being recognized on a straight-line basis over the service period.

## 18. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 47 activity segments. All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, rental revenue is the only component of segment profit and loss we measure.

The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants (dollars in thousands):

<b>Assets, as of December 31:</b>	<b>2017</b>	<b>2016</b>
Segment net real estate:		
Apparel	\$ 164,919	\$ 175,418
Automotive service	213,156	152,220
Automotive tire services	247,557	238,151
Beverages	289,170	293,447
Child care	61,527	49,584
Convenience stores	997,170	1,050,285
Dollar stores	1,105,097	1,120,896
Drug stores	1,518,443	1,541,846
Financial services	384,867	408,228
General merchandise	313,181	248,040
Grocery stores	793,286	464,359
Health and fitness	896,430	823,697
Home improvement	407,002	311,459
Motor vehicle dealerships	204,651	197,713
Restaurants-casual dining	494,977	511,863
Restaurants-quick service	681,763	574,532
Theaters	566,585	370,732
Transportation services	776,068	796,717
Wholesale club	426,551	439,557
Other non-reportable segments	2,134,099	2,135,047
<b>Total segment net real estate</b>	<b>12,676,499</b>	<b>11,903,791</b>
Intangible assets:		
Apparel	36,600	43,786
Automotive service	64,388	33,160
Automotive tire services	10,383	11,533
Beverages	2,022	2,280
Convenience stores	45,445	14,372
Dollar stores	47,905	51,249
Drug stores	173,893	182,981
Financial services	24,867	29,749
General merchandise	50,184	43,248
Grocery stores	140,780	65,412
Health and fitness	76,276	63,574
Home improvement	61,045	49,932
Motor vehicle dealerships	31,720	25,032
Restaurants-casual dining	20,079	22,058
Restaurants-quick service	51,711	43,356
Theaters	26,448	13,822
Transportation services	87,162	101,664
Wholesale club	29,596	32,723
Other non-reportable segments	214,426	252,389
Goodwill:		
Automotive service	437	440
Automotive tire services	862	862
Child care	4,924	4,945
Convenience stores	2,004	2,008
Restaurants-casual dining	2,062	2,107
Restaurants-quick service	1,064	1,068
Other non-reportable segments	3,617	3,637
Other corporate assets	171,767	151,693
<b>Total assets</b>	<b>\$14,058,166</b>	<b>\$ 13,152,871</b>

Revenue for the years ended December 31,	2017	2016	2015
Segment rental revenue:			
Apparel	\$ 19,190	\$ 19,975	\$ 19,819
Automotive service	25,291	20,212	18,632
Automotive tire services	29,560	28,754	28,627
Beverages	31,174	27,587	25,451
Child care	20,775	19,712	19,949
Convenience stores	111,023	91,784	90,093
Dollar stores	91,076	90,746	88,126
Drug stores	126,555	117,758	103,324
Financial services	28,744	18,769	17,044
General merchandise	23,752	18,976	16,411
Grocery stores	50,731	32,815	29,506
Health and fitness	88,146	85,901	75,881
Home improvement	30,324	25,695	23,112
Motor vehicle dealerships	23,989	20,329	15,332
Restaurants-casual dining	43,876	42,312	37,645
Restaurants-quick service	59,638	52,674	41,407
Theaters	58,443	51,926	49,456
Transportation services	62,337	57,694	51,745
Wholesale club	37,646	37,531	37,391
Other non-reportable segments	203,954	196,263	187,914
Total rental revenue	1,166,224	1,057,413	976,865
Tenant reimbursements	46,082	43,104	42,015
Other revenue	3,462	2,655	4,405
Total revenue	\$ 1,215,768	\$ 1,103,172	\$ 1,023,285

## 19. Commitments and Contingencies

In the ordinary course of business, we are party to various legal actions which we believe are routine in nature and incidental to the operation of our business. We believe that the outcome of the proceedings will not have a material adverse effect upon our consolidated financial position or results of operations.

At December 31, 2017, we had commitments of \$13.8 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements. In addition, as of December 31, 2017, we had committed \$64.4 million under construction contracts, which is expected to be paid in the next twelve months.

We have certain properties that are subject to ground leases which are accounted for as operating leases. At December 31, 2017, minimum future rental payment for the next five years and thereafter are as follows (dollars in millions):

	Ground Leases Paid by Realty Income <sup>(1)</sup>	Ground Leases Paid by Our Tenants <sup>(2)</sup>	Total
2018	\$ 1.7	\$ 13.5	\$ 15.2
2019	1.5	13.4	14.9
2020	1.4	13.2	14.6
2021	1.2	12.9	14.1
2022	1.2	12.8	14.0
Thereafter	20.9	94.1	115.0
Total	\$ 27.9	\$ 159.9	\$ 187.8

<sup>(1)</sup> Realty Income currently pays the ground lessors directly for the rent under the ground leases.

<sup>(2)</sup> Our tenants, who are generally sub-tenants under the ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.

## 20. Subsequent Events

- In January and February 2018, we declared a dividend of \$0.219, which will be paid in February 2018 and March 2018, respectively.
- In January 2018, we repaid all \$350.0 million of outstanding 2.000% notes, plus accrued and unpaid interest.
- In January 2018, we repaid all \$125.9 million of outstanding 1.520% notes, plus accrued and unpaid interest.

REALTY INCOME CORPORATION AND SUBSIDIARIES

### Consolidated Quarterly Financial Data

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(NOT COVERED BY REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year <sup>(1)</sup>
<b>2017</b>					
Total revenue	\$ 298,025	\$ 300,170	\$306,920	\$ 310,654	\$ 1,215,768
Depreciation and amortization expense	121,097	123,089	127,569	127,033	498,788
Interest expense	59,305	63,679	62,951	61,477	247,413
Other expenses	39,120	34,982	32,646	41,974	148,721
Net income	89,035	81,259	88,073	60,952	319,318
Net income available to common stockholders	71,586	81,136	87,940	60,852	301,514
Net income per common share					
Basic and diluted	0.27	0.30	0.32	0.22	1.10
Dividends paid per common share	0.6235	0.6330	0.6345	0.6360	2.5270
<b>2016</b>					
Total revenue	\$ 267,116	\$ 271,039	\$277,174	\$ 287,843	\$ 1,103,172
Depreciation and amortization expense	107,933	110,342	113,917	117,752	449,943
Interest expense	60,678	57,409	52,952	48,935	219,974
Other expenses	30,310	35,878	37,438	35,128	138,757
Net income	70,484	76,068	77,202	92,724	316,477
Net income available to common stockholders	63,473	69,045	70,302	85,671	288,491
Net income per common share					
Basic and diluted	0.25	0.27	0.27	0.33	1.13
Dividends paid per common share	0.5880	0.5970	0.6005	0.6060	2.3915

<sup>(1)</sup> Amounts for each period are calculated independently. The sum of the quarters may differ from the annual amount.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Realty Income Corporation:

We have audited the accompanying consolidated balance sheets of Realty Income Corporation and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule III (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Realty Income Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted, with a casual, professional appearance.

We have served as the Company's auditor since 1993.

San Diego, California  
February 22, 2018



## Report of Independent Registered Public Accounting Firm, Continued

To the Stockholders and Board of Directors  
Realty Income Corporation:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Realty Income Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule III (collectively, the consolidated financial statements), and our report dated February 22, 2018 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**KPMG LLP**

San Diego, California  
February 22, 2018

## Business Description

### THE COMPANY

Realty Income, The Monthly Dividend Company<sup>®</sup>, is an S&P 500 company dedicated to providing stockholders with dependable monthly dividends that increase over time. The company is structured as a real estate investment trust, or REIT, requiring it annually to distribute at least 90% of its taxable income (excluding net capital gains) in the form of dividends to its stockholders. The monthly dividends are supported by the cash flow generated from real estate owned under long-term, net lease agreements with regional and national commercial tenants. The company has in-house acquisition, portfolio management, asset management, real estate research, credit research, legal, finance and accounting, information technology, and capital markets capabilities.

Realty Income was founded in 1969, and listed on the New York Stock Exchange (NYSE: O) in 1994. Over the past 49 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements. The company is a member of the S&P High Yield Dividend Aristocrats<sup>®</sup> index for having increased its dividend every year for more than 20 consecutive years.

At December 31, 2017, we owned a diversified portfolio:

- Of 5,172 properties;
- With an occupancy rate of 98.4%, or 5,089 properties leased and 83 properties available for lease;
- Leased to 249 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 89.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 17,320 square feet; approximately 12,060 square feet per retail property and 224,340 square feet per industrial property.

Of the 5,172 properties in the portfolio, 5,144, or 99.5%, are single-tenant properties, and the remaining are multi-tenant properties. At December 31, 2017, of the 5,144 single-tenant properties, 5,062 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 9.5 years.

Our 7 senior officers owned 0.1% of our outstanding common stock with a market value of \$16.9 million at January 31, 2018. Our directors and 7 senior officers, as a group, owned 0.2% of our outstanding common stock with a market value of \$33.4 million at January 31, 2018.

Our common stock is listed on the NYSE under the ticker symbol "O" with a CUSIP number of 756109-104. Our central index key number is 726728.

In January 2018, we had 152 employees, as compared to 146 employees in January 2017.

We maintain a corporate website at [www.realtyincome.com](http://www.realtyincome.com). On our website we make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, Form 3s, Form 4s, Form 5s, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file these reports with the Securities and Exchange Commission, or SEC. None of the information on our website is deemed to be part of this report.

### RECENT DEVELOPMENTS

#### Increases in Monthly Dividends to Common Stockholders

We have continued our 49-year policy of paying monthly dividends. In addition, we increased the dividend five times during 2017 and twice during 2018. As of February 2018, we have paid 81 consecutive quarterly dividend increases and increased the dividend 95 times since our listing on the NYSE in 1994.

<b>2017 Dividend increases</b>	<b>Month Declared</b>	<b>Month Paid</b>	<b>Dividend per share</b>	<b>Increase per share</b>
1st increase	Dec 2016	Jan 2017	0.2025 \$	0.0005
2nd increase	Jan 2017	Feb 2017	0.2105 \$	0.0080
3rd increase	Mar 2017	Apr 2017	0.2110 \$	0.0005
4th increase	Jun 2017	Jul 2017	0.2115 \$	0.0005
5th increase	Sep 2017	Oct 2017	0.2120 \$	0.0005
<b>2018 Dividend increases</b>				
1st increase	Dec 2017	Jan 2018	0.2125 \$	0.0005
2nd increase	Jan 2018	Feb 2018	0.2190 \$	0.0065

The dividends paid per share during 2017 totaled approximately \$2.527, as compared to approximately \$2.392 during 2016, an increase of \$0.135, or 5.6%.

The monthly dividend of \$0.219 per share represents a current annualized dividend of \$2.628 per share, and an annualized dividend yield of approximately 4.6% based on the last reported sale price of our common stock on the NYSE of \$57.02 on December 31, 2017. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

### **Acquisitions During 2017**

During 2017, we invested \$1.52 billion in 303 new properties and properties under development or expansion, with an initial weighted average contractual lease rate of 6.4%. The 303 new properties and properties under development or expansion are located in 40 states, will contain approximately 7.8 million leasable square feet, and are 100% leased with a weighted average lease term of 14.4 years. The tenants occupying the new properties operate in 23 industries and the property types are 94.5% retail and 5.5% industrial, based on rental revenue. During 2017, none of our real estate investments caused any one tenant to be 10% or more of our total assets at December 31, 2017.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.52 billion we invested during 2017, \$21.2 million was invested in 17 properties under development or expansion with an estimated initial weighted average contractual lease rate of 6.9%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

## **PORTFOLIO DISCUSSION**

### **Leasing Results**

At December 31, 2017, we had 83 properties available for lease out of 5,172 properties in our portfolio, which represents a 98.4% occupancy rate based on the number of properties in our portfolio. Since December 31, 2016, when we reported 84 properties available for lease out of 4,944 and a 98.3% occupancy rate, we:

- Had 297 lease expirations;
- Re-leased 259 properties; and
- Sold 39 vacant properties.

Of the 259 properties re-leased during 2017, 235 properties were re-leased to existing tenants, nine were re-leased to new tenants without vacancy, and 15 were re-leased to new tenants after a period of vacancy. The

annual rent on these 259 leases was \$43.18 million, as compared to the previous rent on these same properties of \$40.92 million, which represents a rent recapture rate of 105.5% on the properties re-leased during 2017.

As part of our re-leasing costs, we pay leasing commissions to unrelated, third party real estate brokers consistent with the commercial real estate industry standard, and sometimes provide tenant rent concessions. We do not consider the collective impact of the leasing commissions or tenant rent concessions to be material to our financial position or results of operations.

At December 31, 2017, our average annualized rental revenue was approximately \$13.77 per square foot on the 5,089 leased properties in our portfolio. At December 31, 2017, we classified nine properties with a carrying amount of \$6.7 million as held for sale on our balance sheet. The expected sale of these properties does not represent a strategic shift that will have a major effect on our operations and financial results and is consistent with our existing disposition strategy to further enhance our real estate portfolio and maximize portfolio returns.

### Investments in Existing Properties

In 2017, we capitalized costs of \$12.7 million on existing properties in our portfolio, consisting of \$1.6 million for re-leasing costs, \$912,000 for recurring capital expenditures, and \$10.2 million for non-recurring building improvements. In 2016, we capitalized costs of \$16.3 million on existing properties in our portfolio, consisting of \$797,000 for re-leasing costs, \$679,000 for recurring capital expenditures, and \$14.9 million for non-recurring building improvements.

The majority of our building improvements relate to roof repairs, HVAC improvements, and parking lot resurfacing and replacements. The amounts of our capital expenditures can vary significantly, depending on the rental market, tenant credit worthiness, the lease term and the willingness of tenants to pay higher rents over the terms of the leases.

We define recurring capital expenditures as mandatory and repetitive landlord capital expenditure obligations that have a limited useful life. We define non-recurring capital expenditures as property improvements where we invest additional capital that extend the useful life of the property.

### Note Issuance

During the year ended December 31, 2017 we issued the following notes (dollars in millions):

Issuances	Date of Issuance	Maturity date	Principal amount issued	Public offering price	Effective yield to maturity
4.125% notes	March 2017	October 2026 <sup>(1)</sup>	\$ 400	102.98%	3.75%
4.650% notes	March 2017	March 2047	300	99.97%	4.65%
3.250% notes	December 2017	October 2022 <sup>(2)</sup>	500	101.77%	2.84%
3.650% notes	December 2017	January 2028	550	99.78%	3.68%
4.650% notes	December 2017	March 2047 <sup>(3)</sup>	250	105.43%	4.32%

<sup>(1)</sup> This issuance constitutes a further issuance of, and formed a single series with the senior notes due 2026 issued in September 2014.

<sup>(2)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2022 issued in October 2012.

<sup>(3)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2047 issued in March 2017.

The net proceeds of \$1.3 billion from the December 2017 note offerings were used to redeem all \$550.0 million aggregate principal amount of our outstanding 2019 notes, including accrued and unpaid interest, and to repay borrowings outstanding under our \$2.0 billion revolving credit facility and, to the extent not used for those purposes, to fund the development and acquisitions of additional properties and for other general corporate purposes. The net proceeds of \$705.2 million from the March 2017 note offerings were used to repay borrowings outstanding under our credit facility to fund investment opportunities and for other general corporate purposes.

### Capital Raising

During 2017, Realty Income issued 23,957,741 common shares at a weighted average price of \$59.54, receiving gross proceeds of \$1.4 billion.

### **Net Income Available to Common Stockholders**

Net income available to common stockholders was \$301.5 million in 2017, as compared to \$288.5 million in 2016, an increase of \$13.0 million. On a diluted per common share basis, net income was \$1.10 in 2017, as compared to \$1.13 in 2016, a decrease of \$0.03, or 2.7%.

The calculation to determine net income available to common stockholders includes impairments, gains from the sale of properties and/or fair value adjustments on our interest rate swaps. These items vary from period to period based on the timing of property sales and the interest rate environment, and can significantly impact net income available to common stockholders.

### **Funds from Operations Available to Common Stockholders (FFO)**

In 2017, our FFO increased by \$37.3 million, or 5.1%, to \$772.7 million, as compared to \$735.4 million in 2016. On a diluted per common share basis, FFO was \$2.82 in 2017, as compared to \$2.88 in 2016, a decrease of \$0.06, or 2.1%.

Net income and funds from operations available to common stockholders per share in 2017 were impacted by a loss of \$42.4 million, or \$0.15 per share, on extinguishment of debt upon the early redemption on all \$550.0 million of our outstanding 6.75% notes due August 2019 during December 2017. Net income and funds from operations available to common stockholders were also impacted by a non-cash redemption charge of \$13.4 million, or \$0.05 per share, upon the redemption of the 6.625% Monthly Income Class F Preferred Stock that was redeemed in April 2017. This charge is based on the excess of redemption value over the carrying value of the 6.625% Monthly Income Class F Preferred Stock that represents the original issuance cost that we paid in 2012.

### **Adjusted Funds from Operations Available to Common Stockholders (AFFO)**

In 2017, our AFFO increased by \$102.2 million, or 13.9%, to \$838.6 million, as compared to \$736.4 million in 2016. On a diluted per common share basis, AFFO was \$3.06 in 2017, as compared to \$2.88 in 2016, an increase of \$0.18, or 6.3%.

See our discussion of FFO and AFFO (which are not financial measures under generally accepted accounting principles, or GAAP), later in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this annual report, which includes a reconciliation of net income available to common stockholders to FFO and AFFO.

### **DIVIDEND POLICY**

Distributions are paid monthly to holders of shares of our common stock.

Distributions are paid monthly to the limited partners holding common units of Tau Operating Partnership, L.P. and Realty Income, L.P., each on a per unit basis that is generally equal to the amount paid per share to our common stockholders.

In order to maintain our status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our taxable income (including net capital gains). In 2017, our cash distributions to preferred and common stockholders totaled \$695.5 million, or approximately 132.9% of our estimated taxable income of \$523.5 million. Our estimated taxable income reflects non-cash deductions for depreciation and amortization. Our estimated taxable income is presented to show our compliance with REIT dividend requirements and is not a measure of our liquidity or operating performance. We intend to continue to make distributions to our stockholders that are sufficient to meet this dividend requirement and that will reduce or eliminate our exposure to income taxes. Furthermore, we believe our funds from operations are sufficient to support our current level of cash distributions to our stockholders. Our cash distributions to common stockholders in 2017 totaled \$689.3 million, representing 82.2% of our adjusted funds from operations available to common stockholders of \$838.6 million. In comparison, our 2016 cash distributions to common stockholders totaled \$610.5 million, representing 82.9% of our adjusted funds from operations available to common stockholders of \$736.4 million.

Future distributions will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, FFO, AFFO, cash flow from operations, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, or the



Code, our debt service requirements, and any other factors the Board of Directors may deem relevant. In addition, our credit facility contains financial covenants that could limit the amount of distributions payable by us in the event of a default, and which prohibit the payment of distributions on the common or preferred stock in the event that we fail to pay when due (subject to any applicable grace period) any principal or interest on borrowings under our credit facility.

Distributions of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to stockholders as ordinary income, except to the extent that we recognize capital gains and declare a capital gains dividend, or that such amounts constitute "qualified dividend income" subject to a reduced rate of tax. The maximum tax rate of non-corporate taxpayers for "qualified dividend income" is generally 20%. In general, dividends payable by REITs are not eligible for the reduced tax rate on qualified dividend income, except to the extent that certain holding requirements have been met with respect to the REIT's stock and the REIT's dividends are attributable to dividends received from certain taxable corporations (such as our taxable REIT subsidiaries) or to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year). However, non-corporate stockholders, including individuals, generally may deduct 20% of dividends from a REIT, other than capital gain dividends and dividends treated as qualified dividend income, for taxable years beginning after December 31, 2017 and before January 1, 2026.

Distributions in excess of earnings and profits generally will first be treated as a non-taxable reduction in the stockholders' basis in their stock, but not below zero. Distributions in excess of that basis generally will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 21.7% of the distributions to our common stockholders, made or deemed to have been made in 2017, were classified as a return of capital for federal income tax purposes. We estimate that in 2018, between 15% and 25% of the distributions may be classified as a return of capital.

## **BUSINESS PHILOSOPHY AND STRATEGY**

We believe that owning an actively managed, diversified portfolio of primarily single-tenant commercial properties under long-term, net lease agreements produces consistent and predictable income. A net lease typically requires the tenant to be responsible for monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term, net lease agreements generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Diversification is also a key component of our investment philosophy. We believe that diversification of the portfolio by tenant, industry, geography, and, to a certain extent, property type leads to more consistent and predictable income for our stockholders by reducing vulnerability that can come with any single concentration. Our investment activities have led to a diversified property portfolio that, as of December 31, 2017, consisted of 5,172 properties located in 49 states and Puerto Rico, leased to 249 different commercial tenants doing business in 47 industries. No single industry represented in our property portfolio accounted for more than 10.6% of our rental revenue for the quarter ended December 31, 2017.

### **Investment Strategy**

Our investment strategy is to acquire real estate leased to regional and national tenants. When identifying new properties for investment, we generally focus on acquiring high-quality real estate that tenants consider important to the successful operation of their business. We generally seek to acquire real estate that has the following characteristics:

- Properties that are freestanding, commercially-zoned with a single tenant;
- Properties that are in significant markets or strategic locations critical to generating revenue for regional and national tenants (i.e. they need the property in which they operate in order to conduct their business);
- Properties that we deem to be profitable for the tenants and/or can generally be characterized as important to the successful operations of the company's business;
- Properties that are located within attractive demographic areas relative to the business of our tenants, generally fungible, and have good visibility and easy access to major thoroughfares;
- Properties with real estate valuations that approximate replacement costs;
- Properties with rental or lease payments that approximate market rents; and

- Properties that can be purchased with the simultaneous execution or assumption of long-term, net lease agreements, offering both current income and the potential for future rent increases.

We seek to invest in industries in which several, well-organized, regional and national tenants are capturing market share through the selection of prime real estate locations supported by superior service, quality control, economies of scale, consumer branding, and advertising. In addition, we frequently acquire large portfolios of single-tenant properties net leased to different tenants operating in a variety of industries. We have an internal team dedicated to sourcing such opportunities, often using our relationships with various tenants, owners/developers, brokers and advisers to uncover and secure transactions. We also undertake thorough research and analysis to identify what we consider to be appropriate property locations, tenants, and industries for investment. This research expertise is instrumental to uncovering net lease opportunities in markets where we believe we can add value.

In selecting potential investments, we look for tenants with the following attributes:

- Tenants with reliable and sustainable cash flow;
- Tenants with revenue and cash flow from multiple sources;
- Tenants that are willing to sign a long-term lease (10 or more years); and
- Tenants that are large owners and users of real estate.

From a retail perspective, our investment strategy is to target tenants that have a service, non-discretionary, and/or low-price-point component to their business. We believe these characteristics better position tenants to operate in a variety of economic conditions and to compete more effectively with internet retailers. As a result of the execution of this strategy, over 90% of our annualized retail rental revenue in 2017 is derived from tenants with a service, non-discretionary, and/or low price point component to their business. From a non-retail perspective, we target industrial properties leased to Fortune 1000, primarily investment grade rated companies. We believe these characteristics enhance the stability of the rental revenue generated from these properties.

After applying this investment strategy, we pursue those transactions where we can achieve an attractive investment spread over our cost of capital and favorable risk-adjusted returns.

### **Underwriting Strategy**

In order to be considered for acquisition, properties must meet stringent underwriting requirements. We have established a four-part analysis to examine each potential investment based on:

- The aforementioned overall real estate characteristics, including demographics, replacement cost and comparative rental rates;
- Industry, tenant (including credit profile), and market conditions;
- Store profitability for retail locations if profitability data is available; and
- The importance of the real estate location to the operations of the tenants' business.

We believe the principal financial obligations for most of our tenants typically include their bank and other debt, payment obligations to suppliers, and real estate lease obligations. Because we typically own the land and building in which a tenant conducts its business or which are critical to the tenant's ability to generate revenue, we believe the risk of default on a tenant's lease obligation is less than the tenant's unsecured general obligations. It has been our experience that tenants must retain their profitable and critical locations in order to survive. Therefore, in the event of reorganization, they are less likely to reject a lease of a profitable or critical location because this would terminate their right to use the property.

Thus, as the property owner, we believe that we will fare better than unsecured creditors of the same tenant in the event of reorganization. If a property is rejected by the tenant during reorganization, we own the property and can either lease it to a new tenant or sell the property. In addition, we believe that the risk of default on real estate leases can be further mitigated by monitoring the performance of the tenants' individual locations and considering whether to proactively sell locations that meet our criteria for disposition.

Prior to entering into any transaction, our research department conducts a review of a tenant's credit quality. The information reviewed may include reports and filings, including any public credit ratings, financial statements, debt and equity analyst reports, and reviews of corporate credit spreads, stock prices, market capitalization, and other financial metrics. We conduct additional due diligence, including additional financial reviews of the tenant and a

more comprehensive review of the business segment and industry in which the tenant operates. We continue to monitor our tenants' credit quality on an ongoing basis by reviewing the available information previously discussed, and providing summaries of these findings to management. Approximately 46% of our annualized rental revenue comes from properties leased to investment grade rated companies or their subsidiaries. At December 31, 2017, our top 20 tenants represented approximately 54% of our annualized revenue and ten of these tenants have investment grade credit ratings or are subsidiaries of investment grade companies.

### **Portfolio and Asset Management Strategy**

In addition to pursuing new properties for investment, we seek to increase earnings and distributions to stockholders through active portfolio and asset management.

Generally, our portfolio and asset management efforts seek to achieve:

- Rent increases at the expiration of existing leases, when market conditions permit;
- Optimum exposure to certain tenants, industries, and markets through re-leasing vacant properties and selectively selling properties;
- Maximum asset-level returns on properties that are re-leased or sold;
- Additional value creation from the existing portfolio by enhancing individual properties, pursuing alternative uses, and deriving ancillary revenue; and
- Investment opportunities in new asset classes for the portfolio.

We continually monitor our portfolio for any changes that could affect the performance of our tenants, our tenants' industries, and the real estate locations in which we have invested. We also regularly analyze our portfolio with a view towards optimizing its returns and enhancing its overall credit quality. Our active portfolio and asset management strategy pursues asset sales when we believe the reinvestment of the sale proceeds will:

- Generate higher returns;
- Enhance the credit quality of our real estate portfolio;
- Extend our average remaining lease term; and/or
- Strategically decrease tenant, industry, or geographic concentration.

At December 31, 2017, we classified nine properties with a carrying amount of \$6.7 million as held for sale on our balance sheet. For 2018, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate \$75 to \$100 million in property sales. We plan to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during 2018 at our estimated values or be able to invest the property sale proceeds in new properties.

The active management of the portfolio is an essential component of our long-term strategy of maintaining high occupancy. Since 1970, our occupancy rate at the end of each year has never been below 96%. However, we cannot assure you that our future occupancy levels will continue to equal or exceed 96%.

### **Capital Philosophy**

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure; however, we may issue additional preferred stock or debt securities. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were initially financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at all times and at terms that are acceptable to us.

Our primary cash obligations, for the current year and subsequent years, are included in the "Table of Obligations," which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our credit facility and periodically through public securities offerings.

### **Conservative Capital Structure**

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At

December 31, 2017, our total outstanding borrowings of senior unsecured notes and bonds, term loans, mortgages payable and credit facility borrowings were \$6.13 billion, or approximately 27.4% of our total market capitalization of \$22.36 billion.

We define our total market capitalization at December 31, 2017 as the sum of:

- Shares of our common stock outstanding of 284,213,685, plus total common units outstanding of 405,204, multiplied by the last reported sales price of our common stock on the NYSE of \$57.02 per share on December 31, 2017, or \$16.23 billion;
- Outstanding borrowings of \$110.0 million on our credit facility;
- Outstanding mortgages payable of \$320.3 million, excluding net mortgage premiums of \$5.9 million and deferred financing costs of \$236,000;
- Outstanding borrowings of \$445.9 million on our term loans, excluding deferred financing costs of \$580,000; and
- Outstanding senior unsecured notes and bonds of \$5.25 billion, excluding unamortized net original issuance premiums of \$14.3 million and deferred financing costs of \$34.1 million.

### **Impact of Real Estate and Credit Markets**

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations, and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly.

### **Universal Shelf Registration**

In December 2015, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in December 2018. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depository shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock, or depository shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

### **\$2.0 Billion Revolving Credit Facility**

We have a \$2.0 billion unsecured revolving credit facility, or our credit facility, with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a \$1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of December 31, 2017 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.85%, with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings were to change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2017, we had a borrowing capacity of \$1.89 billion available on our credit facility and an outstanding balance of \$110.0 million. The weighted average interest rate on borrowings outstanding under our credit facility, at December 31, 2017, was 4.5% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2017, we remain in compliance with these covenants. We expect to use our credit facility to acquire additional properties and for other general corporate purposes. Any additional borrowings will increase our exposure to interest rate risk.

We generally use our credit facility for the short-term financing of new property acquisitions. Thereafter, we generally seek to refinance those borrowings with the net proceeds of long-term or permanent financing, which may include the issuance of common stock, preferred stock or debt securities. We cannot assure you, however, that we will be able to obtain any such refinancing, or that market conditions prevailing at the time of the refinancing will enable us to issue equity or debt securities at acceptable terms. We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

## **Cash Reserves**

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2017, we had cash and cash equivalents totaling \$6.9 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity is sufficient to meet our liquidity needs for the next twelve months. We intend, however, to use permanent or long-term capital to fund property acquisitions and to repay future borrowings under our credit facility.

## **Credit Agency Ratings**

The borrowing interest rates under our credit facility are based upon our ratings assigned by credit rating agencies. As of December 31, 2017, we were assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Moody's Investors Service has assigned a rating of A3 with a "stable" outlook, Standard & Poor's Ratings Group has assigned a rating of BBB+ with a "positive" outlook, and Fitch Ratings has assigned a rating of BBB+ with a "stable" outlook.

Based on our ratings as of December 31, 2017, the facility interest rate as of December 31, 2017 was LIBOR, plus 0.85% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. Our credit facility provides that the interest rate can range between: (i) LIBOR, plus 1.55% if our credit rating is lower than BBB-/Baa3 or unrated and (ii) LIBOR, plus 0.85% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.30% for a rating lower than BBB-/Baa3 or unrated, and (ii) 0.125% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. If our credit ratings or ratings outlook change, our cost to obtain debt financing could increase or decrease. The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that our ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

## **Term Loans**

In December 2017, in conjunction with the acquisition of a portfolio of properties, we entered into a \$125.9 million promissory note, maturing in January 2018. Borrowings under this note bore interest at 1.52%. This note was paid in full at maturity.

In June 2015, in conjunction with entering into our credit facility, we entered into a \$250 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.90%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.62%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a \$70 million senior unsecured term loan with an initial maturity date of January 2018. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 1.10%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.05%. In January 2018, we entered into a six-month extension of this loan, which now matures in July 2018 and includes, at our option, two additional six-month extensions. Borrowing during the extension periods bear interest at the current one-month LIBOR, plus 0.90%. The interest rate swap terminated upon the initial maturity in January 2018.

## **Mortgage Debt**

As of December 31, 2017, we had \$320.3 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at December 31, 2017, we had net premiums totaling \$5.9 million on these mortgages and deferred financing costs of \$236,000. We expect to pay off the mortgages payable as soon as prepayment penalties have declined to a level that would make it economically feasible to do so. During 2017, we made \$139.7 million of principal payments, including the repayment of eight mortgages in full for \$133.5 million.



## Notes Outstanding

As of December 31, 2017, we had \$5.25 billion of senior unsecured note and bond obligations, excluding unamortized net original issuance premiums of \$14.3 million and deferred financing costs of \$34.1 million. All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually.

## No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts.

## Corporate Responsibility

We are committed to providing an engaging, diverse, and safe work environment for our employees, upholding our corporate responsibilities as a public company operating for the benefit of our stockholders, and operating our company in an environmentally conscious manner. As The Monthly Dividend Company®, our mission is to provide our stockholders with monthly dividends that increase over time. How we manage and use the physical, financial and talent resources that enable us to achieve this mission, demonstrates our commitment to corporate responsibility.

*Social Responsibility and Ethics.* An extension of our mission is our commitment to being socially responsible and conducting our business according to the highest ethical standards. Our employees are awarded compensation that is in line with those of our peers and competitors, including generous healthcare benefits for employees and their families, participation in a 401(k) plan with a matching contribution by Realty Income, competitive paid time-off benefits, and an infant-at-work program for new parents. We also have a long-standing commitment to equal employment opportunity and adhere to all Equal Employer Opportunity Policy guidelines. Our employees have access to members of our Board of Directors to report anonymously, if desired, any suspicion of misconduct by any member of our senior management or executive team. We apply the principles of full and fair disclosure in all of our business dealings, and we encourage all of our directors, officers, and other employees to conduct our business in accordance with the highest standards of moral and ethical behavior, in each case, as outlined in our Corporate Code of Business Ethics. We are also committed to dealing fairly with all of our customers, suppliers, and competitors.

Realty Income and its employees have taken an active role in supporting communities through civic involvement with charitable organizations and corporate donations. Focusing our impact on our social responsibility, our non-profit partnerships have resulted in approximately 725 employee volunteer hours during 2017, principally through our partnership with San Diego Habitat for Humanity. Our employees have also provided educational services to at-risk youth, funding to local foodbanks, and toys for under-served children. Our dedication to being a responsible corporate citizen has a direct and positive impact in the communities in which we operate and contributes to the strength of our reputation and our financial performance.

*Corporate Governance.* We believe that a company's reputation for integrity and serving its stockholders responsibly is of utmost importance. We are committed to managing the company for the benefit of our stockholders and are focused on maintaining good corporate governance. Practices that illustrate this commitment include:

- Our Board of Directors is comprised of eight directors, seven of which are independent, non-employee directors;
- Our Board of Directors is elected on an annual basis;
- We employ a majority vote standard for uncontested elections;
- Our Compensation Committee of the Board of Directors works with independent consultants in conducting annual compensation reviews for our key executives, and compensates each individual primarily based on reaching certain performance metrics that determine the success of our company; and
- We adhere to all other corporate governance principles outlined in our "Corporate Governance Guidelines" document on our website.

*Environmental Practices.* Our focus on environmental conservationism is demonstrated by how we manage our day-to-day activities at our corporate headquarters. At our headquarters, we promote energy efficiency and encourage practices such as powering down office equipment at the end of the day, implementing file-sharing technology and automatic "duplex mode" to limit paper use, adopting an electronic approval system, carpooling

to our headquarters, and recycling paper waste. In 2017, we sent more than 32,700 pounds of paper to our off-site partner for recycling.

With respect to other recycling and reuse practices, we encourage the use of recycled products and the recycling of materials used in our operations. Cell phones, wireless devices and office equipment are recycled or donated whenever possible.

In addition, our headquarters building was retrofitted according to the State of California energy efficiency standards (specifically following California Green Building Standards Code and Title 24 of the California Code of Regulations), with features such as an automatic lighting control system with light-harvesting technology, a Building Management System that monitors and controls energy use, an energy-efficient PVC roof and heating and cooling system, LED lighting, and drought-tolerant landscaping with recycled materials.

In 2017, we formed an internal “Green Team” whose mission is to encourage environmentally-friendly choices to further reduce our environmental impact as a company. To achieve this mission, the Green Team creates and executes strategies to promote sustainability internally and tracks the progress of their efforts.

The properties in our portfolio are primarily net leased to our tenants, and each tenant is ultimately responsible for maintaining the buildings including controlling their energy usage and the implementation of any environmentally sustainable practices at each location. We actively communicate and work with our tenants to promote environmental responsibility at the properties we own and to reiterate the importance of energy efficient facilities.

Our Asset Management team has engaged with renewable energy development companies to identify assets that would maximize energy efficiency initiatives throughout our property portfolio. These initiatives include solar energy arrays, battery storage, and charging stations. In addition, we continue to explore regional opportunities with our tenants in order to qualify for city and county renewable energy or energy efficiency programs.

More information on our social responsibility and environmental practices can be found on our company’s website at <http://www.realtyincome.com/about-realty-income/corporate-responsibility>. None of the information on our website is deemed to be a part of this report.

REALTY INCOME CORPORATION AND SUBSIDIARIES

## **Property Portfolio Information**

At December 31, 2017, we owned a diversified portfolio:

- Of 5,172 properties;
- With an occupancy rate of 98.4%, or 5,089 properties leased and 83 properties available for lease;
- Leased to 249 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 89.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 17,320 square feet; approximately 12,060 square feet per retail property and 224,340 square feet per industrial property.

At December 31, 2017, of our 5,172 properties, 5,089 were leased under net lease agreements. A net lease typically requires the tenant to be responsible for monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, our tenants are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants' gross sales above a specified level, or fixed increases.

At December 31, 2017, our 249 commercial tenants, which we define as retailers with over 50 locations and non-retailers with over \$500 million in annual revenues, represented approximately 95% of our annualized revenue. We had 269 additional tenants, representing approximately 5% of our annualized revenue at December 31, 2017, which brings our total tenant count to 518 tenants.

## Industry Diversification

The following table sets forth certain information regarding our property portfolio classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

	Percentage of Rental Revenue <sup>(1)</sup>					
	For the	For the Years Ended				
	Quarter Ended	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,
	December 31,	2017	2016	2015	2014	2013
	2017	2017	2016	2015	2014	2013
<b>Retail industries</b>						
Apparel stores	1.5%	1.6%	1.9%	2.0%	2.0%	1.9%
Automotive collision services	1.0	1.0	1.0	1.0	0.8	0.8
Automotive parts	1.4	1.3	1.3	1.4	1.3	1.2
Automotive service	2.4	2.2	1.9	1.9	1.8	2.1
Automotive tire services	2.5	2.6	2.7	2.9	3.2	3.6
Book stores	*	*	*	*	*	*
Child care	1.8	1.8	1.9	2.0	2.2	2.8
Consumer electronics	0.4	0.3	0.3	0.3	0.3	0.3
Convenience stores	9.4	9.6	8.7	9.2	10.1	11.2
Crafts and novelties	0.5	0.5	0.5	0.5	0.5	0.5
Dollar stores	7.7	7.9	8.6	8.9	9.6	6.2
Drug stores	10.6	10.9	11.2	10.6	9.5	8.1
Education	0.3	0.3	0.3	0.3	0.4	0.4
Entertainment	0.5	0.4	0.5	0.5	0.5	0.6
Equipment services	*	*	0.1	0.1	0.1	0.1
Financial services	2.1	2.1	1.4	1.3	1.4	1.5
General merchandise	1.9	1.8	1.5	1.4	1.2	1.1
Grocery stores	4.5	4.4	3.1	3.0	3.0	2.9
Health and fitness	7.5	7.5	8.1	7.7	7.0	6.3
Health care	0.8	0.8	0.9	1.0	1.1	1.1
Home furnishings	0.8	0.8	0.7	0.7	0.7	0.9
Home improvement	2.8	2.6	2.5	2.4	1.7	1.6
Jewelry	0.1	0.1	0.1	0.1	0.1	0.1
Motor vehicle dealerships	1.9	2.1	1.9	1.6	1.6	1.6
Office supplies	0.2	0.2	0.3	0.3	0.4	0.5
Pet supplies and services	0.6	0.6	0.6	0.7	0.7	0.8
Restaurants - casual dining	3.7	3.8	3.9	3.8	4.3	5.1
Restaurants - quick service	5.5	5.1	4.9	4.2	3.7	4.4
Shoe stores	0.4	0.4	0.5	0.5	0.1	0.1
Sporting goods	1.1	1.4	1.6	1.8	1.6	1.7
Telecommunications	*	*	*	-	-	-
Theaters	5.7	5.0	4.9	5.1	5.3	6.2
Transportation services	0.1	0.1	0.1	0.1	0.1	0.1
Wholesale clubs	3.2	3.3	3.6	3.8	4.1	3.9
Other	*	*	*	*	*	0.1
<b>Retail industries</b>	<b>82.9%</b>	<b>82.5%</b>	<b>81.5%</b>	<b>81.1%</b>	<b>80.4%</b>	<b>79.8%</b>

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all properties owned at the end of each period presented, including revenue from properties reclassified as discontinued operations.

## Industry Diversification (continued)

	Percentage of Rental Revenue <sup>(1)</sup>					
	For the	For the Years Ended				
	Quarter Ended	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,
	December 31,	2017	2016	2015	2014	2013
	2017	2017	2016	2015	2014	2013
<u>Non-retail industries</u>						
Aerospace	0.9%	0.9%	1.0%	1.1%	1.2%	1.2%
Beverages	2.6	2.7	2.6	2.7	2.8	3.3
Consumer appliances	0.5	0.5	0.5	0.6	0.5	0.6
Consumer goods	0.7	0.8	0.9	0.9	0.9	1.0
Crafts and novelties	0.1	0.1	0.1	0.1	0.1	0.1
Diversified industrial	0.8	0.9	0.9	0.8	0.5	0.2
Electric utilities	0.1	0.1	0.1	0.1	0.1	*
Equipment services	0.4	0.4	0.5	0.4	0.5	0.4
Financial services	0.3	0.3	0.4	0.4	0.4	0.5
Food processing	0.6	0.6	1.1	1.2	1.4	1.5
General merchandise	0.2	0.2	0.3	0.3	0.3	-
Government services	0.9	1.0	1.1	1.2	1.3	1.4
Health care	0.5	0.6	0.6	0.7	0.7	0.8
Home furnishings	0.1	0.1	0.1	0.2	0.2	0.2
Home improvement	0.1	*	-	-	-	-
Insurance	0.1	0.1	0.1	0.1	0.1	0.1
Machinery	0.1	0.1	0.1	0.1	0.2	0.2
Other manufacturing	0.8	0.8	0.8	0.7	0.7	0.6
Packaging	1.1	1.0	0.8	0.8	0.8	0.9
Paper	0.1	0.1	0.1	0.1	0.1	0.2
Shoe stores	0.2	0.2	0.2	0.2	0.8	0.9
Telecommunications	0.6	0.6	0.6	0.7	0.7	0.7
Transportation services	5.2	5.3	5.4	5.3	5.1	5.3
Other	0.1	0.1	0.2	0.2	0.2	0.1
Non-retail industries	17.1%	17.5%	18.5%	18.9%	19.6%	20.2%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all properties owned at the end of each period presented, including revenue from properties reclassified as discontinued operations.

### Property Type Composition

The following table sets forth certain property type information regarding our property portfolio as of December 31, 2017 (dollars in thousands):

Property Type	Number of Properties	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2017 <sup>(1)</sup>	Percentage of Rental Revenue
Retail	4,999	60,289,500	\$ 240,006	80.7%
Industrial	116	26,023,400	37,331	12.5
Office	42	3,104,700	13,579	4.6
Agriculture	15	184,500	6,571	2.2
<b>Totals</b>	<b>5,172</b>	<b>89,602,100</b>	<b>\$ 297,487</b>	<b>100.0%</b>

<sup>(1)</sup> Includes rental revenue for all properties owned at December 31, 2017. Excludes revenue of \$1,412 from sold properties.

### Tenant Diversification

The following table sets forth the largest tenants in our property portfolio, expressed as a percentage of total rental revenue at December 31, 2017:

Tenant	Number of Properties	% of Rental Revenue
Walgreens	203	6.5%
FedEx	43	5.1%
LA Fitness	53	4.0%
Dollar General	532	3.9%
Dollar Tree / Family Dollar	468	3.6%
AMC Theatres	32	3.6%
Walmart / Sam's Club	51	3.0%
Circle K (Couche-Tard)	298	2.5%
BJ's Wholesale Club	15	2.2%
Treasury Wine Estates	17	2.1%
Life Time Fitness	11	2.0%
Regal Cinemas	25	1.9%
CVS Pharmacy	76	1.9%
Super America / Western Refining (Tesoro)	134	1.8%
GPM Investments / Fas Mart	216	1.8%
Rite Aid	69	1.7%
7-Eleven	111	1.7%
TBC Corporation (Sumitomo)	159	1.5%
Kroger	14	1.5%
FreedomRoads / Camping World	19	1.2%

### Service Category Diversification for our Retail Properties

The following table sets forth certain information regarding the 4,999 retail properties included in our 5,172 total properties owned at December 31, 2017, classified according to the business types and the level of services they provide at the property level (dollars in thousands):

	Number of Retail Properties	Retail Rental Revenue for the Quarter Ended December 31, 2017 <sup>(1)</sup>	Percentage of Retail Rental Revenue
<b><u>Tenants Providing Services</u></b>			
Automotive collision services	58	\$ 2,938	1.2%
Automotive service	271	7,031	2.9
Child care	204	5,380	2.2
Education	14	839	0.3
Entertainment	11	1,363	0.6
Equipment services	2	111	*
Financial services	218	6,232	2.6
Health and fitness	93	22,337	9.3
Health care	27	1,139	0.5
Telecommunications	1	47	*
Theaters	60	17,038	7.1
Transportation services	2	229	0.1
Other	8	133	0.1
	969	64,817	26.9
<b><u>Tenants Selling Goods and Services</u></b>			
Automotive parts (with installation)	69	1,631	0.7
Automotive tire services	194	7,401	3.1
Convenience stores	867	27,758	11.6
Motor vehicle dealerships	28	5,749	2.4
Pet supplies and services	12	738	0.3
Restaurants - casual dining	313	10,339	4.3
Restaurants - quick service	641	16,287	6.8
	2,124	69,903	29.2
<b><u>Tenants Selling Goods</u></b>			
Apparel stores	28	4,328	1.8
Automotive parts	116	2,451	1.0
Book stores	1	104	*
Consumer electronics	10	1,097	0.5
Crafts and novelties	15	1,618	0.7
Dollar stores	1,000	22,830	9.5
Drug stores	342	30,214	12.6
General merchandise	82	5,438	2.3
Grocery stores	112	13,555	5.6
Home furnishings	57	2,283	1.0
Home improvement	66	7,673	3.2
Jewelry	4	175	0.1
Office supplies	8	564	0.2
Shoe stores	2	182	0.1
Sporting goods	31	3,369	1.4
Wholesale clubs	32	9,405	3.9
	1,906	105,286	43.9
<b>Total Retail Properties</b>	<b>4,999</b>	<b>\$ 240,006</b>	<b>100.0%</b>

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all retail properties owned at December 31, 2017. Excludes revenue of \$57,481 from non-retail properties and \$1,412 from sold properties.



## Lease Expirations

The following table sets forth certain information regarding our property portfolio regarding the timing of the lease term expirations in our portfolio (excluding rights to extend a lease at the option of the tenant) on our 5,062 net leased, single-tenant properties and their contribution to rental revenue for the quarter ended December 31, 2017 (dollars in thousands):

Total Portfolio <sup>(1)</sup>					
Year	Expiring Leases		Approx. Leasable Sq. Feet	Rental Revenue <sup>(2)</sup>	% of Rental Revenue
	Retail	Non-Retail			
2018	195	4	2,258,600	\$ 8,053	2.8%
2019	262	10	3,853,800	13,279	4.5
2020	213	10	4,166,100	12,614	4.3
2021	294	12	5,284,100	14,869	5.1
2022	358	18	9,758,900	20,152	6.9
2023	471	22	8,109,600	24,436	8.4
2024	218	11	3,844,700	11,641	4.0
2025	333	13	5,179,500	20,172	6.9
2026	315	5	4,685,500	15,762	5.4
2027	535	4	6,199,400	22,417	7.7
2028	298	9	7,087,100	18,169	6.2
2029	400	7	7,386,300	21,473	7.3
2030	95	13	2,718,500	14,768	5.0
2031	283	25	5,563,500	25,209	8.6
2032	81	4	3,060,700	10,776	3.7
2033 - 2043	541	3	7,267,800	38,647	13.2
Totals	4,892	170	86,424,100	\$ 292,437	100.0%

\* Less than 0.1%

<sup>(1)</sup> Excludes 28 multi-tenant properties and 83 vacant properties, one of which is a vacant, multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

<sup>(2)</sup> Excludes revenue of \$5,050 from 28 multi-tenant properties and 83 vacant properties, and \$1,412 from sold properties at December 31, 2017.

## Geographic Diversification

The following table sets forth certain state-by-state information regarding our property portfolio as of December 31, 2017 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2017 <sup>(1)</sup>	Percentage of Rental Revenue
Alabama	164	98%	1,567,500	\$ 5,603	1.9%
Alaska	3	67	275,900	566	0.2
Arizona	115	99	1,808,300	6,653	2.2
Arkansas	74	100	887,700	2,035	0.7
California	186	99	5,316,000	27,804	9.3
Colorado	83	99	1,458,400	4,738	1.6
Connecticut	22	91	521,000	2,042	0.7
Delaware	18	100	93,000	718	0.2
Florida	373	99	4,092,300	17,322	5.8
Georgia	258	99	4,315,900	12,718	4.3
Idaho	12	100	87,000	419	0.1
Illinois	253	98	5,791,200	18,482	6.2
Indiana	173	97	2,154,600	8,578	2.9
Iowa	42	88	2,978,500	3,836	1.3
Kansas	94	96	1,857,100	4,869	1.6
Kentucky	68	99	1,667,700	4,198	1.4
Louisiana	106	97	1,547,900	4,169	1.4
Maine	15	100	174,700	1,121	0.4
Maryland	36	97	1,012,300	4,582	1.5
Massachusetts	79	96	729,400	3,641	1.2
Michigan	163	99	1,781,000	6,475	2.2
Minnesota	159	100	2,028,400	9,907	3.3
Mississippi	140	95	1,623,200	4,659	1.6
Missouri	152	97	2,688,000	8,414	2.8
Montana	11	100	87,000	501	0.2
Nebraska	38	100	749,700	1,865	0.6
Nevada	23	96	1,092,700	1,459	0.5
New Hampshire	19	100	315,800	1,547	0.5
New Jersey	75	99	1,000,900	5,546	1.9
New Mexico	32	100	355,700	1,024	0.3
New York	99	99	2,753,400	14,728	5.0
North Carolina	182	99	2,792,500	8,212	2.8
North Dakota	6	100	117,700	211	0.1
Ohio	256	99	6,774,600	15,418	5.2
Oklahoma	134	100	1,653,500	4,660	1.6
Oregon	28	100	593,300	2,399	0.8
Pennsylvania	168	98	1,956,800	8,683	2.9
Rhode Island	4	100	161,600	841	0.3
South Carolina	159	99	1,626,700	6,571	2.2
South Dakota	15	100	195,200	468	0.2
Tennessee	234	98	3,565,000	9,203	3.1
Texas	519	99	9,583,400	27,830	9.4
Utah	22	100	970,600	2,272	0.8
Vermont	5	100	98,000	489	0.2
Virginia	169	96	3,114,700	8,332	2.8
Washington	43	98	733,400	3,097	1.0
West Virginia	18	100	395,600	1,228	0.4
Wisconsin	115	100	2,374,300	6,929	2.3
Wyoming	6	100	54,700	276	0.1
Puerto Rico	4	100	28,300	149	*
<b>Totals/Average</b>	<b>5,172</b>	<b>98%</b>	<b>89,602,100</b>	<b>\$ 297,487</b>	<b>100.0%</b>

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all properties owned at December 31, 2017. Excludes revenue of \$1,412 from sold properties.

## Forward-Looking Statements

This Annual Report on Form 10-K, including the documents incorporated by reference, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. When used in this annual report, the words “estimated”, “anticipated”, “expect”, “believe”, “intend” and similar expressions are intended to identify forward-looking statements. Forward-looking statements include discussions of strategy, plans, or intentions of management. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our anticipated growth strategies;
- Our intention to acquire additional properties and the timing of these acquisitions;
- Our intention to sell properties and the timing of these property sales;
- Our intention to re-lease vacant properties;
- Anticipated trends in our business, including trends in the market for long-term, net leases of freestanding, single-tenant properties; and
- Future expenditures for development projects.

Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. In particular, some of the factors that could cause actual results to differ materially are:

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- Competition;
- Fluctuating interest rates;
- Access to debt and equity capital markets;
- Continued volatility and uncertainty in the credit markets and broader financial markets;
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments, and potential damages from natural disasters;
- Impairments in the value of our real estate assets;
- Changes in the tax laws of the United States of America;
- The outcome of any legal proceedings to which we are a party or which may occur in the future; and
- Acts of terrorism and war.

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that this annual report was filed with the Securities and Exchange Commission, or SEC. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this annual report might not occur.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### GENERAL

Realty Income, The Monthly Dividend Company®, is an S&P 500 company dedicated to providing stockholders with dependable monthly dividends that increase over time. The company is structured as a real estate investment trust, or REIT, requiring it annually to distribute at least 90% of its taxable income (excluding net capital gains) in the form of dividends to its stockholders. The monthly dividends are supported by the cash flow generated from real estate owned under long-term, net lease agreements with regional and national commercial tenants. The company has in-house acquisition, portfolio management, asset management, real estate research, credit research, legal, finance and accounting, information technology and capital markets capabilities.

Realty Income was founded in 1969, and listed on the New York Stock Exchange (NYSE: O) in 1994. Over the past 49 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements. The company is a member of the S&P High Yield Dividend Aristocrats® index for having increased its dividend every year for more than 20 consecutive years.

At December 31, 2017, we owned a diversified portfolio:

- Of 5,172 properties;
- With an occupancy rate of 98.4%, or 5,089 properties leased and 83 properties available for lease;
- Leased to 249 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 89.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 17,320 square feet; approximately 12,060 square feet per retail property and 224,340 square feet per industrial property.

Of the 5,172 properties in the portfolio, 5,144, or 99.5%, are single-tenant properties, and the remaining are multi-tenant properties. At December 31, 2017, of the 5,144 single-tenant properties, 5,062 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 9.5 years.

### LIQUIDITY AND CAPITAL RESOURCES

#### Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure; however, we may issue additional preferred stock or debt securities. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were initially financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at all times and at terms that are acceptable to us.

Our primary cash obligations, for the current year and subsequent years, are included in the "Table of Obligations," which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our credit facility and periodically through public securities offerings.

#### Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At December 31, 2017, our total outstanding borrowings of senior unsecured notes and bonds, term loans, mortgages payable and credit facility borrowings were \$6.13 billion, or approximately 27.4% of our total market capitalization of \$22.36 billion.

We define our total market capitalization at December 31, 2017 as the sum of:

- Shares of our common stock outstanding of 284,213,685, plus total common units outstanding of 405,204, multiplied by the last reported sales price of our common stock on the NYSE of \$57.02 per share on December 31, 2017, or \$16.23 billion;
- Outstanding borrowings of \$110.0 million on our credit facility;
- Outstanding mortgages payable of \$320.3 million, excluding net mortgage premiums of \$5.9 million and deferred financing costs of \$236,000;
- Outstanding borrowings of \$445.9 million on our term loans, excluding deferred financing costs of \$580,000; and
- Outstanding senior unsecured notes and bonds of \$5.25 billion, excluding unamortized net original issuance premiums of \$14.3 million and deferred financing costs of \$34.1 million.

### **Universal Shelf Registration**

In December 2015, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in December 2018. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depository shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock, or depository shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

### **At-the-Market (ATM) Programs**

In September 2015, we established an “at-the-market” equity distribution program, or our prior ATM program, pursuant to which we were permitted to offer and sell up to 12,000,000 shares of common stock to, or through, a consortium of banks acting as our sales agents by means of ordinary brokers’ transactions on the NYSE at prevailing market prices or at negotiated prices. In October 2017, following the issuance and sale of the remaining shares under our prior ATM program, we established a new “at-the-market” equity distribution plan, or our new ATM program and, together with our prior ATM program, our ATM programs, pursuant to which we are permitted to offer and sell up to 17,000,000 additional shares of common stock. During 2017, we issued 10,914,088 shares and raised gross proceeds of \$621.7 million under our ATM programs. From the inception of our ATM programs through December 31, 2017, we have issued 14,407,529 shares authorized by our ATM programs and raised \$824.8 million.

### **Issuance of Common Stock**

In March 2017, we issued 11,850,000 shares of common stock. After underwriting discounts and other offering costs of \$29.8 million, the net proceeds of \$704.9 million were used to repay borrowings under our credit facility.

### **Dividend Reinvestment and Stock Purchase Plan**

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSP authorizes up to 26,000,000 common shares to be issued. Our DRSP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. During 2017, we issued 1,193,653 shares and raised approximately \$69.9 million under our DRSP, of which we issued 927,695 shares and raised \$54.7 million under the waiver approval process.

### **\$2.0 Billion Revolving Credit Facility**

We have a \$2.0 billion unsecured revolving credit facility, or our credit facility, with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a \$1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of December 31, 2017 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.85%, with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings were to change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2017, we had a borrowing capacity of \$1.89 billion available on our credit facility and an outstanding balance of \$110.0 million. The weighted average interest rate on borrowings outstanding at December 31, 2017, was 4.5% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2017, we were in compliance with these covenants. We expect to use our credit facility to acquire additional properties and for other general corporate purposes. Any additional borrowings will increase our exposure to interest rate risk.

We generally use our credit facility for the short-term financing of new property acquisitions. Thereafter, we generally seek to refinance those borrowings with the net proceeds of long-term or permanent financing, which may include the issuance of common stock, preferred stock or debt securities. We cannot assure you, however, that we will be able to obtain any such refinancing, or that market conditions prevailing at the time of the refinancing will enable us to issue equity or debt securities at acceptable terms. We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

### **Term Loans**

In December 2017, in conjunction with the acquisition of a portfolio of properties, we entered into a \$125.9 million promissory note, maturing in January 2018. Borrowings under this note bore interest at 1.52%. This note was paid in full at maturity.

In June 2015, in conjunction with entering into our credit facility, we entered into a \$250 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.90%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.62%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a \$70 million senior unsecured term loan with an initial maturity date of January 2018. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 1.10%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.05%. In January 2018, we entered into a six-month extension of this loan, which now matures in July 2018 and includes, at our option, two additional six-month extensions. Borrowing during the extension periods bear interest at the current one-month LIBOR, plus 0.90%. The interest rate swap terminated upon the initial maturity in January 2018.

### **Mortgage Debt**

As of December 31, 2017, we had \$320.3 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at December 31, 2017, we had net premiums totaling \$5.9 million on these mortgages and deferred financing costs of \$236,000. We expect to pay off the mortgages payable as soon as prepayment penalties have declined to a level that would make it economically feasible to do so. During 2017, we made \$139.7 million of principal payments, including the repayment of eight mortgages in full for \$133.5 million.



## Notes Outstanding

Our senior unsecured note and bond obligations consist of the following as of December 31, 2017, sorted by maturity date (dollars in millions):

2.000% notes, issued in October 2012 and due in January 2018	\$	350
5.750% notes, issued in June 2010 and due in January 2021		250
3.250% notes, \$450 issued in October 2012 and \$500 issued in December 2017, both due in October 2022		950
4.650% notes, issued in July 2013 and due in August 2023		750
3.875% notes, issued in June 2014 and due in July 2024		350
4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026		650
3.000% notes, issued in October 2016 and due in January 2027		600
3.650% notes, issued in December 2017 and due in January 2028		550
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035		250
4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047		550
Total principal amount		5,250
Unamortized net original issuance premiums and deferred financing costs		(20)
	<u>\$</u>	<u>5,230</u>

During the year ended December 31, 2017 we issued the following notes (dollars in millions):

Issuances	Date of Issuance	Maturity date	Principal amount issued	Public offering price	Effective yield to maturity
4.125% notes	March 2017	October 2026 <sup>(1)</sup>	\$ 400	102.98%	3.75%
4.650% notes	March 2017	March 2047	300	99.97%	4.65%
3.250% notes	December 2017	October 2022 <sup>(2)</sup>	500	101.77%	2.84%
3.650% notes	December 2017	January 2028	550	99.78%	3.68%
4.650% notes	December 2017	March 2047 <sup>(3)</sup>	250	105.43%	4.32%

<sup>(1)</sup> This issuance constitutes a further issuance of, and formed a single series with the senior notes due 2026 issued in September 2014.

<sup>(2)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2022 issued in October 2012.

<sup>(3)</sup> This issuance constituted a further issuance of, and formed a single series with the senior notes due 2047 issued in March 2017.

The net proceeds of \$1.3 billion from the December 2017 note offerings were used to redeem all \$550.0 million aggregate principal amount of our outstanding 2019 notes, including accrued and unpaid interest, and to repay borrowings outstanding under our \$2.0 billion revolving credit facility and, to the extent not used for those purposes, to fund the development and acquisitions of additional properties and for other general corporate purposes. The net proceeds of \$705.2 million from the March 2017 note offerings were used to repay borrowings outstanding under our credit facility to fund investment opportunities and for other general corporate purposes.

In December 2017, we completed the early redemption on all \$550.0 million of outstanding 6.75% notes due August 2019, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$42.4 million loss on extinguishment of debt, which represents \$0.15 on a diluted per common share basis.

In September 2017, we repaid our \$175.0 million of outstanding 5.375% notes, plus accrued and unpaid interest.

All of our outstanding notes and bonds have fixed interest rates and contain various covenants, with which we remained in compliance as of December 31, 2017. Additionally, interest on all of our senior note and bond obligations is paid semiannually.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our senior notes and bonds. These calculations, which are not based on U.S. GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our senior notes and bonds as well as to disclose our current compliance with such covenants, and are not measures of our liquidity or performance. The actual amounts as of December 31, 2017 are:

<b>Note Covenants</b>	<b>Required</b>	<b>Actual</b>
Limitation on incurrence of total debt	≤ 60% of adjusted assets	40.6%
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	2.2%
Debt service coverage (trailing 12 months) <sup>(1)</sup>	≥ 1.5 x	4.8x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	249.6%

<sup>(1)</sup> Our debt service coverage ratio is calculated on a pro forma basis for the preceding four-quarter period on the assumptions that: (i) the incurrence of any Debt (as defined in the covenants) incurred by us since the first day of such four-quarter period and the application of the proceeds therefrom (including to refinance other Debt since the first day of such four-quarter period), (ii) the repayment or retirement of any of our Debt since the first day of such four-quarter period, and (iii) any acquisition or disposition by us of any asset or group since the first day of such four quarters had in each case occurred on January 1, 2017, and subject to certain additional adjustments. Such pro forma ratio has been prepared on the basis required by that debt service covenant, reflects various estimates and assumptions and is subject to other uncertainties, and therefore does not purport to reflect what our actual debt service coverage ratio would have been had transactions referred to in clauses (i), (ii) and (iii) of the preceding sentence occurred as of January 1, 2017, nor does it purport to reflect our debt service coverage ratio for any future period. Our fixed charge coverage ratio is calculated in exactly the same manner as our debt service coverage ratio, except that preferred stock dividends are also added to the denominator; since we redeemed our Class F preferred dividends in April 2017, our fixed charge coverage ratio is equivalent to our debt service coverage ratio. The following is our calculation of debt service and fixed charge coverage at December 31, 2017 (in thousands, for trailing twelve months):

Net income attributable to the Company	\$ 318,798
Plus: interest expense <sup>(1)</sup>	280,981
Plus: provision for taxes	6,044
Plus: depreciation and amortization	498,788
Plus: provisions for impairment	14,751
Plus: pro forma adjustments	49,400
Less: gain on sales of real estate	<u>(40,898)</u>
Income available for debt service, as defined	<u>\$ 1,127,864</u>
Total pro forma debt service charge	<u>\$ 236,957</u>
Debt service and fixed charge coverage ratio	4.8

<sup>(1)</sup> Interest expense includes a loss of \$42.4 million related to the extinguishment of debt.

## **Cash Reserves**

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2017, we had cash and cash equivalents totaling \$6.9 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity is sufficient to meet our liquidity needs for the next twelve months. We intend, however, to use permanent or long-term capital to fund property acquisitions and to repay future borrowings under our credit facility.

## **Credit Agency Ratings**

The borrowing interest rates under our credit facility are based upon our ratings assigned by credit rating agencies. As of December 31, 2017, we were assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Moody's Investors Service has assigned a rating of A3 with a "stable" outlook, Standard & Poor's Ratings Group has assigned a rating of BBB+ with a "positive" outlook, and Fitch Ratings has assigned a rating of BBB+ with a "stable" outlook.

Based on our ratings as of December 31, 2017, the facility interest rate as of December 31, 2017 was LIBOR, plus 0.85% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. Our credit facility provides that the interest rate can range between: (i) LIBOR, plus 1.55% if our credit rating is lower than BBB-/Baa3 or unrated and (ii) LIBOR, plus 0.85% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.30% for a rating lower than BBB-/Baa3 or unrated, and (ii) 0.125% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. If our credit ratings or ratings outlook change, our cost to obtain debt financing could increase or decrease. The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that our ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant.

Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

### Table of Obligations

The following table summarizes the maturity of each of our obligations as of December 31, 2017 (dollars in millions):

Year of Maturity	Credit Facility <sup>(1)</sup>	Notes and Bonds <sup>(2)</sup>	Term Loan <sup>(3)</sup>	Mortgages Payable <sup>(4)</sup>	Interest <sup>(5)</sup>	Ground Leases Paid by Realty Income <sup>(6)</sup>	Ground Leases Paid by Our Tenants <sup>(7)</sup>	Other <sup>(8)</sup>	Totals
2018	\$ -	\$ 350.0	\$ 195.9	\$ 21.9	\$ 217.7	\$ 1.7	\$ 13.5	\$ 78.2	\$ 878.9
2019	110.0	-	-	20.7	224.3	1.5	13.4	-	369.9
2020	-	-	250.0	82.4	217.2	1.4	13.2	-	564.2
2021	-	250.0	-	67.0	199.9	1.2	12.9	-	531.0
2022	-	950.0	-	109.7	189.2	1.2	12.8	-	1,262.9
Thereafter	-	3,700.0	-	18.6	1,175.7	20.9	94.1	-	5,009.3
<b>Totals</b>	<b>\$ 110.0</b>	<b>\$ 5,250.0</b>	<b>\$ 445.9</b>	<b>\$ 320.3</b>	<b>\$ 2,224.0</b>	<b>\$ 27.9</b>	<b>\$ 159.9</b>	<b>\$ 78.2</b>	<b>\$ 8,616.2</b>

<sup>(1)</sup> The initial term of the credit facility expires in June 2019 and includes, at our option, two six-month extensions.

<sup>(2)</sup> Excludes non-cash net original issuance premiums recorded on notes payable. The unamortized balance of the net original issuance premiums at December 31, 2017 is \$14.3 million. Also excludes deferred financing costs of \$34.1 million.

<sup>(3)</sup> Excludes deferred financing costs of \$580,000.

<sup>(4)</sup> Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums at December 31, 2017, is \$5.9 million. Also excludes deferred financing costs of \$236,000.

<sup>(5)</sup> Interest on the term loans, notes, bonds, mortgages payable, and credit facility has been calculated based on outstanding balances as of December 31, 2017 through their respective maturity dates.

<sup>(6)</sup> Realty Income currently pays the ground lessors directly for the rent under the ground leases.

<sup>(7)</sup> Our tenants, who are generally sub-tenants under ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.

<sup>(8)</sup> "Other" consists of \$64.4 million of commitments under construction contracts and \$13.8 million of commitments for tenant improvements and leasing costs.

Our credit facility, term loans, and notes payable obligations are unsecured. Accordingly, we have not pledged any assets as collateral for these obligations.

### No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts.

### Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations, and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly.

### Acquisitions During 2017

During 2017, we invested \$1.52 billion in 303 new properties and properties under development or expansion, with an estimated initial weighted average contractual lease rate of 6.4%. The 303 new properties and properties under development or expansion are located in 40 states, will contain approximately 7.8 million leasable square feet, and are 100% leased with a weighted average lease term of 14.4 years. The tenants occupying the new properties operate in 23 industries and the property types are 94.5% retail and 5.5% industrial, based on rental revenue. During 2017, none of our real estate investments caused any one tenant to be 10% or more of our total assets at December 31, 2017.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does

not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.52 billion we invested during 2017, \$21.2 million was invested in 17 properties under development or expansion with an estimated initial weighted average contractual lease rate of 6.9%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

## **Portfolio Discussion**

### Leasing Results

At December 31, 2017, we had 83 properties available for lease out of 5,172 properties in our portfolio, which represents a 98.4% occupancy rate based on the number of properties in our portfolio. Since December 31, 2016, when we reported 84 properties available for lease out of 4,944 and a 98.3% occupancy rate, we:

- Had 297 lease expirations (including leases rejected in bankruptcy);
- Re-leased 259 properties; and
- Sold 39 vacant properties.

Of the 259 properties re-leased during 2017, 235 properties were re-leased to existing tenants, nine were re-leased to new tenants without vacancy, and 15 were re-leased to new tenants after a period of vacancy. The annual rent on these 259 leases was \$43.18 million, as compared to the previous rent on these same properties of \$40.92 million, which represents a rent recapture rate of 105.5% on the properties re-leased during 2017.

As part of our re-leasing costs, we pay leasing commissions to unrelated, 3<sup>rd</sup> party real estate brokers consistent with the commercial real estate industry standard, and sometimes provide tenant rent concessions. We do not consider the collective impact of the leasing commissions or tenant rent concessions to be material to our financial position or results of operations.

At December 31, 2017, our average annualized rental revenue was approximately \$13.77 per square foot on the 5,089 leased properties in our portfolio. At December 31, 2017, we classified nine properties with a carrying amount of \$6.7 million as held for sale on our balance sheet. The expected sale of these properties does not represent a strategic shift that will have a major effect on our operations and financial results and is consistent with our active disposition efforts to further enhance our real estate portfolio and maximize portfolio returns.

### Investments in Existing Properties

In 2017, we capitalized costs of \$12.7 million on existing properties in our portfolio, consisting of \$1.6 million for re-leasing costs, \$912,000 for recurring capital expenditures and \$10.2 million for non-recurring building improvements. In 2016, we capitalized costs of \$16.3 million on existing properties in our portfolio, consisting of \$797,000 for re-leasing costs, \$679,000 for recurring capital expenditures, and \$14.9 million for non-recurring building improvements.

The majority of our building improvements relate to roof repairs, HVAC improvements, and parking lot resurfacing and replacements. The amounts of our capital expenditures can vary significantly, depending on the rental market, tenant credit worthiness, the lease term and the willingness of tenants to pay higher rents over the terms of the leases.

We define recurring capital expenditures as mandatory and repetitive landlord capital expenditure obligations that have a limited useful life. We define non-recurring capital expenditures as property improvements where we invest additional capital that extend the useful life of the property.

## **Increases in Monthly Dividends to Common Stockholders**

We have continued our 49-year policy of paying monthly dividends. In addition, we increased the dividend five times during 2017 and twice in 2018. As of February 2018, we have paid 81 consecutive quarterly dividend increases and increased the dividend 95 times since our listing on the NYSE in 1994.

	Month Declared	Month Paid	Dividend per share	Increase per share
<b>2017 Dividend increases</b>				
1st increase	Dec 2016	Jan 2017	0.2025 \$	0.0005
2nd increase	Jan 2017	Feb 2017	0.2105 \$	0.0080
3rd increase	Mar 2017	Apr 2017	0.2110 \$	0.0005
4th increase	Jun 2017	Jul 2017	0.2115 \$	0.0005
5th increase	Sep 2017	Oct 2017	0.2120 \$	0.0005
<b>2018 Dividend increases</b>				
1st increase	Dec 2017	Jan 2018	0.2125 \$	0.0005
2nd increase	Jan 2018	Feb 2018	0.2190 \$	0.0065

The dividends paid per share during 2017 totaled approximately \$2.527, as compared to approximately \$2.392 during 2016, an increase of \$0.135, or 5.6%.

The monthly dividend of \$0.219 per share represents a current annualized dividend of \$2.628 per share, and an annualized dividend yield of approximately 4.6% based on the last reported sale price of our common stock on the NYSE of \$57.02 on December 31, 2017. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

## RESULTS OF OPERATIONS

### Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP, and are the basis for our discussion and analysis of financial condition and results of operations. Preparing our consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. We believe that we have made these estimates and assumptions in an appropriate manner and in a way that accurately reflects our financial condition. We continually test and evaluate these estimates and assumptions using our historical knowledge of the business, as well as other factors, to ensure that they are reasonable for reporting purposes. However, actual results may differ from these estimates and assumptions. This summary should be read in conjunction with the more complete discussion of our accounting policies and procedures included in note 2 to our consolidated financial statements.

In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting policies. Management must make significant assumptions in determining the fair value of assets acquired and liabilities assumed. When acquiring a property for investment purposes, we typically allocate the cost of real estate acquired, inclusive of transaction costs, to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their relative estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases, the value of in-place leases. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and is often based upon the expected future cash flows of the property and various characteristics of the market where the property is located. In addition, any assumed mortgages receivable or payable are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash flows using applicable interest rates that have been adjusted for factors, such as industry type, tenant investment grade, maturity date, and comparable borrowings for similar assets. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

Another significant judgment must be made as to if, and when, impairment losses should be taken on our properties when events or a change in circumstances indicate that the carrying amount of the asset may not be recoverable. A provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value of the property. Key inputs that we utilize in this analysis include projected rental rates, estimated holding periods, historical sales and releases, capital expenditures, and property sales capitalization rates. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheets. Our strategy of primarily holding properties, long-term, directly decreases the likelihood of their carrying values not being recoverable, thus

requiring the recognition of an impairment. However, if our strategy, or one or more of the above assumptions were to change in the future, an impairment may need to be recognized. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment, they could have a material impact on our results of operations.

***The following is a comparison of our results of operations for the years ended December 31, 2017, 2016 and 2015.***

### **Total Revenue**

The following summarizes our total revenue (dollars in thousands):

	2017	2016	2015	Change in Dollars	
				2017 versus 2016	2016 versus 2015
REVENUE					
Rental	\$ 1,166,224	\$ 1,057,413	\$ 976,865	\$ 108,811	\$ 80,548
Tenant reimbursements	46,082	43,104	42,015	2,978	1,089
Other	3,462	2,655	4,405	807	(1,750)
Total revenue	\$ 1,215,768	\$ 1,103,172	\$ 1,023,285	\$ 112,596	\$ 79,887

### **Rental Revenue**

The increase in rental revenue in 2017 compared to 2016 is primarily attributable to:

- The 287 properties (7.2 million square feet) we acquired in 2017, which generated \$35.8 million of rent in 2017;
- The 475 properties (7.6 million square feet) we acquired in 2016, which generated \$114.4 million of rent in 2017, compared to \$39.7 million in 2016, an increase of \$74.7 million;
- Same store rents generated on 4,254 properties (71.1 million square feet) during 2017 and 2016, increased by \$9.8 million, or 1.0%, to \$973.1 million from \$963.3 million; partially offset by
- A net decrease in straight-line rent and other non-cash adjustments to rent of \$3.0 million in 2017 as compared to 2016; and
- A net decrease of \$7.2 million relating to properties sold in 2017 and during 2016; and
- A net decrease of \$1.3 million relating to the aggregate of (i) rental revenue from properties (147 properties comprising 2.9 million square feet) that were available for lease during part of 2017 or 2016, (ii) rental revenue for 9 properties under development, and (iii) lease termination settlements. In aggregate, the revenues for these items totaled \$26.6 million in 2017, compared to \$28.0 million in 2016.

The increase in rental revenue in 2016 compared to 2015 is primarily attributable to:

- The 475 properties (7.6 million square feet) we acquired in 2016, which generated \$39.7 million of rent in 2016;
- The 254 properties (5.6 million square feet) we acquired in 2015, which generated \$80.3 million of rent in 2016, compared to \$41.9 million in 2015, an increase of \$38.4 million;
- Same store rents generated on 4,045 properties (66.5 million square feet) during 2016 and 2015, increased by \$10.15 million, or 1.2%, to \$888.51 million from \$878.36 million; and
- A net increase in straight-line rent and other non-cash adjustments to rent of \$959,000 in 2016 as compared to 2015; partially offset by
- A net decrease of \$7.1 million relating to properties sold in 2016 and during 2015; and
- A net decrease of \$1.6 million relating to the aggregate of (i) rental revenue from properties (131 properties comprising 1.5 million square feet) that were available for lease during part of 2016 or 2015, (ii) rental revenue for 24 properties under development, and (iii) lease termination settlements. In aggregate, the revenues for these items totaled \$33.3 million in 2016, compared to \$34.9 million in 2015.

For purposes of determining the same store rent property pool, we include all properties that were owned for the entire year-to-date period, for both the current and prior year, except for properties during the current or prior year that; (i) were vacant at any time, (ii) were under development or redevelopment, or (iii) were involved in eminent



domain and rent was reduced. Each of the exclusions from the same store pool are separately addressed within the applicable sentences above, explaining the changes in rental revenue for the period.

Of the 5,172 properties in the portfolio at December 31, 2017, 5,144, or 99.5%, are single-tenant properties and the remaining are multi-tenant properties. Of the 5,144 single-tenant properties, 5,062, or 98.4%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 9.5 years at December 31, 2017. Of our 5,062 leased single-tenant properties, 4,468 or 88.3% were under leases that provide for increases in rents through:

- Base rent increases tied to a consumer price index (typically subject to ceilings);
- Percentage rent based on a percentage of the tenants' gross sales;
- Fixed increases; or
- A combination of two or more of the above rent provisions.

Percentage rent, which is included in rental revenue, was \$6.1 million in 2017, \$5.3 million in 2016, and \$4.5 million in 2015. Percentage rent in 2017 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2018.

Our portfolio of real estate, leased primarily to regional and national tenants under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2017, our portfolio of 5,172 properties was 98.4% leased with 83 properties available for lease, as compared to 98.3% leased, with 84 properties available for lease at December 31, 2016. It has been our experience that approximately 1% to 4% of our property portfolio will be unleased at any given time; however, it is possible that the number of properties available for lease could exceed these levels in the future.

#### Tenant Reimbursements

A number of our leases provide for contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses. The increase in tenant reimbursements in the years presented is primarily due to our increase in acquisitions.

#### Other Revenue

The decrease in other revenue in 2016 compared to 2015 was primarily attributed to a large amount of proceeds received related to condemnations in 2015.

#### Total Expenses

The following summarizes our total expenses (dollars in thousands):

	2017	2016	2015	Change in Dollars		
				2017 versus 2016	2016 versus 2015	
<b>EXPENSES</b>						
Depreciation and amortization	\$ 498,788	\$ 449,943	\$ 409,215	\$ 48,845	\$ 40,728	
Interest	247,413	219,974	233,079	27,439	(13,105)	
General and administrative	58,446	51,966	49,298	6,480	2,668	
Property (excluding reimbursable)	23,398	19,761	13,337	3,637	6,424	
Property - reimbursable	46,082	43,104	42,015	2,978	1,089	
Income taxes	6,044	3,262	3,169	2,782	93	
Provisions for impairment	14,751	20,664	10,560	(5,913)	10,104	
<b>Total expenses</b>	<b>\$ 894,922</b>	<b>\$ 808,674</b>	<b>\$ 760,673</b>	<b>\$ 86,248</b>	<b>\$ 48,001</b>	

<sup>(1)</sup> Excludes tenant reimbursements revenue.

## Depreciation and Amortization

The increase in depreciation and amortization in 2017 and 2016 was primarily due to the acquisition of properties in 2016 and 2017, which was partially offset by property sales in those same periods. As discussed in the sections entitled "Funds from Operations Available to Common Stockholders (FFO)" and "Adjusted Funds from Operations Available to Common Stockholders (AFFO)," depreciation and amortization is a non-cash item that is added back to net income available to common stockholders for our calculation of FFO and AFFO.

## Interest Expense

The following is a summary of the components of our interest expense (dollars in thousands):

	2017	2016	2015
Interest on our credit facility, term loans, notes, mortgages and interest rate swaps	\$ 237,165	\$ 213,540	\$ 226,207
Credit facility commitment fees	2,999	3,050	2,854
Amortization of credit facility origination costs and deferred financing costs	8,859	8,596	8,741
(Gain) loss on interest rate swaps	(3,250)	(1,639)	3,043
Dividend on preferred shares subject to redemption	2,257	-	-
Amortization of net mortgage premiums	(466)	(3,414)	(7,482)
Capital lease obligation	310	310	310
Interest capitalized	(461)	(469)	(594)
Interest expense	\$ 247,413	\$ 219,974	\$ 233,079

## Credit facility, term loans, mortgages and notes

Average outstanding balances (dollars in thousands)	\$ 5,877,862	\$ 5,081,663	\$ 5,030,532
Average interest rates	3.99%	4.11%	4.43%

The increase in interest expense from 2016 to 2017 is primarily due to the March 2017 issuance of our 2047 notes and further issuance of our 2026 notes and, to a lesser extent, the December 2017 issuance of our 2028 notes and further issuance of our 2022 notes and 2047 notes. This increase was partially offset by lower outstanding debt balances on mortgages payable as a result of the payoff of mortgages in 2016 and 2017.

The decrease in interest expense from 2015 to 2016 was primarily due to lower outstanding debt balances on our notes payable and mortgages payable, resulting from the payoff of \$150.0 million of our 2015 Notes during November 2015 and \$275.0 million of our 2016 notes during September 2016, as well as the payoff of mortgages throughout 2015 and 2016. This decrease was slightly offset by an increase in interest expense related to the issuance of a \$600.0 million note in October 2016.

Additionally, each quarter we adjust the carrying value of our interest rate swaps to fair value. Changes in the fair value of our interest rate swaps are recorded directly to interest expense.

At December 31, 2017, the weighted average interest rate on our:

- Credit facility outstanding borrowings of \$110.0 million was 4.5%;
- Term loans outstanding of \$445.9 million (excluding deferred financing costs of \$580,000) was 2.2%;
- Mortgages payable of \$320.3 million (excluding net premiums totaling \$5.9 million and deferred financing costs of \$236,000 on these mortgages) was 5.0%;
- Notes and bonds payable of \$5.25 billion (excluding unamortized net original issuance premiums of \$14.3 million and deferred financing costs of \$34.1 million) was 3.9%; and
- Combined outstanding notes, bonds, mortgages, term loan and credit facility borrowings of \$6.13 billion was 3.9%.

## General and Administrative Expenses

General and administrative expenses increased during 2017 and 2016 primarily due to higher compensation costs and higher headcount. In January 2018, we had 152 employees, as compared to 146 employees in January 2017 and 132 employees in January 2016. General and administrative expense as a percentage of total revenue have remained relatively consistent during the years ended December 31, 2017, 2016, and 2015 at 5.0%, 4.9%, and 5.0%, respectively.

### **Property Expenses (Excluding Reimbursable)**

Property expenses consist of costs associated with unleased properties, non-net-leased properties and general portfolio expenses, as well as contractually obligated reimbursable costs from tenants for recoverable real estate taxes and operating expenses. Expenses related to unleased properties and non-net-leased properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections, bad debt expense and legal fees. General portfolio costs include, but are not limited to, insurance, legal, property inspections, and title search fees. At December 31, 2017, 83 properties were available for lease, as compared to 84 at December 31, 2016 and 71 at December 31, 2015. We also incurred higher gross property expenses as a result of property taxes and bad debt expense on vacant properties. Property expenses as a percentage of total revenue have remained relatively consistent during the years ended December 31, 2017, 2016, and 2015 at 2.0%, 1.9%, and 1.4%, respectively.

### **Property Expenses - Reimbursable**

The increase in gross property expenses in both 2017 and 2016 was primarily attributable to the increased portfolio size, which contributed to higher contractually obligated reimbursements primarily due to our acquisitions in each year.

### **Income Taxes**

Income taxes are for city and state income and franchise taxes paid by us and our subsidiaries. The increase from 2016 to 2017 is primarily due to increased activity in our taxable REIT subsidiary.

### **Provisions for Impairment**

In 2017, we recorded total provisions for impairment of \$14.8 million on three properties classified as held for sale, five properties classified as held for investment, and 18 sold properties. In 2016, we recorded total provisions for impairment of \$20.7 million on four properties classified as held for investment and 35 sold properties. In 2015, we recorded total provisions for impairment of \$10.6 million on two properties classified as held for investment, 12 sold properties, and one property disposed of other than by sale.

### **Gain on Sales of Real Estate**

During 2017, we sold 59 properties for \$167.0 million, which resulted in a gain of \$40.9 million.

During 2016, we sold 77 properties for \$90.5 million, which resulted in a gain of \$22.0 million. Additionally, during 2016 we sold our former corporate headquarters building for \$8.6 million.

During 2015, we sold 38 properties for \$65.8 million, which resulted in a gain of \$22.2 million.

At December 31, 2017, we classified real estate with a carrying amount of \$6.7 million as held for sale on our balance sheet. In 2018, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate \$75 to \$100 million in yet to be identified property sales for all of 2018. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months at our estimated values or be able to invest the property sale proceeds in new properties.

### **Loss on Extinguishment of Debt**

In December 2017, we completed the early redemption on all \$550.0 million of outstanding 6.75% notes due August 2019, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$42.4 million loss on extinguishment of debt, which represents \$0.15 on a diluted per common share basis.

### **Preferred Stock Dividends**

Preferred stock dividends totaled \$3.9 million in 2017. Additionally, in April 2017, we paid a final dividend on our Class F preferred stock of \$1.7 million, which was recorded to interest expense. Preferred stock dividends totaled \$27.1 million in 2016 and 2015.

### **Excess of Redemption Value over Carrying Value of Preferred Shares Redeemed**

When we issued the irrevocable notice of redemption on our Class F preferred stock in March 2017, we incurred a non-cash charge of \$13.4 million for the excess of redemption value over the carrying value. The non-cash charge represents the Class F preferred stock original issuance cost that was paid in 2012.

### Net Income Available to Common Stockholders

Net income available to common stockholders was \$301.5 million in 2017, compared to \$288.5 million in 2016, an increase of \$13.0 million. On a diluted per common share basis, net income was \$1.10 in 2017, as compared to \$1.13 in 2016, a decrease of \$0.03, or 2.7%. Net income available to common stockholders was \$256.7 million in 2015, or \$1.09 on a diluted per common share basis. Net income was impacted by a loss of \$42.4 million, or \$0.15 per share, loss on extinguishment of debt upon the early redemption on all \$550.0 million of our outstanding 6.75% notes due August 2019 during December 2017. Net income was also impacted by a non-cash charge of \$13.4 million, or \$0.05 per share, for the redemption of the 6.625% Monthly Income Class F Preferred Stock that was redeemed in April 2017. This charge is based on the excess of redemption value over the carrying value of the 6.625% Monthly Income Class F Preferred Stock that represents the original issuance cost that we paid in 2012.

The calculation to determine net income available to common stockholders includes impairments, gains from the sale of properties and/or fair value adjustments on our interest rate swaps. These items vary from period to period based on the timing of property sales and the interest rate environment, and can significantly impact net income available to common stockholders.

### Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

Adjusted EBITDA, a non-GAAP financial measure, means, for the most recent quarter, earnings (net income) before (i) interest expense, including non-cash loss (gain) on swaps, (ii) income and franchise taxes, (iii) depreciation and amortization, (iv) impairment losses, and (v) gain on sales of real estate. Our Adjusted EBITDA may not be comparable to Adjusted EBITDA reported by other companies that interpret the definitions of Adjusted EBITDA differently than we do. Management believes Adjusted EBITDA to be a meaningful measure of a REIT's performance because it is widely followed by industry analysts, lenders and investors. Management also believes the use of an annualized quarterly Adjusted EBITDA metric is meaningful because it represents the company's current earnings run rate for the period presented. The ratio of our total debt to our annualized quarterly Adjusted EBITDA is also used to determine vesting of performance share awards granted to our executive officers. Adjusted EBITDA should be considered along with, but not as an alternative to net income as a measure of our operating performance. Our ratio of debt to Adjusted EBITDA, which is used by management as a measure of leverage, is calculated by annualizing quarterly Adjusted EBITDA and then dividing by our total debt per the consolidated balance sheet.

Dollars in thousands	2017	2016	2015
Net income	\$ 60,952	\$ 92,724	\$ 83,111
Interest <sup>(1)</sup>	103,903	48,935	51,982
Income taxes	3,424	449	721
Depreciation and amortization	127,033	117,752	105,739
Impairment loss	6,679	3,709	1,378
Gain on sales of real estate	(23,208)	(6,696)	(5,126)
Quarterly Adjusted EBITDA	\$ 278,783	\$ 256,873	\$ 237,805
Annualized Adjusted EBITDA <sup>(2)</sup>	\$ 1,115,132	\$ 1,027,492	\$ 951,220
Total Debt	\$ 6,111,471	\$ 5,839,605	\$ 4,820,995
Debt/Adjusted EBITDA	5.5	5.7	5.1

<sup>(1)</sup> Interest expense includes a loss on extinguishment of debt of \$42.4 million for the year ended December 31, 2017.

<sup>(2)</sup> We calculate Annualized Adjusted EBITDA by multiplying the Quarterly Adjusted EBITDA by four.

## FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

In 2017, our FFO increased by \$37.3 million, or 5.1%, to \$772.7 million, as compared to \$735.4 million in 2016. On a diluted per common share basis, FFO was \$2.82 in 2017, as compared to \$2.88 in 2016, a decrease of \$0.06, or 2.1%. In 2015, FFO was \$652.4 million, or \$2.77 on a diluted per common share basis. Our FFO in 2017 was impacted by a loss of \$42.4 million, or \$0.15 per share, on extinguishment of debt upon the early redemption on all \$550.0 million of our outstanding 6.75% notes due August 2019 during December 2017. FFO was also impacted by a non-cash redemption charge of \$13.4 million, or \$0.05 per share, upon the redemption of the 6.625% Monthly Income Class F Preferred Stock that was redeemed in April 2017. This charge is based on the excess of redemption value over the carrying value of the 6.625% Monthly Income Class F Preferred Stock that represents the original issuance cost that we paid in 2012. FFO for 2017 also includes the early redemption on all \$550.0 million of our outstanding 6.75% notes due August 15, 2019, plus accrued and unpaid interest.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net income available to common stockholders	\$ 301,514	\$ 288,491	\$ 256,686
Depreciation and amortization	498,788	449,943	409,215
Depreciation of furniture, fixtures and equipment	(557)	(747)	(811)
Provisions for impairment on investment properties	14,751	20,664	10,560
Gain on sales of investment properties	(40,898)	(21,979)	(22,243)
FFO adjustments allocable to noncontrolling interests	(933)	(977)	(970)
FFO available to common stockholders	\$ 772,665	\$ 735,395	\$ 652,437
FFO allocable to dilutive noncontrolling interests	877	1,435	-
Diluted FFO <sup>(1)</sup>	\$ 773,542	\$ 736,830	\$ 652,437
FFO per common share:			
Basic	\$ 2.83	\$ 2.88	\$ 2.77
Diluted	\$ 2.82	\$ 2.88	\$ 2.77
Distributions paid to common stockholders	\$ 689,294	\$ 610,516	\$ 533,238
FFO available to common stockholders in excess of distributions paid to common stockholders	\$ 83,371	\$ 124,879	\$ 119,199
Weighted average number of common shares used for computation per share:			
Basic	273,465,680	255,066,500	235,767,932
Diluted <sup>(1)</sup>	273,936,752	255,822,679	235,891,368

<sup>(1)</sup> Diluted FFO for 2017 and 2016 includes FFO allocable to dilutive noncontrolling interests. Noncontrolling interests were anti-dilutive for 2015.

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trust's definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, plus impairments of depreciable real estate assets, and reduced by gains on property sales.

We consider FFO to be an appropriate supplemental measure of a REIT's operating performance as it is based on a net income analysis of property portfolio performance that adds back items such as depreciation and impairments for FFO. The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative. The use of FFO is recommended by the REIT industry as a supplemental performance measure. In addition, FFO is used as a measure of our compliance with the financial covenants of our credit facility.

## ADJUSTED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (AFFO)

In 2017, our AFFO increased by \$102.2 million, or 13.9%, to \$838.6 million, as compared to \$736.4 million in 2016. On a diluted per common share basis, AFFO was \$3.06 in 2017, as compared to \$2.88 in 2016, an increase of \$0.18, or 6.3%. In 2015, AFFO was \$647.0 million, or \$2.74 on a diluted per common share basis. We consider AFFO to be an appropriate supplemental measure of our performance. Most companies in our industry use a similar measurement, but they may use the term "CAD" (for Cash Available for Distribution), "FAD" (for Funds Available for Distribution) or other terms.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO and AFFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

	2017	2016	2015
Net income available to common stockholders	\$ 301,514	\$ 288,491	\$ 256,686
Cumulative adjustments to calculate FFO <sup>(1)</sup>	471,151	446,904	395,751
FFO available to common stockholders	772,665	735,395	652,437
Loss (gain) on extinguishment of debt	42,426	-	(504)
Excess of redemption value over carrying value of Class F preferred share redemption	13,373	-	-
Amortization of share-based compensation	13,946	12,007	10,391
Amortization of deferred financing costs <sup>(2)</sup>	5,326	5,352	5,294
Amortization of net mortgage premiums	(466)	(3,414)	(6,978)
(Gain) loss on interest rate swaps	(3,250)	(1,639)	3,043
Leasing costs and commissions	(1,575)	(797)	(748)
Recurring capital expenditures	(912)	(679)	(7,606)
Straight-line rent	(17,191)	(19,451)	(16,468)
Amortization of above and below-market leases	14,013	9,297	7,861
Other adjustments <sup>(3)</sup>	283	303	306
<b>Total AFFO available to common stockholders</b>	<b>\$ 838,638</b>	<b>\$ 736,374</b>	<b>\$ 647,028</b>
AFFO allocable to dilutive noncontrolling interests	1,178	1,455	-
<b>Diluted AFFO<sup>(4)</sup></b>	<b>\$ 839,816</b>	<b>\$ 737,829</b>	<b>\$ 647,028</b>
AFFO per common share			
Basic	\$ 3.07	\$ 2.89	\$ 2.74
Diluted	\$ 3.06	\$ 2.88	\$ 2.74
Distributions paid to common stockholders	\$ 689,294	\$ 610,516	\$ 533,238
AFFO available to common stockholders in excess of distributions paid to common stockholders	\$ 149,344	\$ 125,858	\$ 113,790
Weighted average number of common shares used for computation per share:			
Basic	273,465,680	255,066,500	235,767,932
Diluted	274,024,934	255,822,679	235,891,368

<sup>(1)</sup> See reconciling items for FFO presented under "Funds from Operations Available to Common Stockholders (FFO)."

<sup>(2)</sup> Includes the amortization of costs incurred and capitalized upon issuance of our notes payable, assumption of our mortgages payable and upon issuance of our term loans. The deferred financing costs are being amortized over the lives of the respective mortgages and term loans. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

<sup>(3)</sup> Includes adjustments allocable to both non-controlling interests and capital lease obligations.

<sup>(4)</sup> Diluted AFFO for 2017 and 2016 includes FFO allocable to dilutive noncontrolling interests. Noncontrolling interests were anti-dilutive for 2015.



We believe the non-GAAP financial measure AFFO provides useful information to investors because it is a widely accepted industry measure of the operating performance of real estate companies that is used by industry analysts and investors who look at and compare those companies. In particular, AFFO provides an additional measure to compare the operating performance of different REITs without having to account for differing depreciation assumptions and other unique revenue and expense items which are not pertinent to measuring a particular company's on-going operating performance. Therefore, we believe that AFFO is an appropriate supplemental performance metric, and that the most appropriate GAAP performance metric to which AFFO should be reconciled is net income available to common stockholders.

Presentation of the information regarding FFO and AFFO is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO and AFFO in the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO and AFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as alternatives to net income as an indication of our performance. FFO and AFFO should not be considered as alternatives to reviewing our cash flows from operating, investing, and financing activities. In addition, FFO and AFFO should not be considered as measures of liquidity, our ability to make cash distributions, or our ability to pay interest payments.

### **IMPACT OF INFLATION**

Tenant leases generally provide for limited increases in rent as a result of increases in the tenants' sales volumes, increases in the consumer price index (typically subject to ceilings), or fixed increases. We expect that inflation will cause these lease provisions to result in rent increases over time. During times when inflation is greater than increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation.

Moreover, our use of net lease agreements tends to reduce our exposure to rising property expenses due to inflation because the tenant is responsible for property expenses. Inflation and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue.

### **IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

For information on the impact of recent accounting pronouncements on our business, see note 2 of the Notes to the Consolidated Financial Statements.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to interest rate changes primarily as a result of our credit facility, term loans, mortgages payable, and long-term notes and bonds used to maintain liquidity and expand our real estate investment portfolio and operations. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower our overall borrowing costs. To achieve these objectives we issue long-term notes and bonds, primarily at fixed rates.

In order to mitigate and manage the effects of interest rate risks on our operations, we may utilize a variety of financial instruments, including interest rate swaps and caps. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks, including counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. To limit counterparty credit risk we will seek to enter into such agreements with major financial institutions with favorable credit ratings. There can be no assurance that we will be able to adequately protect against the foregoing risks or realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging activities. We do not enter into any derivative transactions for speculative or trading purposes.

The following table presents by year of expected maturity, the principal amounts, average interest rates and estimated fair values of our fixed and variable rate debt as of December 31, 2017. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

**Expected Maturity Data**

<b>Year of maturity</b>	<b>Fixed rate debt</b>	<b>Weighted average rate on fixed rate debt</b>	<b>Variable rate debt</b>	<b>Weighted average rate on variable rate debt</b>
2018	\$ 491.2	1.99%	\$ 76.6	2.80 %
2019	4.5	5.59	126.2	4.90
2020	82.2	4.99	250.2	3.11
2021	310.1	5.72	6.9	4.60
2022	1,059.7	3.43	-	-
Thereafter	3,718.6	4.16	-	-
<b>Totals <sup>(1)</sup></b>	<b>\$ 5,666.3</b>	<b>3.93%</b>	<b>\$ 459.9</b>	<b>3.57 %</b>
<b>Fair Value <sup>(2)</sup></b>	<b>\$ 5,905.2</b>		<b>\$ 460.2</b>	

(1) Excludes net premiums recorded on mortgages payable, net original issuance premiums recorded on notes payable and deferred financing costs on mortgages payable, notes payable, and term loans. At December 31, 2017, the unamortized balance of net premiums on mortgages payable is \$5.9 million, the unamortized balance of net original issuance premiums on notes payable is \$14.3 million, and the balance of deferred financing costs on mortgages payable is \$236,000, on notes payable is \$34.1 million, and on term loans is \$580,000.

(2) We base the estimated fair value of the fixed rate senior notes and bonds at December 31, 2017 on the indicative market prices and recent trading activity of our senior notes and bonds payable. We base the estimated fair value of our fixed rate and variable rate mortgages at December 31, 2017 on the relevant forward interest rate curve, plus an applicable credit-adjusted spread. We believe that the carrying value of the credit facility balance and term loans balance reasonably approximate their estimated fair values at December 31, 2017.

The table incorporates only those exposures that exist as of December 31, 2017. It does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations, would depend on the exposures that arise during the period, our hedging strategies at the time, and interest rates.

All of our outstanding notes and bonds have fixed interest rates. All of our mortgages payable, except three mortgages with principal balances totaling \$29.9 million at December 31, 2017 have fixed interest rates. After factoring in arrangements that limit our exposure to interest rate risk and effectively fix our per annum interest rates, our mortgage debt subject to variable rates totals \$22.4 million at December 31, 2017. Interest on our credit facility and term loan balances is variable. However, the variable interest rate feature on our term loans has been mitigated by interest rate swap agreements. Based on our credit facility balance of \$110.0 million at December 31, 2017, a 1% change in interest rates would change our interest rate costs by \$1.1 million per year.

**Selected Financial Data**(NOT COVERED BY REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)  
(DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

<b>As of or for the years ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total assets (book value)	\$ 14,058,166	\$ 13,152,871	\$ 11,845,379	\$ 10,989,349	\$ 9,903,118
Cash and cash equivalents	6,898	9,420	40,294	3,852	10,257
Total debt	6,111,471	5,839,605	4,820,995	4,907,673	4,145,517
Total liabilities	6,667,458	6,365,818	5,292,046	5,348,249	4,481,760
Total equity	7,390,708	6,787,053	6,553,333	5,641,099	5,421,358
Net cash provided by operating activities	875,850	799,863	693,567	617,768	522,656
Net change in cash, cash equivalents and restricted cash	(3,539)	(34,652)	4,152	20,211	18,917
Total revenue	1,215,768	1,103,172	1,023,285	933,505	780,209
Income from continuing operations	319,318	316,477	284,855	269,140	180,613
Income from discontinued operations	-	-	-	2,800	65,670
Net income	319,318	316,477	284,855	271,940	246,283
Preferred stock dividends	(3,911)	(27,080)	(27,080)	(37,062)	(41,930)
Excess of redemption value over carrying value of preferred shares redeemed	(13,373)	-	-	(6,015)	-
Net income available to common stockholders	301,514	288,491	256,686	227,558	203,634
Cash distributions paid to common stockholders	689,294	610,516	533,238	479,256	409,222
Basic and diluted net income per common share	1.10	1.13	1.09	1.04	1.06
Cash distributions paid per common share	2.527000	2.391500	2.271417	2.191625	2.147459
Cash distributions declared per common share	2.537000	2.403000	2.279000	2.192875	2.177875
Basic weighted average number of common shares outstanding	273,465,680	255,066,500	235,767,932	218,390,885	191,754,857
Diluted weighted average number of common shares outstanding	273,936,752	255,624,250	236,208,390	218,767,885	191,781,622

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

We have had no disagreements with our independent registered public accounting firm on accounting matters or financial disclosure, nor have we changed accountants in the two most recent fiscal years.

## Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of and for the year ended December 31, 2017, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

### Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Management has used the framework set forth in the report entitled "Internal Control--Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year. KPMG LLP has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.

Submitted on February 22, 2018 by,

John P. Case, Chief Executive Officer

Paul M. Meurer, Executive Vice President, Chief Financial Officer, and Treasurer

### Changes in Internal Controls

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of December 31, 2017, there were no material weaknesses in our internal controls, and therefore, no corrective actions were taken.

### Limitations on the Effectiveness of Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

### Certifications

John Case, Realty Income's Chief Executive Officer, certified to the NYSE in 2017, pursuant to Section 303A.12(a) of the NYSE's Listing Standards, that he was not aware of any violation of the NYSE corporate governance listing standards by Realty Income. Furthermore, Realty Income filed with the SEC as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2017, the certifications by John Case and Paul M. Meurer, Realty Income's Chief Executive Officer and Chief Financial Officer, respectively, required under Section 302 of the Sarbanes-Oxley Act.

REALTY INCOME CORPORATION AND SUBSIDIARIES

## Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

A. Our common stock is traded on the NYSE under the ticker symbol "O." The following table shows the high and low sales prices per share for our common stock as reported by the NYSE, and distributions declared per share of common stock for the periods indicated.

	Price Per Share of Common Stock		Distributions Declared <sup>(1)</sup>
	High	Low	
<b>2017</b>			
First Quarter	\$ 63.60	\$ 56.92	\$ 0.6320
Second Quarter	62.31	52.86	0.6335
Third Quarter	60.02	53.35	0.6350
Fourth Quarter	58.22	53.02	0.6365
Total			\$ 2.5370
<b>2016</b>			
First Quarter	\$ 62.89	\$ 50.47	\$ 0.5960
Second Quarter	69.36	58.30	0.5975
Third Quarter	72.30	63.33	0.6030
Fourth Quarter	66.75	52.72	0.6065
Total			\$ 2.4030

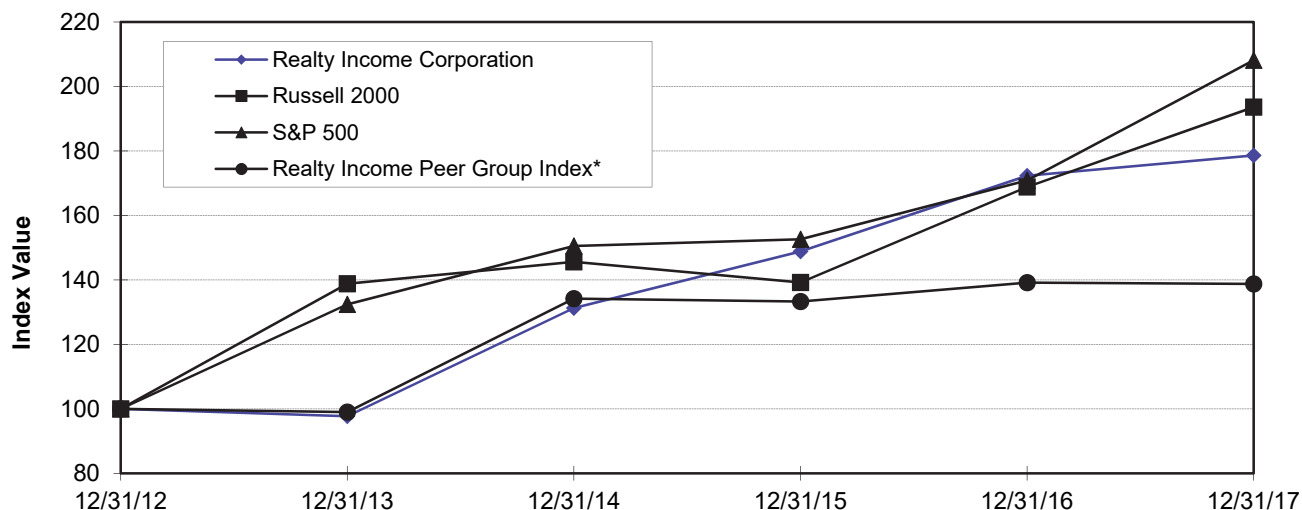
<sup>(1)</sup> Common stock cash distributions are declared monthly by us based on financial results for the prior months. At December 31, 2017, a distribution of \$0.2125 per common share had been declared and was paid in January 2018.

B. There were 9,862 registered holders of record of our common stock as of December 31, 2017. We estimate that our total number of stockholders is over 440,000 when we include both registered and beneficial holders of our common stock.

C. During the fourth quarter of 2017, the following shares of stock were withheld for state and federal payroll taxes on the vesting of employee stock awards, as permitted under the 2012 Incentive Award Plan of Realty Income Corporation:

- 60 shares of stock, at a weighted average price of \$57.18, in October 2017;
- 10,993 shares of stock, at a weighted average price of \$56.25, in November 2017; and
- 244 shares of stock, at a weighted average price of \$55.56, in December 2017.

### Total Return Performance



Index	Period Ending					
	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Realty Income Corporation	100.00	97.68	131.23	148.80	172.28	178.62
Russell 2000	100.00	138.82	145.62	139.19	168.85	193.58
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
Realty Income Peer Group index*	100.00	99.01	134.16	133.29	139.16	138.74

\* Realty Income Peer Group index consists of 18 companies with an implied market capitalization between \$3.9 billion and \$35.5 billion as of December 31, 2017.

# COMPANY INFORMATION

## EXECUTIVE OFFICERS



Top row left to right: Sumit Roy, John Case, Paul Meurer | Bottom row left to right: Michael Pfeiffer, Neil Abraham, Benjamin Fox

**John P. Case**  
Chief Executive Officer

**Sumit Roy**  
President and Chief Operating Officer

**Paul M. Meurer**  
Executive Vice President,  
Chief Financial Officer  
and Treasurer

**Michael R. Pfeiffer**  
Executive Vice President,  
General Counsel and  
Secretary

**Neil Abraham**  
Executive Vice President,  
Chief Investment Officer

**Benjamin N. Fox**  
Executive Vice President,  
Portfolio and Asset  
Management

## DIRECTORS



Top row left to right: Gregory McLaughlin, Kathleen Allen, Ronald Merriman, Priya Cheria Huskins, Larry Chapman | Bottom row left to right: Michael McKee, John Case, Stephen Sterrett

**Michael D. McKee**  
Non-Executive Chairman,  
Principal, The Contrarian  
Group

**John P. Case**  
Chief Executive Officer

**Kathleen R. Allen, Ph.D.**  
Founding Director,  
Center for Technology  
Commercialization,  
University of Southern  
California

**A. Larry Chapman**  
Retired, Executive  
Vice President,  
Head of Commercial Real  
Estate, Wells Fargo Bank

**Priya Cheria Huskins**  
Partner, Woodruff-Sawyer & Co.

**Gregory T. McLaughlin**  
President, PGA TOUR Champions

**Ronald L. Merriman**  
Retired Vice Chair, KPMG LLP

**Stephen E. Sterrett**  
Retired, Senior Executive  
Vice President,  
Chief Financial Officer,  
Simon Property Group, Inc.

## ADDITIONAL OFFICERS



**Janeen S. Bedard**  
Senior Vice President,  
Administration &  
Communications



**Jill M. Cossaboom**  
Vice President,  
Assistant Controller,  
Systems



**Robert J. Israel**  
Senior Vice President,  
Research



**Ross Edwards**  
Vice President,  
Portfolio Management



**Shannon C. Jensen**  
Senior Vice President,  
Associate General Counsel  
and Assistant Secretary



**Kristin K. Ferrell**  
Vice President,  
Head of Lease Administration



**Dawn Nguyen**  
Senior Vice President,  
Portfolio Management



**Shannon Kehle**  
Vice President,  
Human Resources



**Sean P. Nugent**  
Senior Vice President,  
Controller



**Scott A. Kohnen**  
Vice President,  
Research



**Joel Tomlinson**  
Senior Vice President,  
Acquisitions



**April Little**  
Vice President,  
Acquisitions



**Cary J. Wenthur**  
Senior Vice President,  
Acquisitions



**Jenette S. O'Brien**  
Vice President,  
Asset Management



**Stephen D. Burchett**  
Vice President,  
Senior Legal Counsel



**Jonathan Pong**  
Vice President,  
Head of Capital Markets  
and Investor Relations



**Kyle B. Campbell**  
Vice President,  
Senior Legal Counsel,  
Risk Management



**Lori Satterfield**  
Vice President,  
Associate General Counsel,  
Portfolio Management



**Elizabeth Cate**  
Vice President,  
Portfolio Management



**Clint Schmucker**  
Vice President,  
Information Technology



**T.J. Chun**  
Vice President,  
Investments & Head  
of Asset Management



**Ashley N. Wells**  
Vice President,  
Research

### Transfer Agent

EQ Shareowner Services  
1110 Centre Point Curve Suite 101  
Mendota Heights, MN 55120

For shareholder administration and account information please visit EQ Shareowner Services' website at [www.shareowneronline.com](http://www.shareowneronline.com) or call toll-free at 1-877-218-2434.

### Independent Registered Public Accounting Firm

KPMG LLP  
San Diego, CA

### For Additional Corporate Information

Visit the Realty Income corporate website at [www.realtyincome.com](http://www.realtyincome.com)

Contact your financial advisor, or contact Realty Income at Telephone: 858-284-5000, Email: [ir@realtyincome.com](mailto:ir@realtyincome.com)

Copies of Realty Income's Annual Report on Form 10-K are available upon written request to:  
REALTY INCOME CORPORATION  
Attention: Investor Relations  
11995 El Camino Real  
San Diego, CA 92130



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