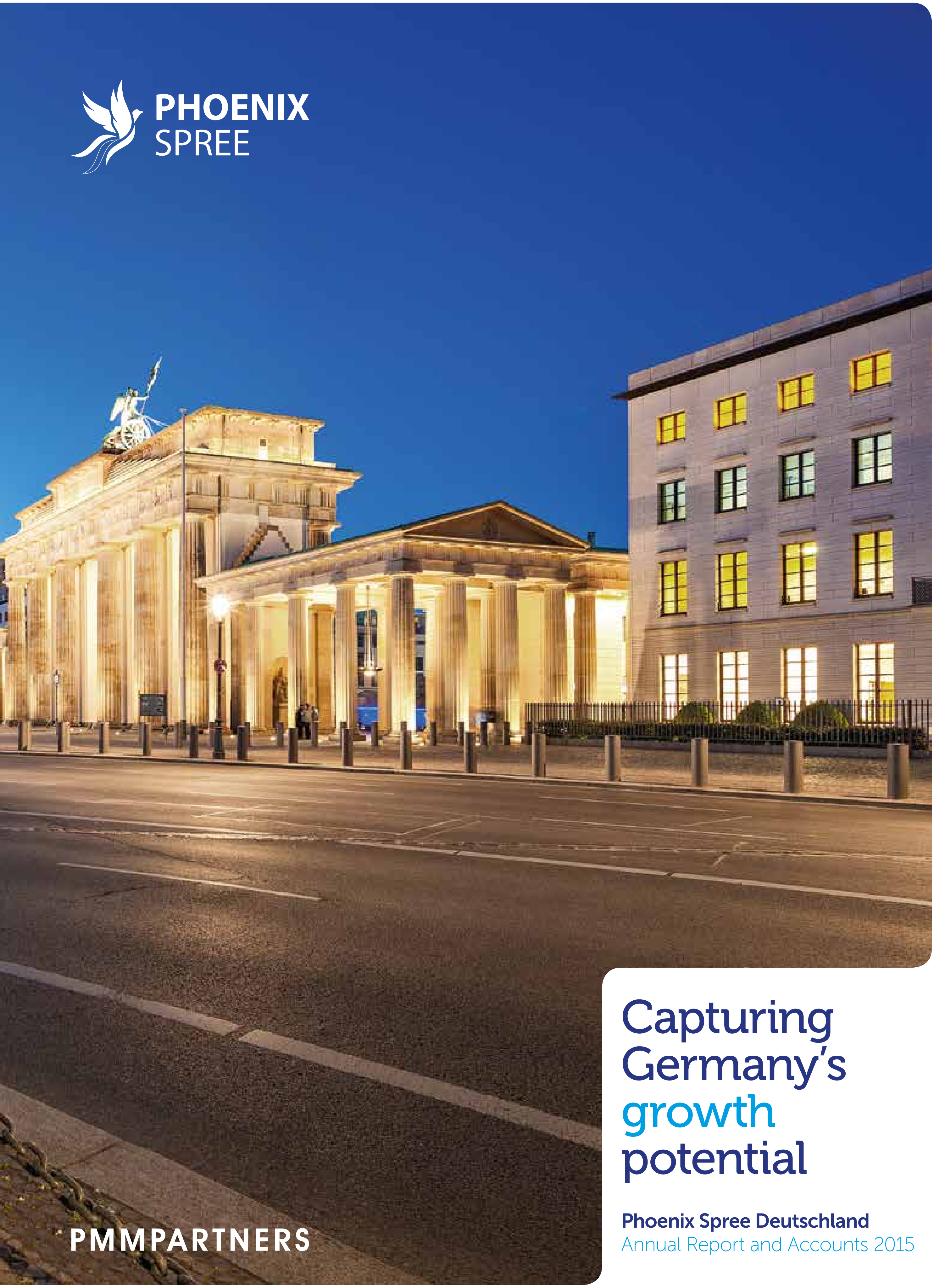
PHOENIX SPREE



# Capturing Germany's growth potential

**Phoenix Spree Deutschland**
Annual Report and Accounts 2015

PMMPARTNERS

## Introduction

**Phoenix Spree Deutschland** is an investment trust founded in 2007 and listed on the London Stock Exchange. It offers shareholders exposure to the German residential market, particularly Berlin, where two-thirds of assets are located.

Over the past nine years, the Company has assembled an attractive portfolio of real estate assets which the Directors believe offers investors the potential for both reliable income as well as capital growth.

PMM Partners acts as the Property Advisor. It has an experienced team of property professionals with long-standing experience of the German residential property market.

www.phoenixspree.com

## Highlights of the Year

# 2015 – A landmark year

2015 was a landmark year for Phoenix Spree Deutschland (LSE: PSDL.LN), the UK listed investment company specialising in German residential real estate, which today announces its full year results for the year ended 31 December 2015. The acquisition of Phoenix Spree Property Fund, a successful debt refinancing and the listing on the Main Market of the London Stock Exchange in June 2015 have provided the Company with a platform from which to take advantage of the structurally attractive German residential market.

### Financial highlights

- Pre-exceptional profit before tax up 132% to €19.7 million (31 December 2014: €8.5 million)[1]
- Portfolio value rose by 15.3% from €245.3 million to €282.8 million during the year, or 10.6% on a like-for-like basis[2]
- 2015 EPRA NAV per share grew by 10.7% to €2.28 (£1.67) (31 December 2014: €2.06 (£1.60))
- Strong letting performance. Rent per square metre rose by 9.5% to €7.5 (4.8% on a like-for-like basis)[2]
- Average rent on new lettings for the overall portfolio was €8.9 per sqm, a 9.8% increase over 2014. In Berlin, new leases were signed at an average of €10.3 per sqm, a 10.6% increase over 2014
- Final dividend of 2.9p, giving a total dividend of 4.2p for the financial year

### Operational highlights

- Acquisition of Phoenix Spree Property Fund and debt refinancing completed
- Successful transition to the London Stock Exchange – share price increased by 18%[3] since listing to end March 2016
- Condominium sales strategy launched – 20 apartments notarised in H2 2015
- As at 31 December 2015, five Berlin residential properties notarised for acquisition with an aggregate consideration of €35.8 million and expected to increase the Fund's rental income by c.5.4%
- Recent share placing raised £36.6 million after costs to fund attractive pipeline of acquisition opportunities

### Outlook

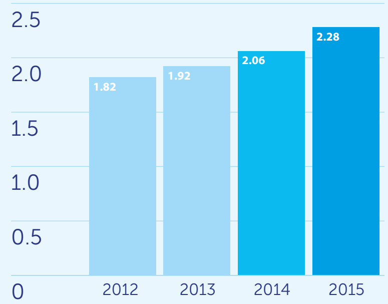
- Outlook for the German residential market, in particular Berlin, remains positive
- Demand for property continues to grow due to population growth and ongoing process of urbanisation, driving an upward trend in rents and property prices
- Supply of rental housing is restricted to a limited number of high-value areas
- Further scope for market rental growth and yield compression
- Residential prices remain below the cost of construction
- Opportunity to improve rental incomes through active asset management
- Further condominium sales programmes are planned for the year ahead

1 Excluding exceptional items relating to the acquisition of PSPF, stock market listing and impairment of goodwill.
2 Includes PSPF properties for 2014 and 2015. Like-for-like adjusts for acquisitions and disposals made during 2015.
3 Share price at June 2015 listing £1.50. Share price as at 31 March 2016 £1.77.

**EPRA NAV/share**

**€2.28**

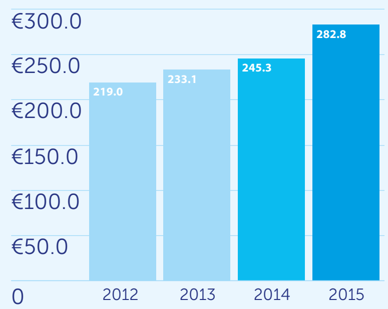
+10.7%




**Portfolio value**

**€282.8m**

+15.3%




**Dividend per share p**

4.2p

(2.9p final/1.3p interim)

# Chairman's Statement

"I am pleased to announce the Company's first annual results since its successful introduction to the London Stock Exchange."

**2015 increase in EPRA NAV**

+10.7%

**Increase in share price since listing[1]**

+18.0%

1 Share price at June 2015 listing £1.50. Share price as at 31 March 2016 £1.77.

I am pleased to announce the Company's first annual results since its successful introduction to the London Stock Exchange on 15 June 2015.

It was a transformational year for the Company, marking a period which saw the completion of a major debt refinancing, the acquisition of the Company's sister fund Phoenix Spree Property Fund ('PSPF') and a transfer of the listing to the Main Market of the London Stock Exchange. These actions, combined with the recent successful capital raising, provide the financial platform for future growth and leave the Company well positioned to achieve its investment objectives in the years ahead.

### Corporate developments and strategy

Phoenix Spree Deutschland ('PSD') was established in 2007 as a closed-ended investment fund listed on the Channel Islands Securities Exchange, with an initial lifespan of up to ten years. A major strategic review was initiated at the beginning of 2014 and a variety of options to provide liquidity for shareholders were evaluated. The Board subsequently recommended that a transaction which would see the Company acquire its sister fund, followed by a listing on the London Stock Exchange, was likely to deliver the best outcome for investors, while at the same time providing a platform to fund future growth. Following a major refinancing in the first quarter of 2015, which provided the Company with cash to finance further acquisitions, the listing commenced in June 2015.

In the second half of the year, our objective was to grow the Portfolio through selective property acquisitions. The criteria for new acquisitions are rigorous, with all proposals having to meet, or exceed, the Company's target of achieving an IRR of 8-10%. It is therefore pleasing to report that, by the year end, five Berlin properties had been notarised with an aggregate purchase value of €35.8 million. Combined with the successful disposal of three non-core properties, these actions have increased exposure to the Berlin market, leaving the Portfolio better positioned to deliver reliable income, as well as capital growth.

### Placing of new Ordinary Shares

At the time of the introduction to the Main Market of the LSE, no new shares were issued. Following property acquisitions in the second half of 2015, the Company issued new equity in February 2016 by way of an Offer for Subscription and Share Placing, raising a total of £38 million to facilitate further growth of the Portfolio, particularly in Berlin. The Company also gained shareholder approval for a Placing Programme to enable additional equity to be raised in an efficient manner in the event that further investment opportunities arise. Notwithstanding a difficult market backdrop, the capital raising attracted a high level of investor interest and allowed the Company to welcome a number of new institutional investors to the register.

## Financial results

The year to 31 December 2015 demonstrated continuing operational strength. Growth in both rents and property values continued, enabling EPRA NAV to increase by 10.7% for the year to €2.28 (12.2% before exceptional items). The active asset management strategies that have been pursued during 2015 have allowed the Company to take advantage of both the strong reversionary rental potential that exists within the Portfolio, as well as the opportunity to unlock value by reselling apartment blocks as condominiums.

During the year, new leases were signed at an average 21.2% premium to in-place rents. Additionally, the value arbitrage between an apartment block and the value of the same property sold as single apartments remains significant and the results of the first-phase condominium sales programme have been very encouraging.

## Share price and dividend

The Company listed with an initial share price of 150 pence per share. By 31 March 2016, the share price had risen to 177 pence per share, representing an increase during the period of 18%. This share price appreciation has taken place against an uncertain market backdrop and, for the greater part, declining global equity markets. While no guarantees can be provided in relation to future share price performance, it is nonetheless pleasing to see shareholders rewarded for their continued support during a period of stock market uncertainty and transformational change for the Company.

Since the introduction to the Main Market, the Company has targeted a dividend equal to 2.5% of EPRA NAV per share and intends to pursue a progressive dividend policy. The Board is therefore pleased to declare a final dividend of 2.9 pence per share, taking the full year dividend to 4.2 pence per share. This is expected to be paid on or around 10 June 2016.

## Asset manager

The past year has been an extremely demanding period for PMM Partners, Property Advisor to the Company. They have been actively involved in the complex and time-consuming corporate transactions that have successfully positioned the Company for its next phase of growth, while at the same time remaining focused on the day-to-day management of the Portfolio. The recruitment of Jörg Schwagenscheidt to the position of Chief Executive of PMM Partners Germany GmbH, and a number of other senior Berlin-based hires, should ensure that our asset management platform is capable of delivering on our key operating metrics and growth ambitions. The Board would like to thank PMM Partners and its staff for their role in contributing to this year's progress.

## Corporate governance

The Directors recognise that high standards of corporate governance are vital if the Company is to deliver its strategy and safeguard the interests of our shareholders and other valued stakeholders and are committed to ensuring that the Company complies with best practice standards for the business it carries out. As the shares are listed on the premium segment of the Official List, Listing Rule 9.8.6(5)R requires the Company to apply the provisions of the UK Corporate Governance Code (the 'Code') to the extent relevant to it. The Board has considered the principles and recommendations of the Code and is pleased to confirm that the Company complies with the provisions of the Code which are relevant to it as an investment company.

## Outlook

The outlook for the German residential market remains positive, particularly in Berlin, where residential prices remain on average below the cost of construction and demand for property continues to grow, due to the ongoing process of urbanisation and population growth. The Directors believe there is scope for further market rental growth and yield compression through the Portfolio's exposure to a structurally attractive German real estate market as well as the opportunity to improve rental incomes through active asset management. Additionally, a number of new condominium sales programmes are either underway or planned for the year ahead.

The market listing and subsequent capital raising, combined with a strengthening in our Berlin presence, provide the Company with both the funding and platform to take advantage of the pipeline of potential investment opportunities that lie ahead.

**Robert Hingley**
Chairman

28 April 2016

# Operational Review

2015 represented a landmark year for the Company. Rents and property values continued their upward trend, while the results of the condominium sales programme first phase were encouraging. The acquisition of PSPF, the market listing and the recent share placing provide the Company with a solid foundation for growth.

The operating metrics detailed in the subsequent paragraphs are calculated on a pro-forma basis (i.e. as if PSPF was fully owned for the entire period under review) unless otherwise stated. The Directors believe this gives a better assessment of the operational performance of the property portfolio.

### Like-for-like Portfolio value increases by 10.6%

The Portfolio valuation rose by 15.3% from €245.3 million to €282.8 million. On a like-for-like basis (excluding properties acquired or disposed of during 2014 and 2015), property values rose by 10.6%. This represents a value per sqm of €1,635, and a gross fully occupied yield of 5.7%. Using EPRA methodology, the net yield as at 31 December 2015 was 4.6% (31 December 2014: 4.8%). Growth was strongest in Berlin and Nuremberg & Fürth, which saw like-for-like values increase by 12.2% and 14.7% respectively.

### Rental growth demonstrates reversionary potential

Annualised rental income increased to €14.1 million at 31 December 2015, a like-for-like increase of 3.2% compared with December 2014. Average in-place rent per sqm stood at €7.5, a like-for-like increase of 4.8% compared with December 2014. Nuremberg & Fürth saw the strongest growth in rent per sqm, with an 8.9% increase, followed by Berlin with 6.5%.

Reported vacancy stood at 10.1% at the year end, compared with 10.3% as at June 2015 and 9.1% as at December 2014. On an EPRA basis, which adjusts for units under renovation and reserved for resale, vacancy stood at 3.9% compared to 5.6% in June 2015 and 4.1% in December 2014.

### Strong performance in new lettings

The Company had a strong letting performance, both in terms of volume and the price achieved. Around 370 leases were signed, representing 16% of total units owned. The average rent achieved on new lettings for the overall portfolio was €8.9 per sqm, a 9.8% increase over 2014. In Berlin, new leases were signed at an average of €10.3 per sqm, a 10.6% increase over 2014.

By the final quarter of 2015, the achieved price for new lettings stood at €8.9 per sqm, which represented a 24.7% premium to the average portfolio passing rent, and for Berlin this premium stood at 40%. This significant reversionary gap between new leases and passing rents is one of the strengths of the Company's portfolio, and should underpin rental income growth into the medium term.

### Financial highlights

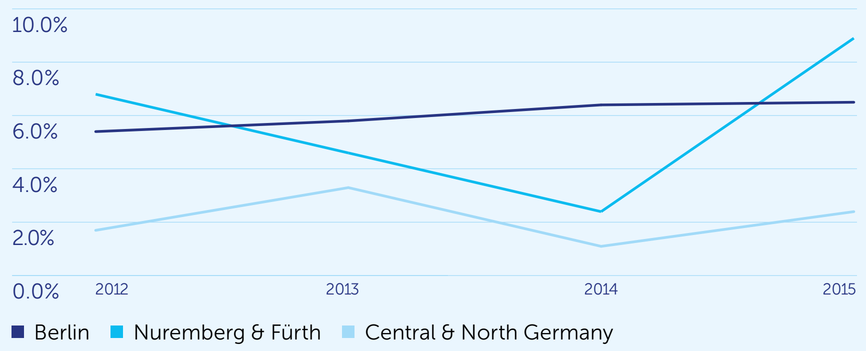
| €million | Pre-exceptional | Exceptional items | Total |
|---|---|---|---|
| Revenue | 12.1 | 0 | 12.1 |
| Operating profit | 21.5 | (6.8) | 14.7 |
| Finance costs | (1.8) | 0 | (1.8) |
| Profit before tax | 19.7 | (6.8) | 13.0 |
| Taxation | (2.6) | 0 | (2.6) |
| Profit after tax | 17.1 | (6.8) | 10.3 |
| EPS (Euros) | 0.24 | (0.10) | 0.14 |
| **Dividend per share (p)** | 4.2 | | |

### Investment and maintenance

Pro-forma renovation spend for the 12-month period was in line with expectations at €4.9 million. The majority of this spend related to the renovation of vacated apartments prior to re-letting at rents at a premium to those paid by outgoing tenants. Around 6% of units were renovated in 2015, and the average rental premium achieved on re-letting was 68%. The average spend per refurbishment was approximately €20,400, or €290 per sqm. Further investment spend was focused on upgrades to communal parts such as façades and staircases as well as investment in more efficient heating systems.

In addition to capital expenditure, approximately €1.0 million was spent on repairs and maintenance during 2015.

**Rent sqm growth by region 2012 to 2015**



### Portfolio regional overview

| Market | % of fund by value | Buildings | Residential units | Commercial units | Total units | Total sqm ('000) | Gross rent (€m) | Valuation (€m) | Value per sqm (€) | Fully occupied gross yield % | Vacancy % | EPRA Vacancy % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Berlin Region | 66% | 54 | 1,149 | 90 | 1,239 | 94 | 8.1 | 186.4 | 1,979 | 5.0% | 11.0% | 3.4% |
| Central & North Germany | 20% | 42 | 805 | 47 | 852 | 50 | 3.8 | 57.3 | 1,140 | 7.2% | 7.3% | 6.1% |
| Nuremberg & Fürth | 10% | 17 | 203 | 29 | 232 | 20 | 1.4 | 29.1 | 1,450 | 6.1% | 15.6% | 1.5% |
| Baden-Württemberg | 4% | 2 | 18 | 24 | 42 | 8 | 0.8 | 10.0 | 1,191 | 8.6% | 4.1% | 1.3% |
| **Total** | **100%** | **115** | **2,175** | **190** | **2,365** | **173** | **14.1** | **282.8** | **1,635** | **5.7%** | **10.1%** | **3.9%** |

### Acquisitions and disposals

The Company acquired a 94.8% interest in Phoenix Spree Property Fund Gmbh & Co. KG in March 2015 for a consideration of €41.5 million, funded by a cash payment of €2.4 million and the issue of 19.2 million new shares. The Company had previously agreed an economic merger with PSPF in 2009 and the two funds had been managed on a joint basis since this time. The consideration paid for the controlling interest was in line with the latest reported NAV and therefore value neutral for shareholders.

During 2015, the Company notarised the purchase of five properties with an aggregate value of €35.8 million. The properties consist of 213 apartments, 14 commercial units and a lettable area of 18,200 sqm. These buildings are located in Berlin and represent an average purchase price of around €1,960 per sqm. The majority of the acquisitions are located in Prenzlauer Berg and Friedrichshain, two popular East Berlin districts. As at 31 December 2015 one transaction valued at €16 million had completed, and the remaining transactions completed in the first half of 2016. In aggregate, the acquisitions represent an increase in net contracted rent of around 10.4%. They have been financed using a combination of existing cash resources and debt. Following the completion of the recent share placing, the Company has significant resources available to fund further acquisitions and it is anticipated that several property purchases will be notarised during 2016.

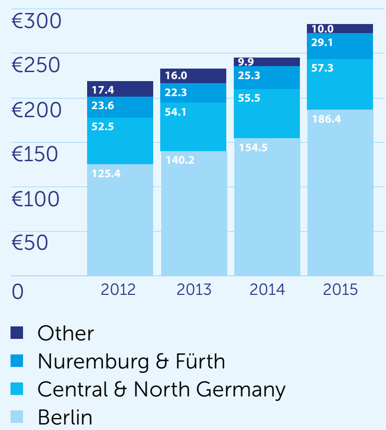
Three properties were notarised for sale during the period, representing an aggregate disposal value of €2.3 million. The first property, a commercial building in Dinslaken, was sold for a consideration of €1.4 million and the sale completed in the second half of 2015. Additionally, two properties located in Nuremberg were notarised for sale, representing proceeds of €0.9 million and a premium to book value of around 60%. These disposals are due to complete in the first half of 2016.

During the second half of 2015, 20 individual units (condominiums) were notarised for sale for an aggregate consideration of €4.9 million. As at 31 December 2015, 16 sales had completed, representing proceeds of €4.1 million. The average price achieved for apartments was €3,912 per sqm, a significant premium to the average value for the Company's Berlin rental properties of €1,863.

### Financial results

The financial results for the period include the consolidation of PSPF from the date of its acquisition. Reported revenue for the period was €12.1 million (31 December 2014: €6.6 million). On an IFRS basis, profit before taxation was €13.0 million (31 December 2014: €8.5 million). The results were positively affected by a revaluation gain of €18.1 million (31 December 2014: €4.5 million). Profit before taxation ('PBT') is calculated after charging exceptional items relating to the acquisition of PSPF and the subsequent stock market listing of €2.3 million, and goodwill impairment of €4.5 million.

**Portfolio valuations by region €m**



## Net asset value increased by 10.7% during 2015. Underlying total return was 13.1%.

Excluding these items, PBT was €19.7 million (31 December 2014 €8.5 million). Further one-off costs of €1.0 million, incurred in relation to the cancellation of loans as part of the Company's refinancing, were recorded as finance charges. Reported earnings per share for the period were €0.14c (31 December 2014: €0.16c).

The Board has declared a final dividend of 2.9 pence per share (31 December 2014: zero pence), which is expected to be paid on or around 10 June 2016 to shareholders on the register at close of business on 20 May 2016, with an ex-dividend date of 19 May 2016. Taking into account the interim dividend paid in October 2015, the declared dividend for the financial year to 31 December 2015 is 4.2p. This is consistent with the Company's current policy of paying a dividend which is equivalent to 2.5% of EPRA NAV.

### Balance sheet

As at 31 December 2015, the Company had gross borrowings of €133.8 million (31 December 2014: €53.5 million) and cash balances of €12.8 million (31 December 2014: €3.6 million) equating to a net debt of €121.0 million (31 December 2014: €49.9 million) and a net loan to value on the Portfolio of 42.8%. With the exception of loans amounting to €9.6 million, all loans across the Portfolio have fixed interest rates and the average remaining duration is 5.4 years.

In February 2015, the Company entered into a €68 million seven-year loan facility. As at 31 December 2015, €66 million of this facility was drawn and swap agreements entered into which result in an effective interest rate of 1.8%. The majority of this facility was used to refinance existing facilities. On 17 August 2015, the Company drew an additional €14.7 million of debt against properties within its PSPF subsidiary. Interest rates were fixed at 1.92% for seven years using swap contracts.

Since the year end, further debt has been arranged to finance properties notarised for purchase during 2015.

In March 2016, the Company issued 22.6 million new ordinary shares by way of a Share Placing and Offer for Subscription raising £36.6 million net of fees. The proceeds will be used to finance further acquisitions and upgrade existing properties.

### EPRA NAV increases by 10.7%

EPRA NAV per share rose by 10.7% to €2.28 (£1.67) compared to €2.06 (£1.60) as at 31 December 2014. Taking into account the interim dividend of 1.3p, the EPRA total return for the year was 11.5% in local currency. This compares to the Company's target of 8-10% per annum. EPRA NAV was affected by a number of exceptional items relating to the acquisition of PSPF and the stock market listing in June. In total these exceptional items reduce EPRA NAV by around 1.5%.

### Market outlook

The outlook for the German residential market, and in particular Berlin, remains positive going into 2016. Population growth in the major urban areas, combined with limited supply, has driven an upward trend in rents and property prices, which is expected to continue into the medium term. With property values still below the replacement cost, new supply of rental housing is restricted to a limited number of high-value areas. PMM Partners ('PMM') believes that prices would need to rise further before the supply and demand imbalance is addressed and, therefore, there is still significant upside potential within the Company's Portfolio.

### Property Advisor adds resource

Since the stock market listing, PMM has made significant investments into its asset management platform. Jörg Schwagenscheidt, former COO/Joint CEO of GSW, Berlin's largest residential property company, was recruited to the role of CEO of PMM Partners Germany. A number of additional senior hires have been made over the last three months, including heads of acquisitions and technical services. PMM believes this investment ensures that it has sufficient resource to manage further growth in the Portfolio.

### Background on PMM Partners

PMM Partners has acted as property advisor to the Company since inception. PMM has 13 members of staff, across offices in London and Berlin, focusing wholly or primarily on the Portfolio. PMM is responsible for the management activities of the real estate assets in the Portfolio, which include:

- creation and execution of business plans;
- acquisitions and disposals;
- organising and coordinating property renovations;
- initiation of bank finance;
- tenant selection and negotiation; and
- supervision and oversight of property managers.

PMM's principals have a background in property and finance and each have more than a decade of experience operating in the German residential market. The PMM team was recently enhanced by the recruitment of Jörg Schwagenscheidt, who was previously Chief Operating Officer, and Board member of GSW Immobilien, Berlin's largest residential property company. PMM, its staff and family members had an aggregate shareholding of 14.9% in the Company as at 31 March 2016.

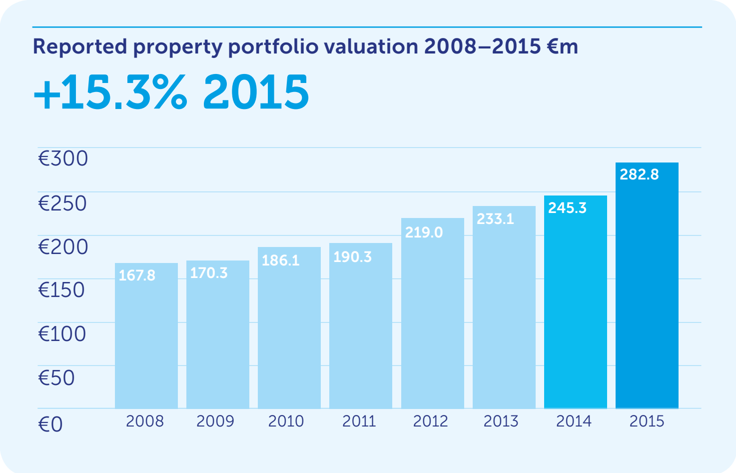
Boxhagenerstrasse – acquired December 2015

# At a Glance

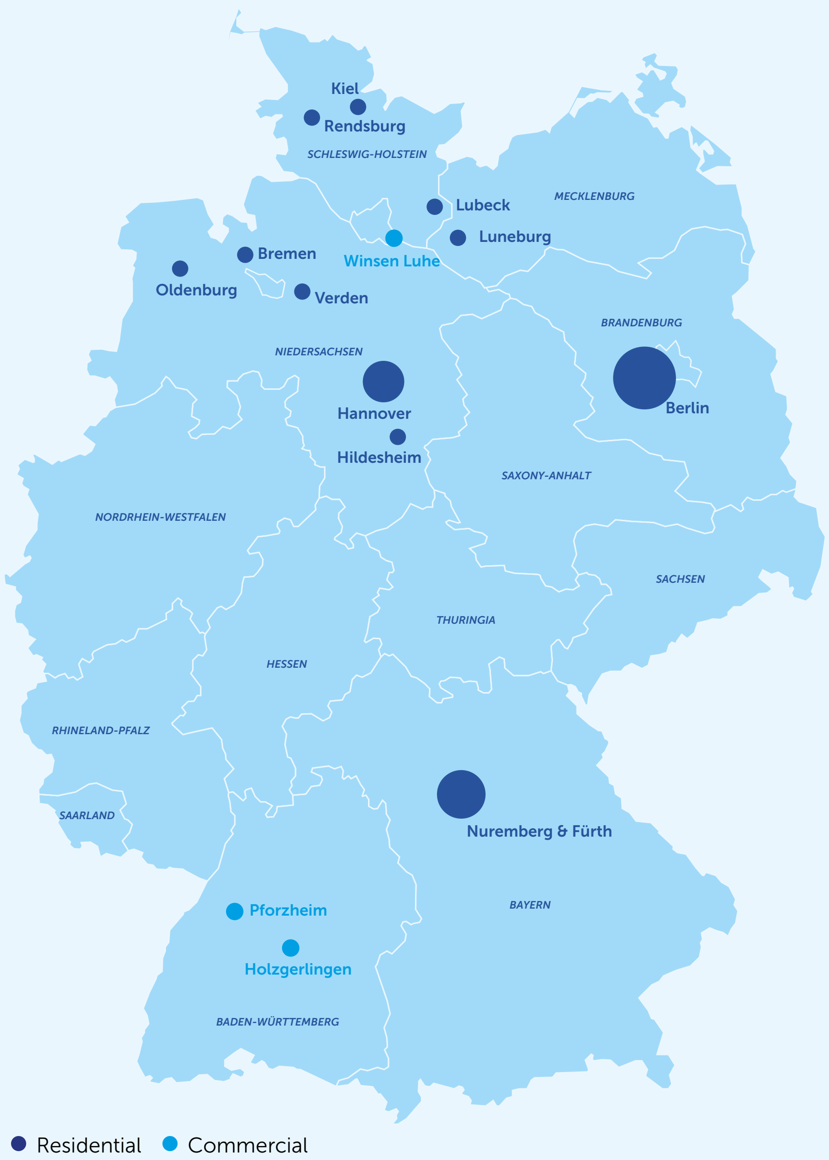
## Over the last five years, the value of the combined Portfolio of PSD and PSPF has grown by 51.9% to €283 million. Berlin now represents more than two-thirds of the Portfolio value and this focus is expected to increase during 2016.

The Company's investment strategy is to acquire and manage residential property in Berlin and other selected German secondary cities. The aggregate value of the Portfolio (including the assets of PSPF) has risen from €167.8 million in 2008 to €282.8 million in 2015, with each year seeing an increase. This equates to an average value per sqm of €1,635, ranging from €1,140 in Central and Northern Germany to €1,979 in Berlin (€1,863 excluding condominium projects).

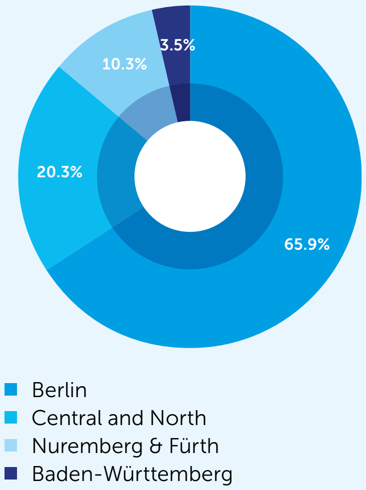
The Portfolio mainly consists of classic 'alt-bau' properties which were built before 1914. Typically, these five-storey buildings contain between 20 and 40 units, consisting of one to three-bedroom apartments, often with shops on the ground floor. The vast majority of the Portfolio was acquired by the Company or PSPF during the period 2006 to 2008 and, as a result, the Properties have benefitted from significant investment and active asset management by PMM.



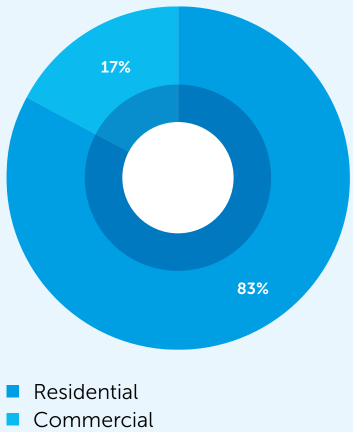

## Properties by location in Germany



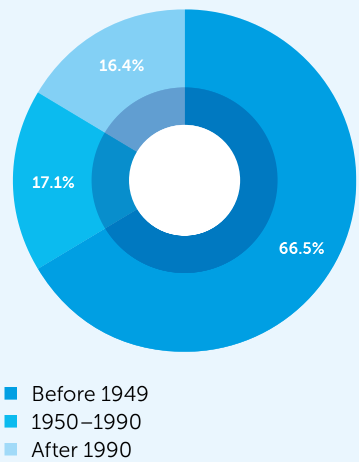

## Property by location




## Floor space by usage




## Property by age




### Properties
115

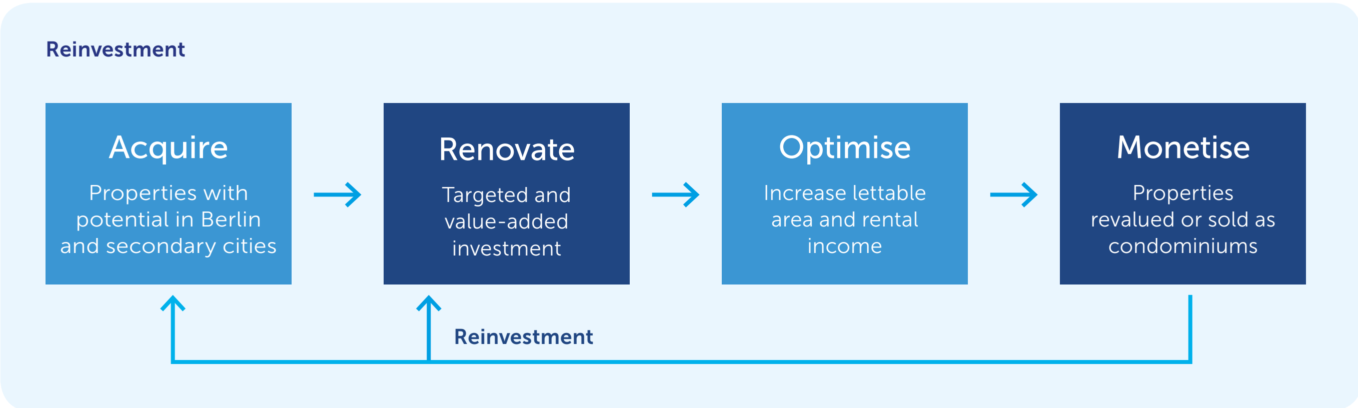
### Usable space (sqm)
173K

### Residential units
2,175

### Commercial units
190

# Business Model

## Exploiting the reversionary potential of the German residential market through active asset management.




The Company's business model is to acquire, renovate, optimise and monetise properties within Berlin and selected secondary cities.

### Acquire

The Company focuses on apartment buildings which offer the potential for medium-term value creation. For example, properties may be rented at rates well below current market levels, have development capacity, or have the potential to be profitably resold as condominiums. Single properties, packages and portfolios are considered.

### Renovate

A business plan is formulated for each property which analyses medium-term investment requirements and the potential return on investment. A single apartment costs between €20,000 and €30,000 to renovate, while an entire building renovation might cost up to €2 million. The Company targets a capital return on investment in excess of 100% on any value-added investment.

### Optimise

For properties considered to be core rental buildings, vacant units are re-let after refurbishment at the prevailing market rent. In the case of Berlin, this can be 50-100% above the level paid by previous tenants. Where appropriate, rent increases are applied for tenants paying less than the statutory rent level (Mietspiegel), where modernisation has been undertaken (and these costs are allowed to be recouped), or where the lease contains provisions for indexation. For properties which are designated as condominiums, units may be left vacant so they can achieve higher sale prices when sold in the near future.

### Monetise

A percentage of properties are revalued each year. The increased rental income following renovation and optimisation is reflected in an uplift in property values which, in turn, generates further NAV growth. This enables the renovation investment to be recouped through additional bank lending if required. Condominium properties are sold on a unit-by-unit basis at a premium to rental property values. The cash flow from refinancing and condominium sales is used to facilitate further acquisitions and to pay dividends.

# Strategy

The Company's strategy is to manage and invest in the Portfolio in order to drive capital growth and increase shareholder value. PMM has significant experience in generating rental and capital growth through innovative asset management and value-added investment.

Wittstockerstrasse, Berlin. Renovated in 2014/15

PMM has identified a number of strategies to maximise the rental income and value of properties.

These include:

- Renovation of vacated units and re-letting at higher reversionary rents.
- Conversion of commercial and unlettable space to residential use.
- Conversion of vacant attic space to residential use.
- Modernisation of apartments occupied by long-standing tenants.
- Negotiated vacancy programme.
- Annual rent increases.
- Vetting tenant quality.
- Sub-dividing properties into individual properties for resale at a premium to rental property values.

# Our Investment Proposition

Providing investors with exposure to a diversified portfolio of German residential real estate assets that offer potential for reliable income and capital growth.

The Directors are targeting a total annual return equivalent to 8-10% of EPRA NAV, of which 2.5% is expected to be in the form of dividends.

- **Rental income:** The EPRA net rental yield on the investment portfolio in 2015 was 4.6%, which compares favourably to the average cost of debt of 2.1%.

- **Rental growth:** Due to a combination of market growth and active asset management, like-for-like rent per sqm has grown by an average of 4.4% per annum over the last three years. This is one of the main drivers of capital growth.

The Company generates its investment returns through a number of streams.

- **Yield compression:** Market yields have fallen in recent years. However, with risk-free rates at or below zero, and with little sign that monetary policy will tighten in the medium term, further yield compression is possible.

- **Condominium profits:** Each year a percentage of the portfolio will be sold as single apartments. Sales prices are currently at a significant premium to rental values, which enables the Company to unlock value from its rental portfolio.

**NAV per share**

€2.28

**Average adjusted NAV CAGR since 2011**

15.6% per annum

Albertinenstrasse – acquired in February 2008

## Our investment case

Significant structural growth potential within the residential market

- Demand outstripping supply and low absolute price of apartments

High-quality portfolio with embedded potential for value creation

- Berlin focused with potential for medium-term rental and capital growth

Clear strategy to deliver increases in rental income and capital growth

- Value-added strategy led by investment and hands-on approach

Significant potential to create value through reversionary letting and condominium sales

- Premium for lettings and condominium sales highlight embedded value within the portfolio

Strong balance sheet and capacity to grow through acquisitions

- Significant cash balances and low loan to value following recent share placing

Experienced management with record of delivering value for shareholders

- Highly experienced team managing portfolio since 2006 with significant shareholding

# Key Performance Indicators

The Company has chosen a number of Key Performance Indicators ('KPIs') which the Board believes are relevant to help investors understand the performance of both the Company and the underlying property portfolio.

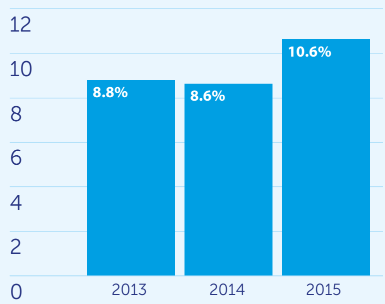
In 2015, the property portfolio grew by 10.6% on a like-for-like for basis. This increase was driven by a 4.8% like-for-like improvement in average rent per let sqm, while EPRA vacancy remained relatively stable at around 4%.

The Company began selling part of its rental portfolio as condominiums, agreeing sales of €4.9 million in the year to 31 December 2015.

EPRA NAV per share increased by 10.7% to €2.28, while the declared dividend for the year was 4.2p per share.

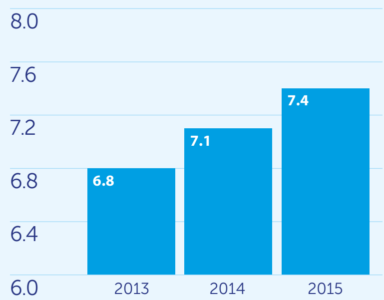
**Like-for-like property portfolio value growth 2013–2015 %**

**10.6%**



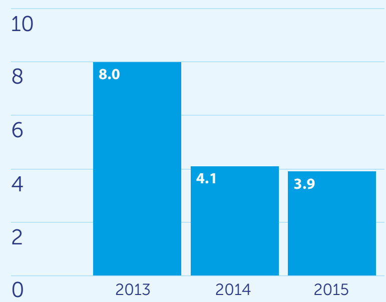

**Like-for-like portfolio rent per sqm € – 2013–2015**

**€7.4**



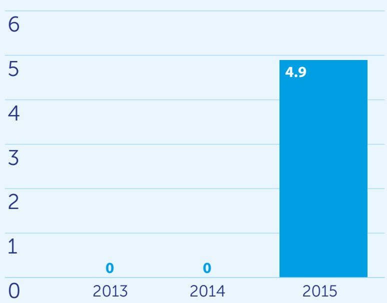

**EPRA vacancy – 2013–2015 %**

**3.9%**




**Condominium sales – 2013–2014 €m**

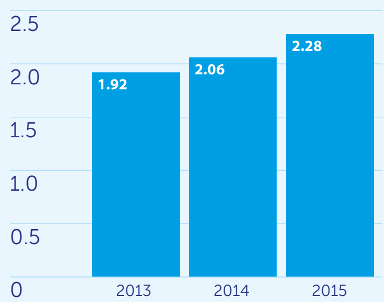
**€4.9m**




**EPRA NAV per share 2013–2015 €**

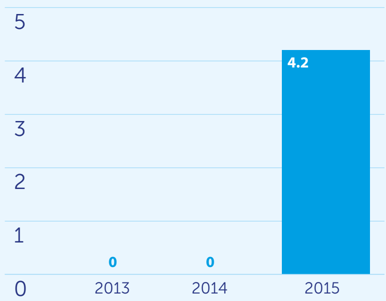
**€2.28**

+10.7%




**Dividend per share p**

**4.2p**



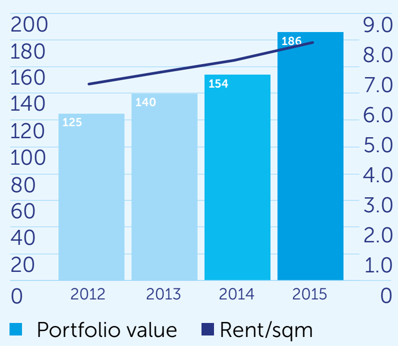
# Berlin

## The Berlin portfolio had an excellent year, with rents and property values continuing the upward momentum observed since 2011.

During 2015, the portfolio value grew by 12.2% on a like-for-like basis, reflecting a combination of rental growth and yield compression. Like-for-like average rent per let sqm grew by 6.5% in the period. The increase was primarily driven by new lettings. 17.4% of the portfolio was re-let during 2015 at an average rent per sqm of €10.3. This represents a premium of 28.8% to passing rents. This premium has increased from 11% in 2011 to 40% by the fourth quarter of 2015. In addition, the Company's new letting prices have consistently outperformed the market (as represented by JLL), reflecting both the quality of the properties and their premium locations within the most popular districts in Berlin.

Demand for housing in Berlin continues to outstrip supply. JLL estimates that there was demand for 24,000 new homes in 2015 versus supply of just 7,300. This supply gap has led to a decline in vacancy rates and caused average market asking rents to increase from €6.5 per sqm in 2010 to €9.1 in 2015. While it is unlikely that this speed of increase will be sustained, market commentators still expect rents to rise, given the population and economic outlook for the city, and the fact that rents remain relatively affordable compared to local income levels and rents in other capital cities. One of the key parts of the Company's strategy in Berlin for 2016 will be to integrate new acquisitions into the portfolio and carry out any value-added investment required in order to grow rents and capital values.

**Portfolio value €m and rent per sqm €**




**Like-for-like portfolio value growth**

12.2%

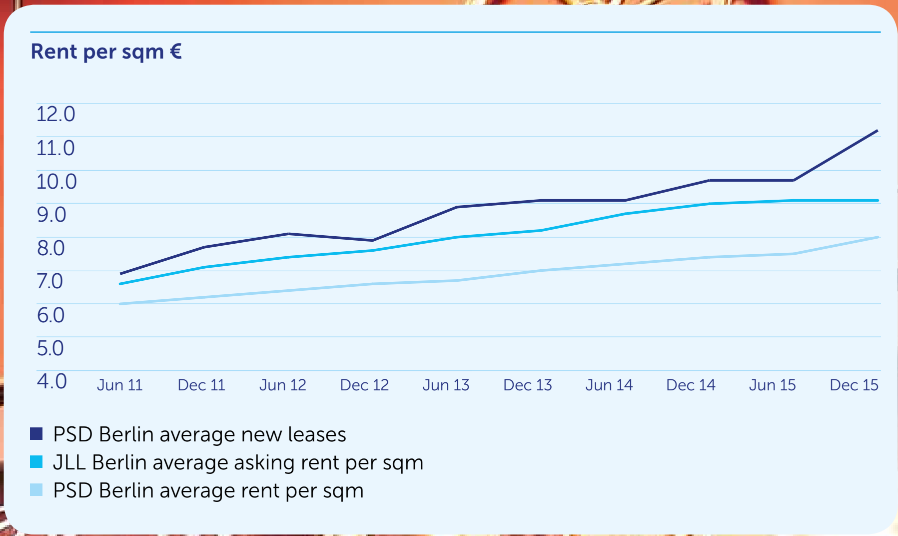
**Like-for-like rent per sqm growth**

6.5%

**EPRA vacancy rate**

3.4%

Bergmannstrasse, Kreuzberg



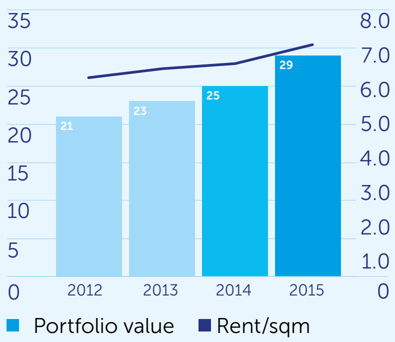

Chapter One Coffee, Mittenwalderstrasse

# Nuremberg & Fürth

## The region enjoyed a strong 2015, with rents and property values seeing significant growth.

Rent per let sqm saw an increase of 8.9%, driven by significant premiums achieved on new residential leases, while the value of the portfolio increased by 14.7%. Over the last three years, the Company has made significant renovation investment in the region and it is pleasing to see this being represented in the performance of the portfolio. In 2016, the priority is to drive further performance of the rental portfolio and to examine development opportunities that exist within a number of properties.

**Portfolio value €m and rent per sqm €**




**Like-for-like rent per sqm growth**

8.9%

**Like-for-like portfolio value growth**

14.7%

**EPRA vacancy rate**

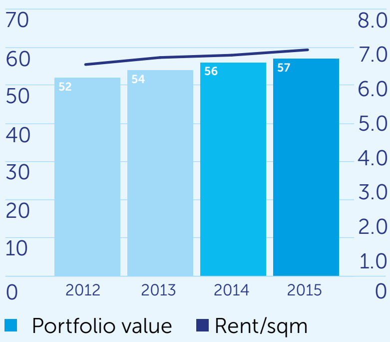
1.5%

# Northern Germany

## The Northern Germany portfolio includes the cities of Bremen, Hanover, Kiel and their surrounding areas.

The portfolio is a mixture of 'alt-bau', post-war and recent build, consisting of 42 properties, representing 852 units. During 2015, the region saw limited growth, with capital values and average rents increasing by 3.2% and 2.4% respectively. The focus for the region in 2016 is to optimise rental performance while considering portfolio management strategies in relation to potential acquisitions and disposals.

**Portfolio value €m and rent per sqm €**




**Like-for-like rent per sqm growth**

2.4%

**Like-for-like portfolio value growth**

3.2%

**EPRA vacancy rate**

6.1%

# Condominiums

## The Company launched its first condominium sales projects in the middle of 2015, with the intention of augmenting returns from its core rental business.

The strategy is designed to take advantage of the significant arbitrage that exists in the market between the average value of a Berlin apartment block, of around €1,900 per sqm, and the resale value of an individual apartment of between €2,500 and €5,000.

Two former multi-family rental properties, consisting of 47 units, were prepared for sale during 2014 and 2015 and the first units were offered to the market in June 2015. By the end of 2015, 20 units had been notarised for sale with an aggregate sales value of €4.9 million, representing a €0.8 million premium over book value. For residential units, this represents an average value per sqm unit of €3,912 (or €3,642 including commercial units). Since the year end, prices for the remaining units have been increased to take into account market movements and further units have been notarised. It is expected that all units within these properties will be sold by mid-2017.

Two further condominium sales projects are planned for 2016. The first project is located in Berlin, Moabit, and consists of 38 units, of which 32 are vacant following the comprehensive modernisation of the property during 2014 and 2015. It is expected that the property will generate sales proceeds of around €9 million and the first reservations are expected within the first half of 2016. The second project is expected to launch by the year end and consists of 67 units in Berlin Friedrichshain.

**Units sold**

20

**Sales value**

€4.9m

**Estimated sales premium to value as rental property**

90%

"We are delighted with the results of our first two condominium projects. Achieved sales prices are a significant premium to rental values, which help demonstrate the embedded value within PSD's portfolio and enhance the returns which have been achieved from the rental business."

Riemannstrasse, Berlin. Acquired February 2007

Local café life

Interior Riemannstrasse

**Example property**

## RIEMANNSTRASSE 8

BERLIN-KREUZBERG

- 1,410 sqm Berlin multi-family house built in 1884.
- 20 residential and 2 commercial units.
- Acquired in 2006 and managed as a rental property until 2014.
- Classic 'alt-bau' property favoured by buyers and tenants.
- Located in Bergmanstrasse area, Kreuzberg.
- During 2015 ten apartments sold for an average value of around €4,000 per sqm.
- Estimated premium of 114% compared to comparable PSD rental property values.
- Prices for second phase sales significantly increased.

# Principal Risks

The Board of Phoenix Spree Deutschland recognises that effective risk evaluation and management needs to be foremost in the strategic planning and the decision-making process. In conjunction with the Property Advisor, key risks and risk mitigation measures are reviewed by the Board on a regular basis and discussed formally during Board meetings.

**Risk trend**

- Increasing
- Unchanged
- Decreasing

| Risk | Impact | Mitigation | Movement |
|---|---|---|---|
| **Decline in property valuation** | Economic, political, fiscal and legal issues can have a negative effect on property valuations. A decline in Company property valuations could negatively affect the valuation of the Portfolio and the ability of the Company to sell properties within the portfolio at valuations which satisfy the Company's investment objective. | The Property Advisor believes German housing affordability metrics remain favourable relative to other European countries and that German residential supply-demand dynamics are supportive, with limited supply of rental stock in urban locations putting upward pressure on rents. | |
| **Adverse interest rate movements** | Future interest rate rises could increase the borrowing cost to the Company which, in turn, could negatively impact the Company's financial performance. | The Property Advisor has a record of securing financing across the Portfolio. The Company mitigates its exposure to adverse interest rate movements through the use of interest rate swaps, with debt interest rates typically fixed for 5-7 years, thus limiting exposure to short-term interest movements. The effective interest rate across the entire portfolio is around 2% per annum, compared to an EPRA net yield of 4.6%. | |
| **Availability of new debt** | Inability to negotiate new debt facilities on satisfactory terms could restrict the Company's ability to make future investment in new properties or refinance existing debt facilities as they reach maturity. | The Property Advisor regularly monitors debt funding requirements for future acquisitions as well as existing debt facilities as they reach maturity and is in ongoing discussions with a number of debt providers with a view to securing future debt on acceptable terms. | |
| **Breach of covenant requirements** | Should any fall in revenues result in the Group breaching financial covenants given to any lender, the Group may be required to repay such borrowings in whole or in part together with any related costs. | The Company does not have any loan to value covenants. The Property Advisor regularly monitors all debt service coverage covenants and would seek to take remedial measures in advance of any covenant being breached. | |

| Risk | Impact | Mitigation | Movement |
|---|---|---|---|
| **Insufficient capital to support expansion** | Lack of capital may restrict the ability of the Company to pursue future investment opportunities consistent with the overall investment objectives. | In March 2016 the Company raised gross proceeds of £38 million by way of a Firm Placing and Offer for Subscription at 168 pence per new share. The Company also gained shareholder approval for a Placing Programme to enable the Company to raise capital in an efficient and cost-effective manner over the next 12 months should the need arise. | |
| **Insufficient investment opportunity** | Availability of potential investments which meet the Company's investment objective can be negatively affected by supply and demand dynamics within the market for German residential property and the state of the German economy and financial markets more generally. | The Property Advisor has been active in the German residential property market since 2004 and has acted on more than 100 separate acquisitions and disposals within the Portfolio. It has built an extensive network of industry contacts including property agents, industry consultants and the principals of other investment funds. It is expected that future acquisitions will be sourced from these channels. | |
| **Changes to property and tenant law** | Property laws remain under constant review by the coalition government in Germany and future changes to property regulation and rent controls for new tenancies could negatively affect rental values and property valuations. | The Property Advisor regularly monitors the impact that existing and proposed regulation could have on future rental values and property planning applications. In order to reduce the dependency upon statutory rent increases, the majority of the new leases signed within the Portfolio include annual indexation (or 'Staffel') increases. | |
| **Occupancy and tenant risk** | Unexpected vacancy and tenant default trends across the Portfolio could lead to a rental income shortfall which, in turn, may adversely impact Company profitability and investment returns. | The Property Advisor implements strict vetting and screening processes to improve tenant quality across the Portfolio. Where appropriate, apartments becoming vacant are renovated and modernised and then re-let at rents which are at a significant premium to that paid by outgoing tenants. | |
| **Reliance on the Property Advisor and its key personnel** | The Company's future performance depends on the success of the Property Advisor's strategy, skill, judgement and reputation. The departure of one or more key employees may have an adverse effect on the performance of the Group and any diminution in the Property Advisor's reputation may have an adverse effect on the Company's performance. | During the past 12 months, the Property Advisor has expanded headcount through the recruitment of several additional experienced Berlin-based personnel. Additionally, the Property Advisor and their families own a significant stake in the Company, aligning their interests with other key stakeholders. | |
| **Reputational risk** | Adverse publicity and inaccurate media reporting could reflect negatively on stakeholders' perception of the Company, its strategy and its key personnel. | The Company has retained an external public relations consultancy and press releases are approved by the Board prior to release. The Company maintains regular communication with key shareholders and conducts presentations and roadshows to provide investors with relevant information on the Company, its strategy and key personnel. | |
| **Macro economic environment** | A deterioration in economic growth and a recessionary environment could adversely impact tenant demand and vacancy, leading to a reduction in rental and property values. | Although the Board and Property Advisor cannot control external macroeconomic risks, economic indicators are constantly monitored by both the Board and Property Advisor and Company strategy is tailored accordingly. | |

# Board of Directors

The Company has an experienced non-executive Board, chaired by Robert Hingley. The Directors have a wealth of experience in real estate, corporate finance, investment funds and the capital markets.

### Robert Hingley

**Non-executive Director and Chairman**

Robert Hingley acts as an independent Non-executive Director and Chairman to the Company. He is currently a partner at Ondra Partners LLP. He joined the Association of British Insurers as Director, Investment Affairs in September 2012 and, following the merger of ABI's investment affairs with the Investment Management Association, acted as a consultant to the enlarged IMA until the end of 2014. From 2010 until January 2015, he was a Managing Director, and later Senior Advisor, at Lazard. He was previously Director General of The Takeover Panel from December 2007, on secondment from Lexicon Partners, where he was Vice Chairman. Prior to joining Lexicon Partners in 2005, he was Co-Head of the Global Financial Institutions Group and Head of German Investment Banking at Citigroup Global Capital Markets, which acquired the investment banking business of Schroders in 2000. He joined Schroders in 1985 after having qualified as a solicitor with Clifford Chance in 1984.

### Richard Prosser

**Non-executive Director**

Richard Prosser is a Director of Estera Fund Administrators (Jersey) Limited (formerly known as Appleby Fund Administrators (Jersey) Limited). Richard qualified as a chartered accountant in 1989. He was a partner of Reads & Co., Chartered Accountants between 1992 and 1996. From 1992 to 2000, he was a Director of EFG Reads Trust Company Limited and EFG Reads Investment Management Services Limited. Since June 2000, Richard has been a Director of Appleby Trust (Jersey) Limited and a partner of the Appleby Group. He is also a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Society of Trust and Estate Practitioners and a member of the Institute of Directors. He has been involved in the trust industry in Jersey for over 25 years and has extensive experience in dealing with offshore structures for high net worth families based throughout the world. He travels extensively to meet with settlors and beneficiaries. Richard is listed as a Citywealth Leader 2014 following his 2013, 2012 and 2011 recognitions. This annual list aims to highlight the best of those individuals working in the wealth management sector. He is on the Board of a number of companies quoted in London and elsewhere, including property companies, hedge funds and investment management companies. He is Chairman of Threadneedle Investments (C.I.) Limited, Manager of the Threadneedle Property Unit Trust. He has most recently been appointed as Chairman of Aberdeen Latin American Income Fund, quoted in London, and Damille Investments II Limited, a closed ended investment company listed on the Specialist Fund Market of the London Stock Exchange.

### Matthew Northover

**Non-executive Director**

Matthew holds a Master's degree in Economics from Cambridge University. After qualifying as a Chartered Accountant with Ernst & Young, he worked as an analyst in AstraZeneca's strategy department. Matthew subsequently moved to The City where, over a ten-year period, he held a number of senior analyst and sales positions at a number of investment banks including JP Morgan Chase and UBS. During this time he won a number of industry awards. Immediately prior to founding PMM Partners LLP, he headed up the corporate consultancy team at Hargreaves Lansdown, one of the UK's leading financial services providers. Matthew has been actively investing in Berlin property since 2004, as well as having investments in residential property in the UK and Europe. Matthew's role within PMM covers the finance, tax, legal and administration functions. Matthew is one of the founding members of the Property Advisor, a Director of PSD. He is also a founding partner of PMM Advisers LLP which acts as an investment advisor to a number of UK property debt funds.

### Quentin Spicer

**Non-executive Director**

Quentin is a resident of Guernsey. He qualified as a Solicitor in England and Wales in 1968 with Wedlake Bell in London, where he became head of the Property department. He moved to Guernsey in 1996 to become Senior Partner of Wedlake Bell Guernsey until retiring in 2011. He specialised in commercial property transactions including funding for non-UK tax residents and associated low tax jurisdiction structures. He was Chairman of F&C UK Real Estate Investments Limited, standing down in November 2015. He is currently Chairman of Alternative Liquidity Fund Limited, an LSE listed company; RAB Special Situations Company Limited; Guernsey Housing Association LBG; and is a Non-executive Director of a number of other funds. He is a member of the Institute of Directors.

### Andrew Weaver

**Non-executive Director**

Andrew is a resident of Jersey, a partner of the Jersey law firm, Appleby, and a member of Appleby Group. He was, until 31 December 2015, also a Director of Appleby Fund Administrators (Jersey) Limited (now Estera Fund Administrators (Jersey) Limited). Andrew was a solicitor with Simmons & Simmons in London and Addleshaw Booth & Co (now Addleshaw Goddard) between 1993 and 1998. From 1998 to 2001, Andrew worked as an attorney-at-law in the Cayman Islands with Hunter & Hunter (now Appleby) and between 2001 and 2005 as legal advisor in Jersey. Having been admitted as an advocate in Jersey in 2003, Andrew has been active within the Appleby Group since 2005 and became a partner in 2006. Andrew has worked as a lawyer on corporate matters for over 20 years and has extensive experience in the structuring and formation of investment funds and advising on the regulation and corporate governance of such structures. A substantial part of his legal practice involves advising clients on the establishment, acquisition and disposal of real estate investment vehicles and private equity investment structures. Andrew regularly advises on listed vehicles, especially those on the Channel Islands Securities Exchange, the London Stock Exchange and the London Stock Exchange's Alternative Investment Market.

# Directors' Report

## The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2015.

### General information
The Company is incorporated in Jersey, Channel Islands under the Companies (Jersey) Law 1991. The Company was admitted to the premium segment of the Main Market of the London Stock Exchange on 15 June 2015.

The Group's objective is to generate an attractive return for shareholders through the acquisition and active management of high quality pre-let properties in Germany. The Group is primarily invested in the residential market, supplemented with selective investments in commercial property. The majority of commercial property within the portfolio is located within residential and mixed-use properties.

### Dividends
The Directors recommend a final dividend of 2.9p per Ordinary Share to be paid on or around 10 June 2016 to ordinary shareholders on the register on 20 May 2016.

The Directors declared a dividend of 1.3p per share on 28 August 2015, paid on 9 October 2015 to ordinary shareholders on the register on 18 September 2015. (2014: nil).

### Directors
The Directors who served throughout the year were as follows:

| Name of Director | |
|---|---|
| R Hingley[1] | Independent Non-executive Director, Chairman |
| R Prosser | Non-executive Director |
| M Northover | Non-executive Director |
| Q Spicer | Senior Independent Non-executive Director |
| A Weaver | Independent Non-executive Director |

1 Robert Hingley was appointed on 15 June 2015.

### Directors' indemnities
The Company has made third party indemnity provisions for the benefit of its Directors which were in place throughout the year and remain in force at the date of this report.

### Substantial shareholdings
As at 15 April 2016, the Company has received the following notifications under chapter 5 of the Disclosure and Transparency Rules of shareholdings of more than 3% of the Company's share capital:

| Name of holder | Percentage of voting rights and issued share capital | No. of Ordinary Shares |
|---|---|---|
| Woodford Investment Management LLP | 18% | 16,748,243 |
| Bracebridge Capital LLC | 6.53% | 6,038,503 |

### Requirements of the Listing Rules

The following table provides references to where the information required by the Listing Rule 9.8.4R is disclosed.

| | |
|---|---|
| A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief. | Not applicable |
| Any information required by LR 9.2.18R (Publication of unaudited financial information). | Not applicable |
| Details of any long-term incentive schemes as required by LR 9.4.3R. | Not applicable |
| Details of any arrangements under which a Director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking. Where a Director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review. | No such waivers |
| Details required in the case of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders. | No such share allotments |
| Where a listed company has listed shares in issue and is a subsidiary undertaking of another company, details of the participation by the parent undertaking in any placing made during the period under review. | Not applicable |
| Details of any contract of significance subsisting during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a Director of the listed company is or was materially interested; and (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder. | a) Notes 19, 23, 29 and 34 to the accounts b) No controlling shareholder, not applicable |
| Details of contracts for the provision of services to the Company or any of its subsidiary undertakings by the controlling shareholder. | No controlling shareholder, not applicable |
| Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review. | No such agreements |
| Board statement in respect of relationship agreement with the controlling shareholder. | No controlling shareholder, not applicable |

### Corporate governance

The Directors have prepared a statement on how the UK Corporate Governance Code has been applied, which is set out on pages 26 to 29.

### Post balance sheet events

**Placing Programme**

The Company announced on 3 March 2016 that it had gained shareholder approval to implement a proposed Placing Programme which, if required, would allow capital to be raised in an efficient and cost-effective manner. The Placing Programme can be implemented in the period from 7 March 2016 to 8 February 2017 in the event that the Company identifies properties that are suitable for acquisition in accordance with its investment objective and policy.

**Issue of new shares**

On 3 March 2016 the Company announced the successful issue of 22,619,047 new shares at 168p to raise gross proceeds of £38.0 million, of which 19,642,857 shares were placed with institutional and other investors and an additional 2,976,190 shares were issued by way of an Offer for Subscription. The new shares were issued at 168p, a premium to the reported EPRA NAV per share as at 31 December 2015 of 167p. The purpose of this fundraising is to enable the Company to continue to grow the Portfolio, particularly in Berlin where the Board believe that significant market opportunity exists.

**Acquisitions**
The Company completed on four properties that were notarised before the financial year end, with a total value of €19.8 million. A further building was notarised in the period post 31 December 2015 at a price of €3.1 million.

**Debt**
A seven-year debt facility of €16.7 million was signed in the period after the financial year end. Of this, €15.5 million has been drawn against this with 70% of the disbursed amount being fixed at 1.7% by way of interest rate swap. The undrawn balance of €1.1 million is expected to be drawn in H1 2016. Amortisation of 1.1% commences in April 2017.

**Auditor**
Each of the Directors at the date of approval of this Annual Report has taken steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

**Viability Statement**
The Directors have assessed the viability of the Group over a three-year period, which is significantly longer than the 12-month period from the date of approval of the financial statements that was previously considered for going concern purposes. The Directors have chosen three years because that is the period over which we have sufficiently robust forecasts as part of our business plan and the Viability Statement is based on a robust assessment of those risks that would threaten the business model, future performance, solvency or liquidity of the Group. For the purposes of the Viability Statement the Directors have considered the impact of the following factors affecting the projections of cash flows for the three-year period ending 31 December 2018, including:

a) the potential operating cash flow requirement of the Group;
b) seasonal fluctuations in working capital requirements;
c) property vacancy rates during the period;
d) rent arrears and bad debts during the period;
e) capital and corporate expenditure during the period; and
f) condominium sales proceeds.

The Directors recognise that the projections of cash flows do not include the impact of further potential property acquisitions over the three-year period as these acquisitions are ad hoc and discretionary in nature. In this respect, the Directors have resolved to complete a formal review of the working capital headroom of the Group for each potential acquisition. On the basis of this assessment, and assuming the principal risks are managed or mitigated as expected, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

**Registered office**
13-14 Esplanade
St Helier
Jersey
JE1 1EE
Channel Islands

The Directors' Report was approved by the Board of Directors and authorised for issue and signed as follows:

**On behalf of the Board**

**Andrew Weaver**
Director

**Richard Prosser**
Director

28 April 2016

# Corporate Governance Statement

## The Directors are committed to maintaining high standards of corporate governance. Insofar as the Directors believe it to be appropriate and relevant to the Company, it is their intention that the Company should comply with best practice standards for the business carried on by the Company.

To comply with the UK Listing Regime, the Company must comply with Listing Rule 9.8.6(5)R which requires the Company to apply the provisions of the UK Corporate Governance Code ('the Code') published on 17 September 2014 to the extent that they are considered relevant to the Company or explain any departures therefrom.

The Code is available for download from the Financial Reporting Council's ('FRC') website www.frc.org.uk.

The Board has considered the principles and recommendations of the Code. With effect from Admission, the Company has complied with all the provisions of the Code except as set out below.

The Code includes provisions relating to:
- the role of the Chief Executive;
- Executive Directors' remuneration; and
- the internal audit function.

The Board considers that the provisions relating to the Chief Executive and executive remuneration are not relevant to the Company, being a smaller listed externally managed investment company with an entirely Non-executive Board. The Group does not have an internal audit function and this is explained in the Audit and Risk Committee's report.

### Leadership

**Composition, independence and role of the Board**

The Board currently comprises of two Non-executive Directors and three independent Non-executive Directors, one of which also acts as Chairman to the Company. The Chairman is Robert Hingley. The Chairman of the Board must be independent for the purposes of Chapter 15 of the Listing Rules. Mr Hingley is considered independent because he:
- had no current or historical employment with the Property Advisor; and
- had no current directorships in any other investment funds managed by the Property Advisor.

Quentin Spicer is the Senior Independent Non-executive Director. Mr Spicer is also considered independent for the same reasons listed above.

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring protection of investors. The Board determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Company:
- the overall objectives of the Company as described under the sections 'Business Model' and 'Strategy' set out on pages 10 to 11 of this document and the strategy for fulfilling those objectives within an appropriate risk framework in light of market conditions prevailing from time to time;
- the appointment of the Property Advisor, administrator and other appropriately skilled service providers and to monitor their effectiveness through regular reports and meetings; and
- the key elements of the Company's performance including NAV and EPRA NAV growth and the payment of dividends.

The Board is responsible to shareholders for the overall management of the Company and for preparing the Annual Report and Accounts. The Board is satisfied that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In seeking to achieve this, the Directors have set out the Company's investment objective and policy and have explained how the Board and its delegated Committees operate and how the Directors review the risk environment within which the Company operates and set appropriate risk controls. Furthermore, throughout the Annual Report and Financial Statements the Board has sought to provide further information to enable shareholders to better understand the Company's business and financial performance.

The Company holds a minimum of four Board meetings per year to discuss general management, structure, finance, corporate governance, marketing, risk management, compliance, asset allocation and gearing, contracts and performance. The quarterly Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance, compliance and controls, which are supplemented by communication and discussions throughout the year.

## Re-election

There are provisions in the Company's Articles of Incorporation which require Directors to seek re-election on a periodic basis. There is no limit on length of service, nor is there any upper age restriction on Directors.

The Board considers that there is significant benefit to the Company arising from continuity and experience among Directors, and accordingly does not intend to introduce restrictions based on age or tenure. It does, however, believe that shareholders should be given the opportunity to review membership of the Board on a regular basis.

In accordance with the Company's Articles of Association, at each AGM all independent Directors who held office at the two previous AGMs and did not retire shall retire from office and shall be available for re-election.

The Board are of the opinion that the Board members standing for re-election should be re-elected as they have the right skills and experience to continue to manage the Company.

## Committees of the Board

The Board has established various committees and approved their terms of reference.

### Audit and Risk Committee

In accordance with the Code, the Audit and Risk Committee will be chaired by Richard Prosser, with Robert Hingley and Matthew Northover as members. The Board considers that Richard's experience makes him suitably qualified to chair the Audit and Risk Committee. The Audit and Risk Committee meets no less than twice a year and, if required, meetings can also be attended by the Property Advisor, the administrator and the auditor.

The Audit and Risk Committee is responsible for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit and Risk Committee is specifically charged under its terms of reference to advise the Board on the terms and scope of the appointment of the auditors, including their remuneration, independence, objectivity and reviewing with the auditors the results and effectiveness of the audit.

### Property Valuation Committee

The Company has also established a Property Valuation Committee, which is chaired by Quentin Spicer, with Richard Prosser as a member. The Property Valuation Committee is responsible for reviewing the property valuations prepared by the valuer and any further matters relating to the valuation of the Portfolio.

### Management Engagement Committee

In accordance with the Code, the Management Engagement Committee has been established to review the performance of the Property Advisor on an annual basis. It is chaired by Robert Hingley, with Richard Prosser and Quentin Spicer as members.

With this being the first year of the performance review by the Committee of the Property Advisor, the review will be conducted subsequent to the publication of the Annual Report and Accounts. For this reason, a full report of the Committee's performance review will be included in the 2016 Annual Report and Accounts, as required by the Code.

### Nomination and Remuneration Committee

In accordance with the Code, the Nomination and Remuneration Committee is chaired by Quentin Spicer, with Robert Hingley and Andrew Weaver as members.

With this being the first year of the Committee, there have been no nominations in the current year since the transition of the Group's listing to the London Stock Exchange. As such, a full report of the Committee will be included in the 2016 Annual Report and Accounts.

The Group has no employees. There are five Directors, all of whom are male. The Directors have agreed that appointments to the Board should be made on the basis of the Group's specific needs and should be based on merit, without reference to age, gender or religious belief.

The Board does not intend to apply targets for gender board diversity at this time.

### Board and Committee meetings

The table below sets out the number of Board, Audit and Risk Committee, Property Valuation Committee, Management Engagement Committee and Nomination and Remuneration Committee meetings held during the year ended 31 December 2015 and, where appropriate, the number of such meetings attended by each Director.

| | Scheduled Board | | Ad-hoc Board[2] | | Audit & Risk | | Property Valuation | | Management Engagement | | Nomination & Remuneration | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| R Hingley[1] | 2 | 2 | 1 | 0 | 1 | 1 | – | – | – | – | – | – |
| R Prosser | 3 | 3 | 10 | 9 | 1 | 1 | 1 | 1 | – | – | – | – |
| M Northover | 3 | 3 | 10 | 3 | 1 | 1 | – | – | – | – | – | – |
| Q Spicer | 3 | 2 | 10 | 7 | – | – | 1 | 1 | – | – | – | – |
| A Weaver | 3 | 3 | 10 | 9 | – | – | – | – | – | – | – | – |

1 Robert Hingley joined on 15 June 2015.
2 Ad-hoc Board meetings are called without due notice on property issues when attendance cannot be guaranteed or Directors are precluded from attending through location in the UK.

### Information and support for Directors

New Directors receive a full, formal and tailored induction on joining the Board in order to further inform them of the Group's activities and structure. All Directors are able to take independent professional advice at the Group's expense in the furtherance of their duties, if necessary. The Company also makes appropriate training available to all existing Directors.

The Company purchases appropriate insurance in respect of legal action against its Directors and Officers.

### Relations with shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. The Board receives feedback on the views of shareholders from its corporate broker. Through this process the Board seeks to monitor the views of shareholders and to ensure an effective communication programme.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation.

The Company regularly reviews the shareholder profile of the Company. Shareholders may also contact the Company directly through the Investor section of the Company's website www.phoenixspree.com

### Group Secretary

The Group Secretary is responsible for ensuring that Board procedures are complied with. Under the guidance of the Chairman, the Secretary ensures that information flows between the Board, the Committees and to/from the Directors. It facilitates inductions to new Directors and the provision of additional information where required and appropriate.

The Secretary is responsible for advising the Board on governance matters and is available to all Directors for advice and support as required.

### Non-executive Directors

The Board considers its current Non-executive Directors to be of sufficient calibre and number that their views be of sufficient weight that no individual or small group can dominate the Board's decision-making process. Their qualifications and experience are relevant to their directorships and in their appointments to the Committees where applicable.

The Non-executive Directors' terms and conditions of appointment are available for inspection at the Company's registered office on request and will be available at the forthcoming AGM.

### Independence of Non-executive Directors

The Code states that it is for the Board to determine whether a Director is independent in character and judgement and to consider whether there are any relationships or circumstances that are likely to affect a Director's judgement.

In applying the Code, the Board has considered a number or factors in determining the independence of each Non-executive Director and sets out the outcomes below.

### Non-executive Directors' shareholdings

The Board has assessed that the holdings of these Directors are not significant and believes such levels of investment should not raise questions regarding their independence. The Board considers that Directors owning shares in the Company directly aligns them with the interests of the shareholders.

### Board assessment

In the past, annual appraisals by external investor research analysts have recommended that shareholders vote against, or abstain from, any proposed re-election of Non-executive Directors due to a perceived non-compliance with the Code regarding the criteria quoted above. The Code requires companies to 'Comply or Explain'. We have continually and consistently met this requirement.

Our restructuring of the Board and the membership of the standing Committees took into account the views expressed by our shareholders together with issues of independence, diversity and the requisite skills to deliver our new strategy.

We believe the holding of shares (within certain limits) or representation of a substantial shareholder by a Non-executive Director, does not evidence that a Director's belief and commitment to the business is compromised. We believe that it aligns them directly with the interest of our shareholders. Following assessment the Board considers each of our Non-executive Directors to be independent in both character and judgement. We believe there are no circumstances that give rise to question their respective judgements when considering matters put before the Board in 2015 or in the future.

### Performance evaluation

The Board has a process of formal evaluation for individual Directors, the Committees and the processes utilised by the Board itself. This is undertaken by the Chairman and the Audit Committee. The Board areas evaluated include:

- Board organisation, structure and membership;
- the conduct of meetings;
- the responsibilities of the Board;
- the performance of the Board and its processes;
- the information provided to non-executives; and
- the effectiveness of the management process from the Board to lower levels of management.

### Non-executive Directors – performance evaluation

The process of performance evaluation is designed to consider all elements of performance including any perceived shortcomings, training or development needs and unforeseen tasks and responsibilities that have arisen during the year.

While no KPIs are set for individual Non-executive Directors, the time, effort and application applied in the performance of their duties for the Board and, where applicable, Committees is taken into account.

### The Board, the Committees and the management process – performance evaluation

In line with the requirements of the Code, the Company intends to carry out annual performance evaluations of the Board, the Committees and the processes utilised by each forum. The aim of the evaluation is to recognise the strengths and address any weaknesses and consider improvements to the management process. The evaluation is designed to ensure that the Board meets its objectives and effectiveness is maximised. A full report of the evaluation process will be included in the 2016 Annual Report and Accounts.

This evaluation addresses such issues as:

- the frequency of meetings and the business transacted;
- the workload of each forum;
- the timing, level of detail and appropriateness of information put before meetings;
- the reporting process from Committees to the Board and delegation process itself;
- the levels of expertise available within the membership of the Committees and the need for, selection of and the use of external consultants; and
- the effectiveness of internal controls following the review and report of the Audit Committee.

# Audit and Risk Committee Report

This report provides details of the role of the Committee and the duties it has undertaken during the year under review.

## Summary of the role of the Audit and Risk Committee

The Audit and Risk Committee is responsible for reviewing the half-year and annual financial statements and recommends them to the Board for approval. The role of the Audit Committee includes:

- Monitoring the integrity of the Annual Report and Financial Statements of the Company, covering:
  - formal announcements relating to the Company's financial performance;
  - significant financial reporting issues and judgements;
  - matters raised by the external auditors; and
  - appropriateness of accounting policies and practices.
- Reviewing and considering the Code and FRC Guidance on Audit Committees.
- Monitoring the quality and effectiveness of the independent external auditors, which includes:
  - meeting regularly to discuss the audit plan and the subsequent audit report;
  - considering the level of fees for both audit and non-audit work;
  - reviewing independence, objectivity, expertise, resources and qualification; and
  - making recommendations to the Board on the appointment, reappointment, replacement and remuneration of the external auditors.
- Reviewing the Company's procedures for prevention, detection and reporting of fraud, bribery and corruption.
- Monitoring and reviewing the internal control and risk management systems of the service providers together with the need for an Internal Audit function.

The Audit Committee's full terms of reference can be obtained by contacting the Company's administrator.

### Financial reporting

The Audit and Risk Committee is responsible for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit and Risk Committee is specifically charged under its terms of reference to advise the Board on the terms and scope of the appointment of the auditors, including their remuneration, independence, objectivity and reviewing with the auditors the results and effectiveness of the audit.

### Composition of the Audit and Risk Committee

In accordance with the Code, the Audit and Risk Committee is chaired by Richard Prosser, with Robert Hingley and Matthew Northover as members. The Board considers that Richard Prosser's experience makes him suitably qualified to chair the Audit and Risk Committee.

### Meetings

The Audit and Risk Committee is scheduled to meet no less than twice a year and, if required, meetings can also be attended by the Property Advisor, the administrator and the auditor.

## Significant issues related to the financial statements

| Issue | How addressed |
| --- | --- |
| **Goodwill impairment**<br>As a result of the acquisition of a subsidiary in the current year, the Group accounted for goodwill on acquisition of €4.5 million and subsequently impaired it. | Since the Company transitioned its listing to the Main Market of the London Stock Exchange, the Directors have now had an opportunity to complete the initial accounting in respect of the acquisition of Phoenix Spree Property Fund Limited & Co. KG and the goodwill resulting from this transaction. As a result of this review, the Directors have been unable to attach additional value to the goodwill over and above the value of the investment property which is reflected in the financial statements at market value and have therefore fully impaired it. |
| **Accounting for acquisition**<br>Given the size of the acquisition made this year, it is particularly important that it has been correctly accounted for in accordance with IFRS 3. | Discussed with management their work in this area, in particular as regards the accounting for goodwill and subsequent impairment. |
| **Valuation of investment property**<br>A significant focus for the Audit and Risk Committee is the valuation of the Group's property portfolio carried out at half year in June and at the financial year end in December each year, as this is a key determinant of the Group's NAV, its profit or loss and the Property Advisor's remuneration. | The Company has appointed Jones Lang LaSalle to act as the Independent Property Valuer. The Audit and Risk Committee is satisfied that the valuer is independent and that they conducted their work in accordance with the Royal Institution of Chartered Surveyors Valuation Standards ('RICS').<br><br>The Property Valuation Committee reviews the valuer's report, the methodology followed and the assumptions incorporated to assess the adequacy of the valuation. |

## External audit

**Assessing the effectiveness of the external audit process**

The Committee satisfied itself as to the effectiveness of the external audit process as follows:

**The audit firm**

The FRC's overall report on the results of the Annual Audit Quality Reviews of Audit Firms and the separate report on the results for our auditors, RSM UK Audit LLP, were reviewed to ensure that no issues of concern arose that might have a bearing on the audit appointment. No such issues arose.

**The audit partner**

As part of the appointment of a new audit firm and audit partner in 2014, no additional rotation considerations were taken into account for the current year. Following completion of the audit the Committee assessed the partner's performance against expectations.

**The audit team**

Continuity of personnel was reviewed and found to be satisfactory. To supplement the Committee's necessarily limited exposure to junior members of the audit team, feedback was sought on the performance of the external audit team, in particular as regards their understanding of the business, technical competence and attitude.

**The audit plan**

The scope of the audit was reviewed and debated by the Committee with the auditors prior to work being commenced. This was done in the light of both the auditors' and the Committee's assessment of the key risks. The auditors explained materiality thresholds used in determining their audit scope and the Committee confirmed that these were in accordance with normal audit practice.

The generality of the audit plan document was assessed and found to be satisfactory. Arrangements to identify, report and manage conflicts of interest were satisfactory.

The Committee also considered whether it wished to commission further audit work to be conducted beyond which the auditor considered necessary for the expression of their opinions on the Group and subsidiary accounts and concluded that it did not.

**Matters arising from the audit**

These were promptly and effectively communicated and addressed as appropriate. The robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements were seen as appropriate. The detailed report received from the auditors following completion of their work gave comfort as to the diligence of execution of that work.

**Added value**

In appraising the overall performance of the auditors, the Committee considered whether they had provided useful feedback arising from their work additional to their statutory responsibilities.

**Independence**

In addition to receiving the auditors' formal confirmation of their independence, the Committee considered whether this was demonstrated through their general approach and attitude and were satisfied that this was the case.

**Non-audit services**

It was debated and confirmed that Group policy on non-audit services provided by the audit firm (and set out below) remains appropriate and was complied with. Fees additional to those for the statutory audit were particularly high this year due to the work required on the Circular to shareholders for Admission to Listing. The Committee considered the auditors to be in the best position to conduct this work, given the timescales and knowledge required. In the view of the Committee it did not compromise the independence of the audit of the financial statements. The objectivity of the auditor was safeguarded by the use of completely separate teams for non-audit work.

**Audit fees**

The level of audit fees was reviewed to ensure that it was sufficient for the work necessary but not excessive. In particular, changes in fees from the previous year were considered in relation to changes in the Group and in risk assessments.

**Audit tendering**

The Committee considered whether the audit appointment should be put out to tender. In doing so, it considered both the performance of the current auditors and the likely costs and potential benefits of change.

Going forward, the Committee will continue to keep the audit appointment under review, having regard to the new EU requirements for audit tendering.

Following the above, the Audit Committee has recommended to the Board that RSM UK Audit LLP is reappointed.

**Group policy on the provision of non-audit services by the auditor**
The Committee has an established policy for the commission of non-audit work from the Group's auditor.

The external auditor is excluded from providing non-audit services to the Company where the objectives of such assignments are inconsistent with the objectives of the audit. Additionally, no work is awarded to the auditor which would result in an element of self-review, either during the work or via the audit itself.

The Committee will continue to approve all non-audit fees prior to the work commencing and review the non-audit fees in aggregate for the year.

**Risk management and internal control**
The Committee reviews the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems and review and approves the statements to be included in the Annual Report concerning internal controls and risk management.

The Committee is also responsible for oversight and advice to the Board on the current risk exposures and future risk strategy of the Company.

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The result of this review, the potential impact of each type of risk identified and the mitigation reasons put in place are set out in the 'Principal Risks' section of the Annual Report on page 20.

### Internal audit
The Board believes that there is currently no requirement for an internal audit department, given the Group's current size.

Once the Board determines the Group is of sufficient size, an internal auditor with suitable qualifications and experience will be appointed and an internal audit department established and expanded over time. Ultimately this role will be widened to encompass reviews of the efficiency of operations and to make recommendations on rationalisation of the business. Once established, the internal audit function will report directly to the Audit and Risk Committee.

The Committee considers at least once a year whether there is a need for an internal audit function.

# Directors' Remuneration Report

**The information provided in this part of the Directors' Remuneration Report is not subject to audit**

**Introduction**

This report is on the activities of the Nomination and Remuneration Committee.

**Remuneration policy**

In accordance with the Code, the Nomination and Remuneration Committee is chaired by Quentin Spicer, with Robert Hingley and Andrew Weaver as members. The Committee is responsible for ensuring there is a formal, rigorous and transparent procedure for the development and implementation of policy on executive remuneration. It takes its lead from the Board in linking remuneration to the achievement of strategic goals.

**Duties**

The Committee is responsible for setting the Directors' remuneration levels, in conjunction with the Chairman and with consideration of the following:

- levels of Directors' remuneration should reflect the time commitment and responsibilities of the role;
- Non-executive Directors' remuneration should not include share options or other performance-related elements;
- careful consideration should be given to what compensation commitments entail in the event of early termination of a Director's appointment;
- notice of contract periods should be set at one year or less; and
- no Director should be involved in deciding his or her own remuneration.

The Committee is also responsible for judging where to position the Company relative to other companies in relation to the level of Directors' remuneration, but using such comparisons with caution in view of the risk of increased remuneration with no corresponding improvement in performance; and considering and making the appropriate recommendations to the Board with regard to the need to appoint external remuneration consultants.

For the years ended 31 December 2015 and 31 December 2014 Directors' fees incurred were as follows:

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| R Hingley (appointed 15 June 2015) | 21,667 | Nil |
| R Prosser | 17,247 | 8,000 |
| M Northover | Nil | Nil |
| Q Spicer | 23,065 | 15,000 |
| A Weaver | 17,247 | 8,000 |

Matthew Northover is a Director and shareholder of PMM Partners (UK) Limited, the Company's appointed Property Advisor, and as such does not receive any Directors' fees. The terms of business and remuneration of PMM Partners (UK) Limited are disclosed in note 34.

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Jersey company law requires the Directors to prepare financial statements for each financial year. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union ('EU').

The financial statements are required by law and IFRS as adopted by EU to present fairly the financial position of the Group.

Under Jersey company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that these financial statements comply with these requirements.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:
- the financial statements, prepared in accordance with the applicable set of accounting standards (as detailed above) and Company Law, give a true and fair view of the assets, liabilities, financial position and profit and loss of the issuer and the undertakings included in the consolidation taken as a whole;
- the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and
- the Annual Report and Accounts, as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

**For and on behalf of the Board**

**Andrew Weaver**
Director

28 April 2016

# Independent Auditor's Report to the members of Phoenix Spree Deutschland Limited

We have audited the Group financial statements (the 'financial statements') of Phoenix Spree Deutschland Limited for the year ended 31 December 2015 on pages 38 to 65. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113 A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at http://www.frc.org.uk/auditscopeukprivate.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991 and Article 4 of IAS Regulation.

### Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Director's explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures, drawing attention to any necessary qualifications or assumptions.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the International Standards on Auditing (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

# Independent Auditor's Report to the members of Phoenix Spree Deutschland Limited continued

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 25, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

### Our assessment of risks of material misstatement

The risks set out below should be read in conjunction with the significant risk issues considered by the Audit Committee on page 30 and the significant accounting policies disclosed in note 2 to the Financial Statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

In arriving at our audit opinion on the financial statements as set out above, the risks of material misstatements that had the greatest impact on our audit were as follows:

**Valuation of investment properties held by the Group**

***Risk of material misstatement –*** The accounting policy in respect of investment properties is to hold them at fair value in the financial statements, and to recognise the movement in the value in the accounting period in the Income Statement. The Directors' assessment of the value of investment properties both on acquisition, and at the year end date, is considered a significant audit risk due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity of the valuation process.

***Audit approach adopted –*** We reviewed the independent valuation of investment properties to ensure they had been prepared on a consistent basis for all properties and are considered to be appropriate and correctly recorded in the financial statements in line with Accounting Standards.

We reviewed the inputs provided by the Property Advisor to the valuer and ensured these reflected the correct inputs for each property.

We considered market data for a sample of properties and ensured this was consistent with the valuation report.

We discussed significant movements with the Property Advisor and the valuer and challenged where appropriate.

**Acquisition of Phoenix Spree Property Fund GmbH and Co. KG ('PSPF')**

***Risk of material misstatement –*** The Company acquired 94.8% of PSPF on 9 March 2015 for a total fair value consideration of €41.5 million. This was made up of €2.4 million paid in cash and €39.1 million in shares of the Company valued on the day of the acquisition.

As a result, the results of PSPF will be consolidated and the entity will be shown as a subsidiary with non-controlling interest of 5.2%.

The fair values of the consideration, and the net assets, and any resulting amount for goodwill involve judgement and estimation and are therefore subject to risk of misstatement.

***Audit approach adopted –*** We reviewed the acquisition documentation and re-performed the goodwill calculation in line with the corroborated consideration and fair value of PSPF net assets at acquisition.

We reviewed the consolidation working paper to ensure that PSPF had been accounted for appropriately.

We ensured the disclosures made in the Financial Statements were appropriate.

### Our application of materiality
When establishing our overall audit strategy we set certain thresholds which help us to determine the extent of our audit testing, designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

At the audit planning stage we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole ('FSM'). During planning FSM was calculated as €2.6 million which was not changed during the course of the audit. This figure was calculated by reference to the total for gross assets of which it represents 0.9%.

We report to the Audit Committee all unadjusted misstatements in excess of €65,000 as well as misstatements below those thresholds that in our view warranted reporting on qualitative grounds.

### An overview of the scope of our audit
Our audit scope covered 100% of Group revenue, Group profit and total Group assets, and was performed to the materiality levels set out above.

**Euan Banks for and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP)**
**Auditor**
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

28 April 2016

# Consolidated Statement of Comprehensive Income
## For the year ended 31 December 2015

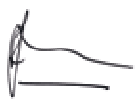
| Continuing operations | Note | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|---|
| Revenue | 6 | 12,070 | 6,577 |
| Property expenses | 11 | (7,258) | (5,818) |
| **Gross profit** | | **4,812** | **759** |
| Other operating income | 7 | 261 | 57 |
| Administrative expenses | 8 | (2,410) | (1,537) |
| Gain on disposal of investment property | 12 | 670 | – |
| Investment property fair value gain | 13 | 18,148 | 4,509 |
| **Operating profit before exceptional costs** | | **21,481** | **3,788** |
| Exceptional item – transaction costs | 9 | (2,256) | – |
| Exceptional item – impairment of goodwill | 18 | (4,493) | – |
| **Operating profit** | | **14,732** | **3,788** |
| Net finance charge | 15 | (3,164) | (1,157) |
| Gain on financial asset | 14 | 1,395 | 5,827 |
| **Profit before taxation** | | **12,963** | **8,458** |
| Income tax expense | 16 | (2,640) | (1,112) |
| **Profit after taxation** | | **10,323** | **7,346** |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the year** | | **10,323** | **7,346** |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 9,721 | 7,346 |
| Non-controlling interests | | 602 | – |
| | | **10,323** | **7,346** |
| Earnings per share attributable to the owners of the parent from continuing operations | | | |
| Basic (€) | 31 | 0.14 | 0.16 |
| Diluted (€) | 31 | 0.14 | 0.15 |

# Consolidated Statement of Financial Position
## As at 31 December 2015

| | Note | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 18 | – | – |
| Investment properties | 21 | 283,554 | 115,192 |
| Property, plant and equipment | 22 | 30 | – |
| Deferred tax asset | 16 | 296 | 237 |
| Financial asset at fair value through profit or loss | 14 | – | 36,859 |
| Loans and receivables | 23 | 1,382 | – |
| | | **285,262** | **152,288** |
| **Current assets** | | | |
| Trade and other receivables | 24 | 2,286 | 4,093 |
| Cash and cash equivalents | 25 | 12,757 | 3,583 |
| | | **15,043** | **7,676** |
| **Total assets** | | **300,305** | **159,964** |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 26 | 11,523 | 50,350 |
| Trade and other payables | 27 | 2,684 | 1,434 |
| Current tax liabilities | 16 | – | 19 |
| | | **14,207** | **51,803** |
| **Non-current liabilities** | | | |
| Borrowings | 26 | 122,278 | 3,161 |
| Derivative financial instruments | 28 | 1,869 | 1,496 |
| Deferred tax liability | 16 | 10,786 | 3,211 |
| | | **134,933** | **7,868** |
| **Total liabilities** | | **149,140** | **59,671** |
| **Equity** | | | |
| Stated capital | 30 | 115,150 | 67,708 |
| Share-based payment reserve | 29 | 1,264 | 8,949 |
| Retained earnings | | 32,125 | 23,640 |
| Equity attributable to owners of the parent | | 148,539 | 100,297 |
| Non-controlling interest | | 2,626 | (4) |
| **Total equity** | | **151,165** | **100,293** |
| **Total equity and liabilities** | | **300,305** | **159,964** |

The financial statements on pages 38 to 65 were approved by the Board of Directors and authorised for issue and signed on its behalf by:

**Andrew Weaver**
Director



**Richard Prosser**
Director

28 April 2016

# Consolidated Statement of Changes in Equity
## For the year ended 31 December 2015

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Stated capital €'000 | Retained earnings €'000 | Share-based payment reserve €'000 | **Total €'000** | Non-controlling interest €'000 | **Total equity €'000** |
| **Balance at 1 January 2014** | **67,708** | **16,294** | **6,898** | **90,900** | **(4)** | **90,896** |
| Comprehensive income: | | | | | | |
| Total comprehensive income for the year | – | 7,346 | – | **7,346** | – | **7,346** |
| Transactions with owners – recognised directly in equity: | | | | | | |
| Performance fee (see note 11) | – | – | 2,025 | **2,025** | – | **2,025** |
| Synthetic equity fee (see note 11) | – | – | 26 | **26** | – | **26** |
| **Balance at 31 December 2014** | **67,708** | **23,640** | **8,949** | **100,297** | **(4)** | **100,293** |
| Comprehensive income: | | | | | | |
| Total comprehensive income for the year | – | 9,721 | – | **9,721** | 602 | **10,323** |
| Acquisition of subsidiary (see note 19) | – | – | – | **–** | 2,028 | **2,028** |
| Transactions with owners – recognised directly in equity: | | | | | | |
| Issue of share capital | 39,052 | – | – | **39,052** | – | **39,052** |
| Dividends paid (see note 17) | – | (1,236) | – | **(1,236)** | – | **(1,236)** |
| Performance fee (see note 11) | 8,390 | – | (7,126) | **1,264** | – | **1,264** |
| Synthetic equity fee (see note 29) | – | – | (559) | **(559)** | – | **(559)** |
| **Balance at 31 December 2015** | **115,150** | **32,125** | **1,264** | **148,539** | **2,626** | **151,165** |

# Consolidated Statement of Cash Flows
## For the year ended 31 December 2015

| | Note | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|---|
| **Profit before tax** | | **12,963** | 8,458 |
| Adjustments for: | | | |
| Net finance charge | | **3,164** | 1,157 |
| Gain on disposal of investment property | | **(670)** | – |
| Investment property revaluation gain | | **(18,148)** | (4,509) |
| Gain on financial asset | | **(1,395)** | (5,827) |
| Depreciation | | **6** | – |
| Performance fee charge | | **1,264** | 2,025 |
| Impairment of goodwill | | **4,493** | – |
| Synthetic equity fee | | **–** | 26 |
| **Operating cash flows before movements in working capital** | | **1,677** | 1,330 |
| Decrease in receivables | | **1,807** | 1,297 |
| Increase in payables | | **1,250** | 741 |
| **Cash generated from operating activities** | | **4,734** | 3,368 |
| Income tax received | | **5** | – |
| **Net cash generated from operating activities** | | **4,739** | 3,368 |
| **Cash flow from investing activities** | | | |
| Proceeds on disposal of investment property | | **5,502** | – |
| Acquisition of subsidiary | 19 | **1,165** | – |
| Bank interest received | | **6** | 5 |
| Capital expenditure on investment property | | **(3,934)** | (1,851) |
| Property additions | | **(17,413)** | – |
| Additions to property, plant and equipment | | **(23)** | – |
| Loans to partners | | **(1,365)** | – |
| **Net cash used in investing activities** | | **(16,062)** | (1,846) |
| **Cash flow from financing activities** | | | |
| Interest paid on bank loans | | **(3,978)** | (3,057) |
| Repayment of bank loans | | **(46,000)** | (2,942) |
| Drawdown on bank facilities | | **72,266** | – |
| Cash-settled synthetic equity fee | | **(559)** | – |
| Dividends paid | | **(1,236)** | – |
| **Net cash generated from/(used in) financing activities** | | **20,493** | (5,999) |
| **Net increase/(decrease) in cash and cash equivalents** | | **9,170** | (4,477) |
| **Cash and cash equivalents at beginning of year** | | **3,583** | 8,029 |
| Exchange gains on cash and cash equivalents | | **4** | 31 |
| **Cash and cash equivalents at end of year** | | **12,757** | 3,583 |

# Notes to the Financial Statements
## For the year ended 31 December 2015

### 1. Basis of preparation
The Group consists of a Parent Company, Phoenix Spree Deutschland Limited ('the Company'), incorporated in Jersey, Channel Islands and all its subsidiaries ('the Group') which are incorporated and domiciled in and operate out of Jersey and Germany. Phoenix Spree Deutschland Limited is listed on the premium segment of the Main Market of the London Stock Exchange.

The Group invests in residential and commercial property in Germany and during the year acquired Phoenix Spree Property Fund GmbH & Co. KG, a company with the same activities.

The registered office is at 13-14 Esplanade, St Helier, Jersey, JE1 1EE, Channel Islands.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively, 'IFRS'), International Financial Reporting Interpretation Committee ('IFRIC') interpretations, as adopted by the European Union ('IFRS as adopted by the EU').

The financial statements are presented to the nearest €1,000.

The Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting periods beginning on 1 January 2015.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of investment property, and financial assets and liabilities at fair value through profit and loss.

The preparation of the consolidated financial statements requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements, are disclosed in note 4.

### 2. Summary of significant accounting policies
The principal accounting policies adopted are set out below.

**2.1 Going concern**
The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future, based on the facilities secured through refinancing the borrowings of the Group, as set out more fully in note 26. The Directors have prepared projections for the period to 31 December 2018. These projections have been prepared using assumptions which the Directors consider to be appropriate to the current financial position of the Group as regards to current expected revenues and its cost base and the Group's investments, borrowing and debt repayment plans and show that the Group should be able to operate within the level of its current facilities. After making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

**2.2 Basis of consolidation**
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The Company controls an entity when the Group is exposed to, or has rights to, variable returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributable to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Accounting policies of subsidiaries which differ from Group accounting policies are adjusted on consolidation. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The non-controlling interest is computed on an EPRA basis.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

**2.3 Business combinations**

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred to the Group, the liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed in profit or loss as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Goodwill is measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase gain.

**2.4 Revenue recognition**

Revenue includes rental income and excludes service charges and other amounts directly recoverable from tenants. Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its tenants, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

**2.5 Foreign currencies**

(a) Functional and presentation currency

The currency of the primary economic environment in which the Company operates ('the functional currency') is the Euro (€). The presentational currency of the financial statements is also the Euro.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses resulting from such transactions are recognised in the consolidated statement of comprehensive income.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**2.6 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

**2.7 Operating profit**

Operating profit is stated before the Group's gain on its financial assets and after the revaluation gains for the year in respect of investment properties and after gains or losses on the disposal of investment properties.

**2.8 Administrative and property expenses**

All expenses are accounted for on an accruals basis and are charged to the consolidated statement of comprehensive income in the period in which they are incurred. Service charge costs, to the extent that they are not recoverable from tenants, are accounted for on an accruals basis and included in property expenses.

**2.9 Exceptional items**

Exceptional items are disclosed separately in the financial statements where this provides further understanding of the financial performance of the Group, due to their significance in terms of nature or amount.

**2.10 Property Advisor fees**

The element of Property Advisor fees for management services provided are accounted for on an accruals basis and are charged to the consolidated statement of comprehensive income as property expenses in the period in which they are incurred. Property Advisor performance fees which are settled in shares are accounted for in accordance with the requirements of IFRS 2 Share Based Payments. Property Advisor fees comprising synthetic equity participation fees are accounted for in accordance with the requirements of IFRS 2 Share Based Payments.

## 2. Summary of significant accounting policies continued

### 2.11 Investment property

Property that is held for long-term rental yields or for capital appreciation, or both, and that is not occupied by the Group, is classified as investment property.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value, based on market value.

The change in fair values is recognised in profit or loss for the year.

A valuation exercise is undertaken by the Group's independent valuer, Jones Lang LaSalle GmbH ('JLL'), at each reporting date in accordance with the methodology described in note 21 on a building-by-building basis. Such estimates are inherently subjective and actual values can only be determined in a sales transaction. The valuations have been prepared by JLL on a consistent basis at each reporting date.

Subsequent expenditure is added to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred. Changes in fair values are recorded in profit or loss for the year.

Purchases and sales of investment properties are recognised on legal completion.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### 2.12 Goodwill

Goodwill is the difference between the amount paid on the acquisition of the subsidiary undertakings and the aggregate fair value of their separable identifiable assets acquired and liabilities assumed. Goodwill is capitalised as an intangible asset and in accordance with IAS 36 'Impairments of Assets' is not amortised but tested for impairment annually and when there are any indications that its carrying value is not recoverable. As such, goodwill is stated at cost less any provision for impairment in value. For impairment testing purposes, goodwill is allocated to cash-generating units ('CGUs'). If a subsidiary undertaking is subsequently sold, goodwill arising on acquisition is taken into account in determining the profit or loss on sale.

### 2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets to their residual values over their estimated useful lives, on the following basis:

Equipment, fixtures and vehicles – 4.50% – 25% per annum, straight line.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### 2.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.15 Tenant deposits

Tenant deposits are held off balance sheet in a separate bank account in accordance with German legal requirements, and the funds are not accessible to the Group. Accordingly, neither an asset nor a liability is recognised.

### 2.16 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Group classifies its financial assets as held at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired, and is determined at initial recognition.

### (a) Financial assets at fair value through profit or loss ('FVTPL')
Financial assets are classified as FVTPL when the financial asset is designated as FVTPL. A financial asset may be designated as FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 32.

### (b) Loans and receivables
The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. Loans and receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

#### (i) Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the assets are impaired. Interest income is recognised by applying the effective interest rate, except for short-term trade and other receivables when the recognition of interest would be immaterial.

Service charges receivable from tenants are presented net of amounts paid on account by tenants.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due. For trade and other receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within property expenses in the consolidated statement of comprehensive income. On confirmation that the trade and other receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

#### (ii) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, cash at agents, demand deposits, and other short-term highly liquid investments that have maturities of three months or less from inception, are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### (c) Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### (d) Trade and other payables
Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest method; this method allocates interest expense over the relevant period by applying the 'effective interest rate' to the carrying amount of the liability.

### (e) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

### (f) Leases
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## 2.17 Current and deferred income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (a) Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the accounting date.

### (b) Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

## 2. Summary of significant accounting policies continued

**2.17 Current and deferred income tax** continued
Deferred tax is charged or credited in the consolidated statement of comprehensive income except when it relates to items credited or charged directly in equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is calculated at the tax rates and laws that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the accounting date.

The carrying amount of deferred tax assets is reviewed at each accounting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**2.18 New standards and interpretations**
The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2015, as adopted by the European Union, and have not been early adopted:

| Standard | Key requirements | Effective date as adopted by the EU |
|---|---|---|
| Amendments to IAS 16 and IAS 38 | Clarifies acceptable methods of depreciation and amortisation. | 1 January 2016 |
| Amendments to IAS 1 | Disclosure amendments | 1 January 2016 |

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company when the relevant standards and interpretations come into effect. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The following standards have been issued by the IASB but have not yet been adopted by the EU:

| Standard | Key requirements | Effective date as adopted by the EU |
|---|---|---|
| IFRS 9 | Financial Instruments – Replacement to IAS 39 and is built on a single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. | 1 January 2018 |
| IFRS 15 | Revenue from contracts with customers – Introduces requirements for companies to recognise revenue for the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue. | 1 January 2018 |
| IFRS 16 | Leases – Introduces a single lessee accounting model and eliminates the previous distinction between an operating and a finance lease. | 1 January 2019 |

While the above standards have not yet been adopted by the EU, the Company is currently assessing their impact.

## 3. Financial risk management

**3.1 Financial risk factors**
The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

**3.2 Market risk**
Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates, interest rates and general property market risk.

(a) Foreign exchange risk
The Group operates in Germany and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to Sterling against the Euro arising from the costs which are incurred in Sterling. Foreign exchange risk arises from future commercial transactions, and recognised monetary assets and liabilities denominated in currencies other than the Euro.

The Group's policy is not to enter into any currency hedging transactions.

### (b) Interest rate risk
The Group has exposure to interest rate risk. It has external borrowings at a number of different variable interest rates. The Group is also exposed to interest rate risk on some of its financial assets, being its cash at bank balances. Details of actual interest rates paid or accrued during each period can be found in note 26 to the financial statements.

The Group's policy is to manage its interest rate risk by entering into interest rate swaps in order to limit exposure to borrowings at variable rates.

### (c) General property market risk
Through its investment in property, the Group is subject to other risks which can affect the value of property. The Group seeks to minimise the impact of these risks by review of economic trends and property markets in order to anticipate major changes affecting property values.

**3.3 Credit risk**
The risk of financial loss due to a counterparty's failure to honour their obligations arises principally in connection with property leases and the investment of surplus cash.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Tenant rent payments are monitored regularly and appropriate action taken to recover monies owed, or if necessary, to terminate the lease.

Cash transactions are limited to financial institutions with a high credit rating.

**3.4 Liquidity risk**
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans secured on the Group's properties. The terms of the borrowings entitle the lender to require early repayment should the Group be in default with significant payments for more than one month.

**3.5 Capital management**
The prime objective of the Group's capital management is to ensure that it maintains the financial flexibility needed to allow for value-creating investments as well as healthy balance sheet ratios.

The capital structure of the Group consists of net debt (borrowings disclosed in note 26 after deducting cash and cash equivalents) and equity of the Group (comprising stated capital, reserves and retained earnings).

When reviewing the capital structure the Group considers the cost of capital and the risks associated with each class of capital. The Group reviews the gearing ratio which is determined as the proportion of net debt to equity. In comparison with comparable companies operating within the property sector the Board considers the gearing ratios to be reasonable.

The gearing ratios for the reporting periods are as follows:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Borrowings (note 26) | (133,801) | (53,511) |
| Cash and cash equivalents | 12,757 | 3,583 |
| Net debt | (121,044) | (49,928) |
| Equity | 151,165 | 100,293 |
| Net debt to equity ratio | 80% | 50% |

## 4. Critical accounting estimates and judgements
The preparation of consolidated financial statements in conformity with IFRS requires the Group to make certain critical accounting estimates and judgements. In the process of applying the Group's accounting policies, management has decided the following estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognised in the consolidated financial statements.

**i) Estimate of fair value of investment properties**
The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources, including:

a) Current prices in an active market, and its third party independent experts, for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

b) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

# **Notes to the Financial Statements** continued
## For the year ended 31 December 2015

### 4. Critical accounting estimates and judgements continued

c) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

**ii) Principal assumptions for management's estimation of fair value of investment property**

If information on current or recent prices or assumptions underlying the discounted cash flow approach is not available, the fair values of investment properties are determined using discounted cash flow techniques. The Group uses its third party independent experts and assumptions that are mainly based on market conditions existing at each reporting date. The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

**iii) Estimated impairment of goodwill**

The acquisition of Phoenix Spree Property Fund GmbH & Co. KG in the year gave rise to goodwill of €4,493,000. The Directors have carried out an impairment review in respect of the goodwill and made full provision as in their opinion there would be no enduring asset capable of generating identifiable cash flows in the future.

**iv) Accounting for acquisitions**

The estimates and judgements inherent in accounting for acquisitions are set out in the accounting policy for business combinations.

### 5. Segmental information

Information reported to the Board of Directors, which is the chief operating decision-maker, for the purposes of resource allocation and assessment of segment performance is focused on the different revenue streams that exist within the Group. The Group's principal reportable segments under IFRS 8 are therefore as follows:

- Residential
- Commercial

All revenues are earned in Germany, with property and administrative expenses incurred in Jersey and Germany.

The measure of segment result is considered to be operating profit. Assets and liabilities which have not been allocated to segments are principally the financial assets at fair value and borrowings which are centrally managed.

There are no inter-segmental revenues.

| 31 December 2015 | Residential €'000 | Commercial €'000 | Unallocated €'000 | **Total €'000** |
|---|---|---|---|---|
| Goodwill | – | – | – | **–** |
| Investment property | 235,350 | 48,204 | – | **283,554** |
| Loans and receivables | – | – | 1,382 | **1,382** |
| Other assets | 12,486 | 2,557 | 326 | **15,369** |
| Liabilities | (113,283) | (23,202) | (12,655) | **(149,140)** |
| Net assets | **134,553** | **27,559** | **(10,947)** | **151,165** |

| | Residential €'000 | Commercial €'000 | Unallocated €'000 | **Total €'000** |
|---|---|---|---|---|
| Revenue | 10,018 | 2,052 | – | **12,070** |
| Property expenses | (6,024) | (1,234) | – | **(7,258)** |
| Other operating income | – | – | 261 | **261** |
| Administrative expenses | – | – | (2,410) | **(2,410)** |
| Gain on disposal of investment property | 670 | – | – | **670** |
| Investment property fair value gain | 15,062 | 3,086 | – | **18,148** |
| **Operating profit** | **19,726** | **3,904** | **(2,149)** | **21,481** |
| Exceptional costs | | | | **(2,256)** |
| Impairment of goodwill | | | | **(4,493)** |
| Net finance charge | | | | **(3,164)** |
| Gain on financial asset | | | | **1,395** |
| Income tax expense | | | | **(2,640)** |
| Profit for the year | | | | **10,323** |

| 31 December 2014 | Residential €'000 | Commercial €'000 | Unallocated €'000 | Total €'000 |
|---|---|---|---|---|
| Investment property | 106,942 | 8,250 | – | **115,192** |
| Financial asset at FVTPL | – | – | 36,859 | **36,859** |
| Other assets | 7,126 | 550 | 237 | **7,913** |
| Liabilities | (51,012) | (3,935) | (4,724) | **(59,671)** |
| Net assets | **63,056** | **4,865** | **32,372** | **100,293** |

| | Residential €'000 | Commercial €'000 | Unallocated €'000 | Total €'000 |
|---|---|---|---|---|
| Revenue | 6,106 | 471 | – | **6,577** |
| Property expenses | (5,401) | (417) | – | **(5,818)** |
| Other operating income | – | – | 57 | **57** |
| Administrative expenses | – | – | (1,537) | **(1,537)** |
| Investment property fair value gain | 4,186 | 323 | – | **4,509** |
| **Operating profit** | **4,891** | **377** | **(1,480)** | **3,788** |
| Net finance charge | | | | **(1,157)** |
| Gain on financial asset | | | | **5,827** |
| Income tax expense | | | | **(1,112)** |
| Profit for the year | | | | **7,346** |

## 6. Revenue

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Rental income | **12,070** | **6,577** |

The total future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Not later than one year | 119 | 138 |
| Later than one year but not later than five years | 1,036 | 426 |
| Later than five years | 583 | 69 |
| | **1,738** | **633** |

Revenues comprise rental income earned from residential and commercial property in Germany. There are no individual tenants that account for greater than 10% of revenue during any of the reporting periods.

## 7. Other operating income

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Other income relating to cost recovery | **261** | **57** |

## 8. Administrative expenses

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Secretarial and administration fees | 400 | 250 |
| Legal and professional fees | 1,386 | 1,055 |
| Regulatory fund permit fee | – | 4 |
| Directors' fees | 108 | 19 |
| Accountancy fees | 319 | 107 |
| Auditor's remuneration (note 10) | 156 | 115 |
| Profit on exchange | (4) | (31) |
| Depreciation | 6 | – |
| Bank charges | 39 | 18 |
| | **2,410** | **1,537** |

The Group did not have any employees during any of the reporting periods and the Directors do not receive any other emoluments.

Key management compensation – the functions of management are undertaken by external providers of professional services, as set out in note 34.

Further details of the Directors' fees are set out in the Directors' Remuneration Report on page 33.

## 9. Exceptional items – transaction costs

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Professional fees associated with stock market listing and acquisition of PSPF | **2,256** | **–** |

Exceptional costs incurred this year comprise those costs directly attributable to the listing on the London Stock Exchange and any costs directly associated with the acquisition of subsidiaries. Certain costs were also incurred in 2014 and were disclosed in the accounts for the year ended 31 December 2014 as part of administrative expenses and amounted to €390,000.

## 10. Auditor's remuneration

An analysis of the fees charged by the auditor and its associates is as follows:

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Fees payable to the Group's auditor and its associates for the audit of the financial statements: | | |
| RSM UK Audit LLP | 156 | 115 |
| Fees payable to the Group's auditor and its associates for other services: | | |
| – Corporate finance | 299 | 233 |
| – Audit-related assurance services | 34 | – |

## 11. Property expenses

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Property management expenses | 942 | 480 |
| Repairs and maintenance | 921 | 652 |
| Doubtful debt expense | 153 | 150 |
| Other property expenses | 1,404 | 815 |
| Property Advisor's expenses (note 34) | 2,574 | 1,670 |
| Property Advisor's performance fee (note 29) | 1,264 | 2,025 |
| Property Advisor's 'synthetic' fee (note 29) | – | 26 |
| | **7,258** | **5,818** |

Included in property expenses is a provision for doubtful debts relating to possible non-recoverability of rent receivable (see note 24).

The charge for the year and the cumulative amount is:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Balance at the beginning of the year | 8,390 | 6,365 |
| Provisional performance fee charge for the year | 1,264 | 2,025 |
| Equity settled in the year | (8,390) | – |
| **Balance at the end of the year** | **1,264** | **8,390** |

## 12. Gain on disposal of investment property

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Net proceeds | 5,502 | – |
| Book value on disposal | (4,832) | – |
| | **670** | **–** |

## 13. Investment property fair value gain

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Investment property fair value gain | **18,148** | **4,509** |

Further information on investment properties is shown in note 21.

## 14. Financial asset at fair value through profit or loss

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Equity interest in Phoenix Spree Property Fund GmbH & Co. KG: | | |
| Balance at the beginning of the year | 36,859 | 31,032 |
| On acquisition of subsidiary | (38,254) | – |
| Gain on financial asset | 1,395 | 5,827 |
| **Balance at the end of the year** | **–** | **36,859** |

Phoenix Spree Property Fund GmbH & Co. KG ('PSPF') is a partnership established in the form of a limited partnership which is subject to the German Commercial Code and its principal activity is the holding of German investment properties until PSPF was acquired on 9 March 2015. The Company's interest in PSPF comprises two elements, i) an equity interest; and ii) a Variable Rate Loan ('VRL') capital sum.

The equity interest arose in 2013 when the Company obtained an equity interest in PSPF by becoming a limited partner for an initial contribution of €100 and a capital contribution of €9,900. The initial contribution represented 0.03% of voting rights in PSPF. Up until 9 March 2015, PSPF was subject to independent management and effective control and is therefore not consolidated as part of the Group for the full year.

The purpose of putting in place the VRL was to implement the first step of equalising the two fund NAVs as a precursor to amalgamation of the entities, which has now been completed by virtue of the acquisition.

The VRL capital loan amounting to €0.3 million (2014: €5.3 million) between the Company and PSPF was initially advanced in June 2009 as unsecured and non-interest bearing. In accordance with the terms of the VRL, the Company revalued the loan at each reporting period such that the ratio of the NAVs of the two entities (the Company and PSPF) was equal to their share of the combined NAV at the reporting date. The movement required on the VRL in order to maintain this ratio is defined as the gain on the financial asset in the consolidated statement of comprehensive income.

On acquisition of PSPF on 9 March 2015 the value of the VRL was determined to be €38,254,000 resulting in a fair value gain of €1,395,000 in respect of the period 1 January 2015 to 9 March 2015, which has been recognised in the consolidated statement of comprehensive income. The respective asset and liability recognised by the Company and by PSPF is eliminated on consolidation as at 31 December 2015.

### 15. Net finance charge

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Interest income | (6) | (5) |
| Gain on interest rate swap (note 28) | (808) | (1,895) |
| Interest payable on bank borrowings | 3,978 | 3,057 |
| | **3,164** | **1,157** |

### 16. Taxation

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Current tax (credit)/charge | (24) | 19 |
| Deferred tax charge | 2,664 | 1,093 |
| Total tax charge on profit on ordinary activities | **2,640** | **1,112** |

The tax charge for the year can be reconciled to the theoretical tax charge on the profit in the income statement as follows:

| | Year ended 31 December 2015 €'000 | Year ended 31 December 2014 €'000 |
|---|---|---|
| Profit before tax on continuing operations | 12,963 | 8,458 |
| Tax at the German income tax rate of 15.8% (2014: 15.8%) | 2,048 | 1,338 |
| Income not taxable | (220) | (1,633) |
| Deferred tax not recognised – losses | – | 468 |
| Prior period adjustment | – | (27) |
| Tax effect of expenses that are not deductible in determining taxable profit | 812 | 966 |
| Total tax charge for the year | **2,640** | **1,112** |

**Reconciliation of current tax liabilities**

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Balance at beginning of year | 19 | – |
| Tax received during the year | 5 | – |
| Current tax (credit)/charge | (24) | 19 |
| Balance at end of year | **–** | **19** |

**Reconciliation of deferred tax**

| | Capital gains on properties €'000 | Interest rate swaps €'000 | Total €'000 |
|---|---|---|---|
| Balance at 1 January 2014 | **(2,416)** | **535** | **(1,881)** |
| Charged to the statement of comprehensive income | (795) | (298) | (1,093) |
| Deferred tax (liability)/asset at 31 December 2014 | **(3,211)** | **237** | **(2,974)** |
| Acquisition of subsidiary | (5,011) | 159 | (4,852) |
| Charged to the statement of comprehensive income | (2,564) | (100) | (2,664) |
| Deferred tax (liability)/asset at 31 December 2015 | **(10,786)** | **296** | **(10,490)** |

**Jersey income tax**
The Group is liable to Jersey income tax at 0%.

**German tax**
As a result of the Group's operations in Germany, the Group is subject to German Corporate Income Tax ('CIT') – the effective rate for Phoenix Spree Deutschland Limited for 2015 was 15.8% (2014: 15.8%).

**Factors affecting future tax charges**
The Group has accumulated tax losses of approximately €22.9 million (2014: €17.8 million) in Germany, which will be available to set against suitable future profits should they arise, subject to the criteria for relief. No deferred tax asset is recognised in respect of these losses as there is insufficient certainty the losses can be utilised.

### 17. Dividends

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Interim dividend for the year ended 31 December 2015 of 1.3p (2014: Nil) per share | 1,236 | – |
| Proposed final dividend for the year ended 31 December 2015 of 2.9p (2014: Nil) per share | 3,639 | – |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 20 May 2016. The total estimated dividend to be paid is 4.2p per share. The payment of this dividend will not have any tax consequences for the Group.

### 18. Goodwill

| Cost | Year ended 31 December 2015 €'000 |
|---|---|
| 1 January 2014 and 31 December 2014 | 193 |
| Acquisition of subsidiary | 4,493 |
| As at 31 December 2015 | 4,686 |
| **Accumulated impairment losses:** | |
| At 1 January 2014 | (193) |
| Impairment charge for the year | – |
| At 31 December 2014 | (193) |
| Impairment charge for the year – exceptional item | (4,493) |
| At 31 December 2015 | (4,686) |
| **Carrying amount:** | |
| At 31 December 2014 | – |
| At 31 December 2015 | – |

Since the Company transitioned its listing to the Main Market of the London Stock Exchange, the Directors have now had an opportunity to complete the initial accounting in respect of the acquisition of Phoenix Spree Property Fund Limited & Co. KG and the goodwill resulting from this transaction. As a result of this review, the Directors have been unable to attach additional value to the goodwill over and above the value of the investment property which is reflected in the financial statements at market value and have therefore fully impaired it.

### 19. Business combination

On 9 March 2015 the Group acquired 94.8% of Phoenix Spree Property Fund Limited & Co. KG ('PSPF'), a partnership incorporated in Germany, for a fair value consideration of €41.5 million. This consideration was made up of €2.4 million paid in cash and 19,237,484 shares of the Company valued on the day of the acquisition at the published share price, a total of €39.1 million.

In 2009, the Company entered into an economic merger with PSPF by way of variable rate loan ('VRL'). The aim of the agreement was to allow investors in the Company and PSPF to share in the economic performance of each other's property portfolios as if they had completed a legal merger on a NAV equivalent basis as at 31 December 2008. The acquisition of PSPF was made in order to formalise the economic merger, and align the risks and benefits of partners in PSPF with those of the shareholders of the Company.

Prior to the acquisition the Group held a nominal equity interest of €100 only, being 0.03% of the voting rights of PSPF. No fair value gain is recognised on remeasurement.

In addition to the 94.8% acquired, the Group also entered into an option agreement to acquire the remaining 5.2% interest in PSPF from the remaining partners. The options are to be exercised on the fifth anniversary of the majority interest acquisition for a period of three months thereafter.

The consideration for the option is equal to the remaining Partners' proportion of the EPRA NAV of PSPF based on the most recent interim or full year accounts plus any tax liabilities incurred in connection with the disposal.

### 19. Business combination continued

The fair value of the net assets acquired is detailed below.

| | Fair value €'000 |
|---|---|
| Investment properties | 132,907 |
| Property, plant and equipment | 13 |
| Deferred tax asset | 159 |
| Trade and other receivables | 6,044 |
| Trade and other payables | (57,077) |
| Derivative financial instruments | (1,181) |
| Variable rate loan | (36,859) |
| Deferred tax liability | (5,011) |
| **Net assets** | **38,995** |
| Non-controlling interest | (2,028) |
| Goodwill | 4,493 |
| **Fair value of consideration** | **41,460** |
| Cash consideration | (2,407) |
| Cash acquired | 3,572 |
| **Cash inflow arising on acquisition** | **1,165** |

PSPF contributed revenue of €5.05 million and operating profit of €12.85 million to the results of the Group since acquisition. If the acquisition had been completed at the beginning of the year, management estimate that Group revenue for the period would have been €13.18 million and Group operating profit would have been €14.18 million.

The fair value of the trade and other receivables acquired was €6,203,000 and included trade receivables with a fair value of €116,000. The gross asset valuation amount for the trade receivables due is €116,000, of which €nil is expected to be unrecoverable.

### 20. Subsidiaries

The Group consists of a Parent Company, Phoenix Spree Deutschland Limited, incorporated in Jersey, Channel Islands and a number of subsidiaries held directly by Phoenix Spree Deutschland Limited, which are incorporated in and operate out of Jersey and Germany. Further details are given below:

| | Country of incorporation | % Holding | Nature of business |
|---|---|---|---|
| Phoenix Spree Deutschland I Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland II Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland III Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland IV Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland V Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland VII Limited | Jersey | 100 | Investment Property |
| Phoenix Spree Deutschland IX Limited | Jersey | 100 | Investment Property |
| PSPF Holding GmbH | Germany | 100 | Investment Property |
| PSPF General Manager GmbH | Germany | 100 | Investment Property |
| PSPF Acquisition Vehicle GmbH | Germany | 99.64 | Investment Property |
| PSPF Property GmbH & Co. KG | Germany | 94 | Investment Property |
| Phoenix Spree Property Fund Ltd & Co. KG | Germany | 94.8 | Investment Property |
| Phoenix Spree General Partner Limited | UK | 100 | Management of PSPF |

The investments in PSPF General Manager GmbH, PSPF Acquisition Vehicle GmbH and PSPF Property GmbH & Co KG are all held via the investment in PSPF Holding GmbH, which was acquired on 7 September 2007. The other subsidiaries are held directly.

## 21. Investment properties

| | €'000 |
|---|---|
| **Fair value** | |
| **At 1 January 2014** | **108,832** |
| Capital expenditure | 1,851 |
| Fair value gain | 4,509 |
| **At 31 December 2014** | **115,192** |
| Capital expenditure | 3,934 |
| Property additions | 17,413 |
| Additions on acquisition | 132,907 |
| Disposals | (4,832) |
| Fair value gain | 18,148 |
| **Investment properties at fair value – as set out in the report by JLL** | **282,762** |
| Properties notarised for sale not completed at year end | 792 |
| **At 31 December 2015** | **283,554** |

Included in the portfolio are properties which are subject to security in respect of the Group's bank loans payable (note 26).

A valuation exercise is undertaken by the Group's independent valuers, Jones Lang LaSalle GmbH ('JLL'), at each reporting date in accordance with the methodology described below.

The valuation is performed on a building-by-building basis and the source information on the properties, including current rent levels, void rates and non-recoverable costs was provided to JLL by the Property Advisor PMM Partners (UK) Limited. Assumptions with respect to rental growth, adjustments to non-recoverable costs and the future valuation of these are those of JLL. Such estimates are inherently subjective and actual values can only be determined in a sales transaction (note 4).

Having reviewed the JLL report, the Directors are of the opinion that this represents a fair and reasonable valuation of the properties and have consequently adopted this valuation in the preparation of this financial information.

The valuations have been prepared by JLL on a consistent basis at each reporting date and the methodology is consistent and in accordance with IFRS.

All properties are valued as Level 2 measurements under the fair value hierarchy (see note 32) as the inputs which have a significant effect on the recorded fair value are observable. Valuations are undertaken using the discounted cash flow valuation technique with the following inputs:

| Input | Year ended 31 December 2015 Range | Year ended 31 December 2014 Range |
|---|---|---|
| **Market rent** | | |
| Residential (€ per sqm p.m.) | 6–12 | 5–12 |
| Commercial (€ per sqm p.m.) | 1–25 | 1–15 |
| Parking (€ per unit p.m.) | 16–92 | 8–125 |
| Indexation (%) | 0–2 | 0–2 |
| **Estimated rental value (ERV)** | | |
| ERV per year (€'000) | 33–907 | 24–770 |
| ERV (€ per sqm) | 1–12 | 5–12 |
| **Costs** | | |
| Management (€ per unit/year) | 240–280 | 240–280 |
| Management indexation (%) | 1.39 | 1.53 |
| Maintenance (€ per sqm p.a.) | 2–9 | 2–9 |
| Maintenance indexation (%) | 2.18 | 2.35 |
| Capital expenditure (€) | 0–500 | 3–865 |
| **Vacancy** | | |
| Tenancy fluctuation (% per year) | 10 | 10 |
| Stabilised residency vacancy (% per year) | 2 | 2 |
| Stabilised commercial vacancy (% per year) | 0–4 | 0–8 |
| Stabilised parking vacancy (% per year) | 0–5 | 0–5 |
| **Financial rates** | | |
| Discount rate (%) | 5–8 | 5–8 |
| Capitalisation rate (%) | 4–8 | 4–8 |

## 21. Investment properties continued

The information below includes descriptions and definitions relating to valuation techniques, observable inputs and other assumptions made in determining the fair values:

**Discounted cash flow method ('DCF')**
Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease-up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating incomes, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

The frequency of inflows and outflows (monthly, quarterly, annually) are contract and market-derived.

An appropriate discount rate is then applied to the cash flow. If the frequency of the time points selected for the cash flow is, for example, quarterly, the discount rate must be the effective quarterly rate and not a nominal rate. The DCF method assumes that cash outflows occur in the same period that expenses are recorded. The exit yield is normally separately determined and differs from the discount rate.

**Definitions**
*Estimated rental value ('ERV')* – the estimated rental value at which space could be let in the market conditions prevailing at the date of valuation.

*Indexation* – the estimated average increase based on both market estimations and contractual indexations.

*Vacancy rate* – percentage of estimated vacant space divided by the total lettable area.

*Discount rate* – rate used to discount the net cash flows generated from rental activities during the period of analysis.

*Capitalisation rate* – ratio between the net operating income produced by a property and its current market value.

## 22. Property, plant and equipment

| | Other equipment €'000 |
|---|---|
| **Cost or valuation** | |
| At 1 January 2014 and 2015 | – |
| On acquisition of subsidiary | 13 |
| Additions | 23 |
| At 31 December 2015 | 36 |
| **Accumulated depreciation and impairment** | |
| At 1 January 2014 and 2015 | – |
| Charge for the year | 6 |
| At 31 December 2015 | 6 |
| **Carrying amount** | |
| At 31 December 2015 | 30 |
| At 31 December 2014 and 31 December 2013 | – |

## 23. Loans and receivables

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Loans issued – initial recognition at fair value | 1,338 | – |
| Interest accrual | 44 | – |
| | **1,382** | **–** |

The Group entered into a loan agreement with Mike Hilton and Paul Ruddle in connection with the acquisition of PSPF. The loans bear interest of 4% per annum, and have a maturity of less than five years.

### 24. Trade and other receivables

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 1,015 | 1,212 |
| Less: provision for impairment of trade receivables | (295) | (325) |
| Net trade receivables | 720 | 887 |
| Prepayments | 1,566 | 13 |
| Other receivables | – | 193 |
| Loan to related party – Phoenix Spree Property Fund GmbH & Co. KG | – | 3,000 |
| **Total trade and other receivables** | **2,286** | **4,093** |

The loan provided to PSPF at 31 December 2014 was unsecured and is zero coupon.

The movement in the provision for impairment of trade receivables is as follows:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Balance at the beginning of the year | 325 | 175 |
| Impairment losses recognised | 123 | 282 |
| Amounts written off as uncollectable | (153) | (132) |
| Balance at the end of the year | **295** | **325** |

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

The Group's exposure to credit risk is discussed in note 3 to this financial information, including how the Group assesses the credit quality of potential new tenants and its policy for providing against overdue rents.

Amounts included within trade receivables represent amounts due from tenants. The Group monitors overdue receivables from tenants with reference to the number of months of arrears. Arrears at December 2015 were 0.21 months (December 2014: 0.6 months). No interest was charged on overdue receivables during any period.

At each of the reporting dates there were no individual tenant receivable balances greater than 10% of the outstanding balance.

All trade receivables are past due, as rents are due in advance. The ageing analysis of trade receivables past due but not impaired is as follows:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Up to 12 months | 693 | 858 |
| Between 1 year and 3 years | 27 | 22 |
| Over 3 years | – | 7 |
| | **720** | **887** |

The Directors believe that the carrying value of trade and other receivables is considered to represent its fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable shown above. The Group does not hold any collateral as security.

Assets held in currencies other than Euros are disclosed in note 32.

### 25. Cash and cash equivalents

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Cash at bank | 11,772 | 2,874 |
| Cash at agents | 985 | 709 |
| Cash and cash equivalents | **12,757** | **3,583** |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

Included in cash at bank are amounts held with Hypothekenbank Frankfurt AG at December 2015 of €nil (December 2014: €140,478) which are restricted and can only be used by the Group for specified capital projects on specific properties.

The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

Cash held in currencies other than Euros is disclosed in note 32.

### 26. Borrowings

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Current liabilities** | | |
| Bank loans – EuroHypo AG | 2,978 | 50,350 |
| Bank loans – Deutsche Hypothekenbank AG | 8,545 | – |
| | 11,523 | 50,350 |
| **Non-current liabilities** | | |
| Bank loans – Deutsche Genossenschafts – Hypothekenbank AG | 119,262 | – |
| Bank loans – Kreissparkasse Boblingen District Savings Bank | 3,016 | 3,161 |
| | 122,278 | 3,161 |
| **Total borrowings** | **133,801** | **53,511** |

Security agreements were entered into granting a charge to Deutsche Genossenschafts – Hypothekenbank AG over properties valued at December 2015 at €214 million (2014: €107 million).

A security agreement was entered into between a subsidiary company and Kreissparkasse Boblingen District Savings Bank which grants a charge to Kreissparkasse Boblingen District Savings Bank over property which in December 2015 was valued at €6 million (December 2014: €6 million).

The majority of the bank loans have a variable interest rate of three-month Euribor plus a margin ranging from 1% to 2.35%. The Group's policy is to manage its interest rate risk by entering into interest rate swaps in order to limit exposure to borrowings at variable rates. The fixed interest rate of the swaps ranges from 1.57% to 5.56% and mature between November 2016 and January 2022.

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair value of non-current borrowing is set out in note 32.

As at 31 December 2015 an amount of €2.2 million (2014: €nil) was still available for drawdown.

### 27. Trade and other payables

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Trade payables | 1,584 | 490 |
| Other payables | 373 | 334 |
| Accruals | 459 | 525 |
| Tenant deposits | 214 | 77 |
| VAT | 54 | 8 |
| | **2,684** | **1,434** |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing.

The Directors consider that the carrying value of trade and other payables approximates their fair value as the impact of discounting is insignificant.

The Group has financial risk management policies in place to ensure that all payables are paid within agreed terms and no interest has been charged by any suppliers as a result of late payment of invoices. The average credit period for payments to suppliers at all reporting periods was seven days.

## 28. Derivative financial instruments

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Interest rate swaps – carried at fair value through profit or loss** | | |
| Balance at start of year | 1,496 | 3,391 |
| From acquisition | 1,181 | – |
| Movement in fair value through profit or loss | (808) | (1,895) |
| Balance at end of year | **1,869** | **1,496** |

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2015 were €120,007,000 (2014: €50,683,000). At 31 December 2015 the fixed interest rates varied from 0.040% to 0.895% (2014: 0.089% to 0.256%) above the main factoring Euribor rate.

## 29. Share-based payment reserve

| | Performance fee €'000 | Synthetic equity fee €'000 | Share-based payment reserve €'000 |
|---|---|---|---|
| **Balance at 1 January 2014** | **6,365** | **533** | **6,898** |
| Fee charge for the year | 2,025 | 26 | 2,051 |
| **Balance at 31 December 2014** | **8,390** | **559** | **8,949** |
| Equity settled in the year | (8,390) | – | (8,390) |
| Cash settled in the year | – | (559) | (559) |
| Fee charge for the year | 1,264 | – | 1,264 |
| **Balance at 31 December 2015** | **1,264** | **–** | **1,264** |

**Property Advisor**

Under the Property Advisory Agreement for providing property advisory services, the Property Advisor is entitled to a Portfolio and Asset Management Fee as follows:

(i) 1.50% of the EPRA NAV of the Company where the EPRA NAV of the Company is equal to or less than €250 million; and

(ii) to the extent that the EPRA NAV of the Company is greater than €250 million but is less than €500 million, the rate to be applied to such excess (and only such excess) shall instead be 1.25% per annum; and

(iii) to the extent that the EPRA NAV of the Company is greater than €500 million, the rate to be applied to such excess (and only such excess) shall instead be 1.00% per annum, (the 'Portfolio and Asset Management Fee'), which shall accrue and be calculated quarterly and payable in arrears.

The Portfolio and Asset Management Fee shall be paid by the subsidiaries pro rata to their respective EPRA NAV at the time of calculation.

The Property Advisor is entitled to a capex monitoring fee equal to 7% of any capital expenditure incurred by any Subsidiary (being any expenditure treated as capital expenditure in accordance with IFRS) which the Property Advisor is responsible for managing (the 'Capex Monitoring Fee'). The Capex Monitoring Fee will be paid by the relevant Subsidiary receiving the service.

The Property Advisor is entitled to receive a finance fee equal to:

(i) 0.1% of the value of any borrowing arrangement made available to any Subsidiary which the Property Advisor has negotiated and/or supervised; and

(ii) a fixed fee of £1,000 in respect of any borrowing arrangement made available to any Subsidiary which the Property Advisor has renegotiated or varied (the 'Finance Fee').

The Finance Fee will be payable by the relevant Subsidiary within 14 days of the relevant borrowing arrangement completing. The Property Advisor is entitled to receive a transaction fee fixed at £1,000 in respect of any acquisition or disposal of property by any Subsidiary (the 'Transaction Fee'). The Transaction Fee will be payable by the relevant Subsidiary within 14 days of completion of that transaction.

### 29. Share-based payment reserve continued

Lettings are outsourced to specialist letting agents who receive a commission of between one and three months' net cold rent (being the gross rents receivable less service costs and taxes) for each successful letting (the 'Letting Fee').

The Property Advisor may also source tenants from time to time and is entitled to a commission of between one and three-months' net cold rent for each new tenancy signed by the Group and where no external agent has been involved.

The Property Advisor is also entitled to an asset and estate management performance fee, measured over consecutive three year periods, equal to 20% of the excess by which the annual EPRA NAV total return of the Company exceeds 8% per annum, compounding (the 'Performance Fee'). The Performance Fee is subject to a high watermark, being the higher of:

(i) the most recently published EPRA NAV on 9 March 2015; and

(ii) the highest previously recorded EPRA NAV total return at the end of a performance period in relation to which a performance fee was earned in accordance with the provisions of the Property Advisory Agreement.

The Performance Fee will be settled through the payment of cash by the Company (as to 10% of the total fee) and the Subsidiaries (as to 90% of the total fee), with each Subsidiary paying its pro rata share based on its time weighted average growth in EPRA NAV per Share over the relevant performance period.

The Property Advisor has irrevocably agreed and undertaken, on receipt of the Performance Fee, to immediately subscribe for the allotment of new Shares credited as fully paid at a price equal to the EPRA NAV per Share.

In circumstances where the Shares are trading at a discount to EPRA NAV at a time when a performance fee is payable, the Company is obliged, provided it is lawful to do so, to use its reasonable endeavours to purchase Shares in the market and settle any performance fee from the sale of such Shares out of treasury at a price equal to the amount paid by the Company for such purchase. 50% of any such Shares allotted shall be subject to the Lock-in Deed.

The Directors have estimated the fair value of the services provided by the Property Advisor in accordance with the above calculation mechanism at each balance sheet date and have applied the following additional inputs to reflect the expense of the accumulation of the estimated settlement amount in each period (stated in property expenses above).

| | |
|---|---|
| Weighted average share price | €2.064 |
| Weighted average exercise price | €2.600 |
| Expected volatility | 15% |
| Expected life | 3 years |
| Risk free rate | (0.449%) |

**Synthetic equity participation fee**

In March 2013, the Property Advisor entered into an agreement with the Company whereby it is also entitled to a 'Synthetic Equity Participation Fee' in lieu of one quarter's management fees that was payable in Q2, 2013. The fee entitles the Property Advisor to participate in dividends payable by the Company, and in any capital reductions, redemptions, share buy-backs and in the event of a winding up of the Company, in a final distribution.

This agreement was fully settled in the first half of the year.

### 30. Stated capital

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| Issued and fully paid: | | |
| 40,522,364 Ordinary Shares of no par value, issued at a consideration of GBP1 each | 60,027 | 60,027 |
| 5,896,369 Ordinary Shares of no par value, issued at a consideration of GBP1.11 each | 7,681 | 7,681 |
| **As at 31 December 2014** | **67,708** | **67,708** |
| 19,237,484 Ordinary Shares of no par value, issued at a consideration of GBP1.46 each | 39,052 | |
| 4,216,080 Ordinary Shares of no par value, issued at a consideration of GBP1.44 each | 8,390 | |
| **As at 31 December 2015** | **115,150** | |

The 19,237,484 shares issued on 9 March 2015 were to the partners of PSPF as part of the consideration for the acquisition.

The 4,216,080 shares issued on 9 March 2015 were to PMM Partners (UK) Limited in consideration for the settlement of the performance fee arrangement originally entered into on 14 March 2008 and replaced by a new agreement dated 9 February 2015.

The participating shares rank pari passu as regards voting, entitlement to income and entitlement on a return of capital. There are no restrictions on the free transferability of the participating shares, subject to compliance with applicable securities laws.

## 31. Earnings per share

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent (€'000) | 9,721 | 7,346 |
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share (Number) | 69,872,297 | 46,418,633 |
| Effect of dilutive potential Ordinary Shares | 638,818 | 4,216,080 |
| Weighted average number of Ordinary Shares for the purposes of dilutive earnings per share (Number) | 70,511,116 | 50,634,713 |
| Earnings per share (€) | 0.14 | 0.16 |
| Dilutive earnings per share (€) | 0.14 | 0.15 |

## 32. Financial instruments

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

**Principal financial instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Financial assets
- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Borrowings
- Derivative financial instruments

The Company has entered into a variable rate loan instrument ('VRL') with Phoenix Spree Property Fund GmbH & Co. KG ('PSPF'), a subsidiary company. A return, as defined in the VRL, is reported as a gain or loss through the consolidated statement of comprehensive income.

Settlement of the return in the Company's favour under the VRL agreement is made by reference to the terms set out in the partnership agreement of PSPF as amended by the partners' resolution dated 8 July 2013 (see note 29).

The Group held the following financial assets at each reporting date:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Loans and receivables:** | | |
| Trade and other receivables: current | 720 | 4,080 |
| Loans and receivables | 1,382 | – |
| Cash and cash equivalents | 12,757 | 3,583 |
| | **14,859** | **7,663** |
| **Fair value through profit or loss:** | | |
| Variable rate loan | – | 36,859 |
| | **14,859** | **44,522** |

The Group held the following financial liabilities at each reporting date:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Held at amortised cost:** | | |
| Borrowings payable: current | 11,523 | 50,350 |
| Borrowings payable: non-current | 122,278 | 3,161 |
| Trade and other payables | 2,630 | 1,426 |
| | **136,431** | **54,937** |
| **Fair value through profit or loss:** | | |
| Derivative financial liability – interest rate swaps | 1,869 | 1,496 |
| | **1,869** | **1,496** |
| | **138,300** | **56,433** |

# **Notes to the Financial Statements** continued
## For the year ended 31 December 2015

### **32. Financial instruments** continued

**Fair value of financial instruments**
With the exception of the variable rate borrowings, the fair values of the financial assets and liabilities are not materially different to their carrying values due to the short-term nature of the current assets and liabilities or due to the commercial variable rates applied to the long-term liabilities.

The interest rate swaps were valued externally by the respective counterparty banks in comparison with the market price for the relevant date.

The interest rate swaps are expected to mature between November 2016 and January 2022.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During each of the reporting periods, there were no transfers between valuation levels.

| Group – fair values | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Financial assets** | | |
| Variable rate loan – Level 2 | – | 36,859 |
| **Financial liabilities** | | |
| Interest rate swaps – Level 2 | (1,869) | (1,496) |

The valuation basis for the investment properties is disclosed in note 21.

**Financial risk management**
The Group is exposed through its operations to the following financial risks:
- Interest rate risk
- Foreign exchange risk
- Credit risk
- Liquidity risk

The Group's policies for financial risk management are outlined below.

**Interest rate risk management**
The Group's interest rate risk arises from certain of its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Group is also exposed to interest rate risk on cash and cash equivalents.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held.

Sensitivity analysis has not been performed as all variable rate borrowings have been swapped to fixed interest rates, and potential movements on cash at bank balances are immaterial.

The Group gives careful consideration to interest rates when considering its borrowing requirements and where to hold its excess cash. The Directors believe that the interest rate risk is at an acceptable level.

**Foreign exchange risk management**
The Group is exposed to foreign exchange risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency (Euros).

The Group does not enter into any currency hedging transactions and the Directors believe that the foreign exchange rate risk is at an acceptable level.

The carrying amounts of the Group's foreign currency (non-Euro) denominated monetary assets and liabilities are shown below: all the amounts are for Sterling balances only:

| | As at 31 December 2015 €'000 | As at 31 December 2014 €'000 |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables | – | 77 |
| Cash and cash equivalents | 3,191 | 122 |
| **Financial liabilities** | | |
| Trade and other payables | (156) | (274) |
| **Net position** | **3,035** | **(75)** |

At each reporting date, if the Euro had strengthened or weakened by 10% against GBP with all other variables held constant, post-tax loss for the year would have increased/(decreased) by:

| | Strengthened by 10% Increase/ (decrease) in post tax loss and impact on equity €'000 | Weakened by 10% Increase/ (decrease) in post tax loss and impact on equity €'000 |
|---|---|---|
| 31 December 2014 | (7) | 7 |
| 31 December 2015 | 251 | (251) |

**Credit risk management**
Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group's trade and other receivables and its cash balances. The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Group has an established credit policy under which each new tenant is analysed for creditworthiness and each tenant is required to pay a two-month deposit.

At each reporting date the Group had no tenants with outstanding balances over 10% of the total trade receivables balance.

The Group uses the following banks: Barclays Private Clients International Jersey Ltd, Barclays Bank Plc Frankfurt, Deutsche Bank and Hypothekenbank Frankfurt AG. The split of cash held at each of the banks respectively at 31 December 2015 was 28%/33%/39%/0% (December 2014: 23%/72%/0%/5%). Barclays and Deutsche Bank have A credit ratings.

The Group holds no collateral as security against any financial asset. The carrying amount of financial assets recorded in the financial information, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

Details of receivables from tenants in arrears at each reporting date can be found in note 24, as can details of the receivables that were impaired during each period.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

**Liquidity risk management**
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

The Directors manage liquidity risk by regularly reviewing cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections prepared by management.

The Group maintains good relationships with its banks, which have high credit ratings.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest payable and principal cash flows.

# **Notes to the Financial Statements** continued
## For the year ended 31 December 2015

### **32. Financial instruments** continued

**Maturity analysis for financial liabilities**

| | Less than 1 year €'000 | Between 1 and 2 years €'000 | Between 2 and 5 years €'000 | More than 5 years €'000 | Total |
|---|---|---|---|---|---|
| At 31 December 2014 | | | | | |
| Borrowings: current | 50,350 | – | – | – | **50,350** |
| Borrowings: non-current | – | 3,161 | – | – | **3,161** |
| Trade and other payables | 1,426 | – | – | – | **1,426** |
| | **51,776** | **3,161** | **–** | **–** | **54,937** |
| At 31 December 2015 | | | | | |
| Borrowings: current | 11,523 | – | – | – | **11,523** |
| Borrowings: non-current | – | 3,016 | 38,612 | 80,650 | **122,278** |
| Trade and other payables | 2,630 | – | – | – | **2,630** |
| | **14,153** | **3,016** | **38,612** | **80,650** | **136,431** |

### **33. Net asset value per share and EPRA net asset value**

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Net assets (€'000) | 148,539 | 100,297 |
| Number of participating Ordinary Shares | 69,872,298 | 46,418,633 |
| Net asset value per share (€) | 2.13 | 2.16 |

| EPRA net asset value | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Net assets (€'000) | 148,539 | 100,297 |
| Add back deferred taxes, derivative financial instruments and share-based payment reserves | 11,095 | (4,479) |
| EPRA net asset value (€'000) | 159,634 | 95,818 |
| EPRA net asset value per share (€) | 2.28 | 2.06 |

### **34. Related party transactions**

Related party transactions not disclosed elsewhere are as follows:

Richard Prosser is Director of Estera Fund Administrators (Jersey) Limited (formerly known as Appleby Fund Administrators (Jersey) Limited) who provides administration services to the Company.

Andrew Weaver is a partner of the Jersey law firm, Appleby, which provides legal services to the Company and a member of Appleby group. He was, until 31 December 2015, a Director of Appleby Fund Administrators (Jersey) Limited (now Estera Fund Administrators (Jersey) Limited).

During the year ended 31 December 2015, an amount of €718,721 (December 2014: €263,038) was payable to Estera Fund Administrators (Jersey) Limited for accounting, administration and secretarial services. At December 2015, €125,671 (December 2014: €170,991) was outstanding.

During the year ended 31 December 2015, an amount of €375,595 (December 2014: €6,114) was payable to Appleby law firm for legal and professional services. At December 2015, €11,352 (December 2014: €Nil) was outstanding.

M Northover is a Director and shareholder of PMM Partners (UK) Limited, the Company's appointed Property Advisor. During the year ended 31 December 2015, an amount of €2,574,000 (December 2014: €1,670,349) was payable to PMM Partners (UK) Limited. At December 2015 €Nil (December 2014: €247,088) was outstanding.

The Group also entered into an option agreement to acquire the remaining 5.2% interest in PSPF from the remaining partners, being Mike Hilton and Paul Ruddle, both Directors of PMM Partners (UK) Limited; the options are to be exercised on the fifth anniversary of the majority interest acquisition for a period of three months thereafter.

The Group entered into a loan agreement with Mike Hilton and Paul Ruddle in connection with the acquisition of PSPF. At the period end an amount of €691,000 each was owed to the Group. The loans bear interest of 4% per annum.

## 35. Events after the reporting period

**Placing Programme**

The Company announced on 3 March 2016 that it had gained shareholder approval to implement a proposed Placing Programme which, if required, would allow capital to be raised in an efficient and cost-effective manner. The Placing Programme can be implemented in the period from 7 March 2016 to 8 February 2017 in the event that the Company identifies properties that are suitable for acquisition in accordance with its investment objective and policy.

**Issue of new shares**

On 3 March 2016 the Company announced the successful issue of 22,619,047 new shares at 168p to raise gross proceeds of £38.0 million, of which 19,642,857 shares were placed with institutional and other investors and an additional 2,976,190 shares were issued by way of an Offer for Subscription. The new shares were issued at 168p, a premium to the reported EPRA NAV per share as at 31 December 2015 of 167p. The purpose of this fundraising is to enable the Company to continue to grow the portfolio, particularly in Berlin where the Board believes that significant market opportunity exists.

**Acquisitions**

The Company completed on four properties that were notarised before the financial year end, with a total value of €19.8 million. A further building was notarised in the period post 31 December 2015 at a price of €3.1 million.

**Debt**

A seven-year debt facility of €16.7 million was signed in the period after the financial year end. Of this, €15.5 million has been drawn against this with 70% of the disbursed amount being fixed at 1.7% by way of an interest rate swap. The undrawn balance of €1.1 million is expected to be drawn in H1 2016. Amortisation of 1.1% commences in April 2017.

# Professional Advisors

| | |
|---|---|
| **Property Advisor** | PMM Partners (UK) Limited<br>47-48 Piccadilly<br>London W1J 0DT |
| **Administrator, Company Secretary and Registered Office** | Estera Fund Administrators (Jersey) Limited,<br>(formerly Appleby Fund Administrators (Jersey) Limited)<br>Estera Secretaries (Jersey) Limited,<br>(formerly Appleby Secretaries (Jersey) Limited)<br>13-14 Esplanade<br>St Helier<br>Jersey JE1 1EE |
| **Registrar** | Capita Registrars (Jersey) Limited<br>12 Castle Street<br>St Helier<br>Jersey JE2 3RT |
| **Principal Banker** | Barclays Private Clients International Limited<br>13 Library Place<br>St Helier<br>Jersey JE4 8NE |
| **English Legal Advisor** | Stephenson Harwood LLP<br>1 Finsbury Circus<br>London EC2M 7SH |
| **Jersey Legal Advisor** | Appleby<br>13-14 Esplanade<br>St Helier<br>Jersey JE1 1BD |
| **German Legal Advisor as to German property law** | Mittelstein Rechtsanwälte<br>Alsterarkaden 20<br>Hamburg 20354<br>Germany |
| **German Legal Advisor as to German partnership law** | Hogan Lovells International LLP<br>Untermainanlage 1<br>Frankfurt am Main 60329<br>Germany |
| **Sponsor and Joint Broker** | Liberum Capital Limited<br>Ropemaker Place<br>25 Ropemaker Street<br>London EC2Y 9LY |
| **Joint Broker** | SP Angel Corporate Finance LLP<br>Prince Frederick House<br>35-39 Maddox Street<br>London W1S 2PP |
| **Independent Property Valuer** | Jones Lang LaSalle<br>Rahel-Hirsch-Strasse 10<br>Berlin D-10557<br>Germany |
| **Auditor** | RSM UK Audit LLP<br>(formerly Baker Tilly UK Audit LLP)<br>25 Farringdon Street<br>London EC4A 4AB |

# Notes

# Notes

*Photography credit:*
*Michel Koczy. Pages 14, 15 and*
*19 (inset image – Local café life).*

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