Annual Report and Accounts 2016

Investing in Berlin

PMMPARTNERS

Introduction

Phoenix Spree Deutschland is an investment company founded in 2007 and listed on the London Stock Exchange. It offers shareholders exposure to the German residential market, particularly Berlin, where 75% of assets are located.

Over the past ten 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

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Highlights of the Year

2016 was the first full financial year since Phoenix Spree Deutschland successfully listed on the Main Market of the London Stock Exchange. The Group capitalised on the platform that this provided by issuing new equity, raising £38 million (before costs) in March 2016. The Group has been actively deploying the proceeds on selective acquisitions to grow its Portfolio of residential properties in Berlin, where the Board sees the most potential for future market rental growth and yield compression in the years ahead.

Strong financial performance

- Pre-exceptional profit before tax up 148% to €48.9 million (31 December 2015: €19.7 million).
- Portfolio value increased by 49.5% to €423.8 million during the year (31 December 2015: €283.6 million), or 19.4% on a like-for-like basis.
- EPRA NAV per share grew by 19.7% to €2.73 (£2.33) (31 December 2015: €2.28 (£1.67)).
- EPRA total return per share of 22.5%, (31 December 2015: 17.5%).
- Strong letting performance, as rent per sqm increased by 1.4% to €7.6 (31 December 2015: €7.5) and 5.3% on a like-for-like basis.
- Rent on new lettings of €9.6 per sqm, a 7.8% increase over 2015, and a new Group record.
- EPRA Vacancy reaches all-time low of 2.6% (31 December 2015 3.9%).
- Final dividend per share of €4.3 cents (GBP: 3.7p), giving a total dividend per share of €6.3 cents (GBP: 5.3p) for the financial year 2016 (2015: €5.8 cents (GBP: 4.2p)).

Continued momentum in scale and quality of Portfolio

- Share placing proceeds used to fund attractive pipeline of acquisition opportunities: Notarisation of ten Berlin property packages during the year, for an aggregate consideration of €78.3 million. These are expected to increase the Group's rental income by c.17.5%.
- Active Portfolio management: Disposal of non-core properties during the year for aggregate consideration of €3.8 million.
- Significant non-core disposal post year-end: 17 properties located in Nuremberg and Fürth notarised for €35.25 million, an 11% premium to the 31 December 2016 book value, increasing the pro-forma Berlin exposure to 81.9% of the Group's Portfolio by value.
- Substantial premium achieved on condominium sales: Third project, in Boxhagenerstrasse, commenced in Q4 2016, achieved an average value per sqm of €4,110, a 59.0% premium to the 2015 acquisition price of €2,585 per sqm.
- Active balance sheet management: New debt of €101.4 million signed during H2 2016. Overall average debt maturity now exceeds six years and average interest rate has been reduced to 2.0%. During past 24 months, over 90% of Fund's debt has been refinanced.

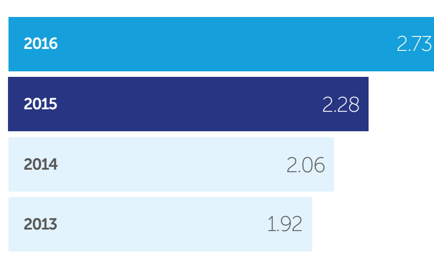
Outlook

- Outlook for the German residential market, particularly Berlin, remains positive with further scope for rental growth and yield compression.
- Rising demand for property expected to continue, driven by population growth, job creation and the ongoing process of urbanisation.
- Supply of Berlin rental housing expected to remain constrained by lack of land for development, limited number of building permits and high cost of construction relative to in-place housing stock.
- Strong reversionary rental potential embedded within Portfolio; Berlin new leases signed at 35.6% premium to in place rents.
- Further new condominium projects and sales are planned for the year ahead.
- Group continues to see attractive pipeline of acquisitions that meet its strict return criteria, and expects to deploy further capital during the remainder of 2017.

EPRA NAV/share

€2.73

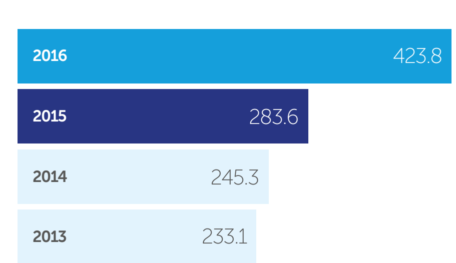
+19.7%



Portfolio value

€423.8m

+49.5%



Dividend per share p

5.3p

(3.7p final/1.6p interim)

At a Glance

Since 2008, the value of the combined Portfolio of PSD and PSPF has grown by 153% to €423.8 million.

Berlin now represents more than three-quarters of the portfolio by value, and this focus is expected to increase in 2017.

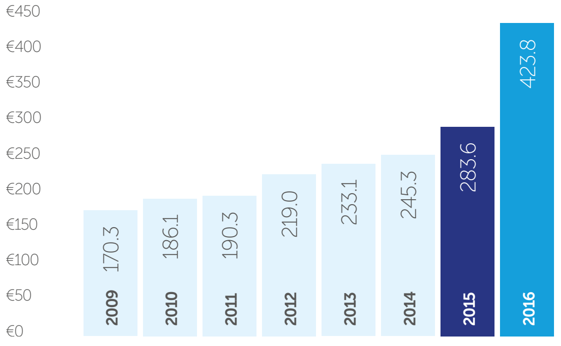
The Company acquires and manages residential property in Berlin and other selected German secondary cities. The aggregate value of the Portfolio (including the assets of PSPF) has risen from €167.8 million in 2008 to €423.8 million in 2016, with each year seeing an increase. This equates to an average value per sqm of €1,965, ranging from €1,198 in Central and Northern Germany to €2,320 in Berlin.

Since listing on the Main Market of the London Stock Exchange in June 2015, the Company has increased the Berlin residential focus of the Portfolio through a combination of carefully selected Berlin acquisitions and disposals of buildings deemed to be non-core. As at 31 December 2016, Berlin represents more than 75% of the Portfolio value and this focus is expected to increase during 2017.

The Portfolio mainly consists of classic 'Altbau' 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 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 the Property Advisor, PMM Partners.

Reported property portfolio valuation 2009-2016 €m

+49.5% 2016



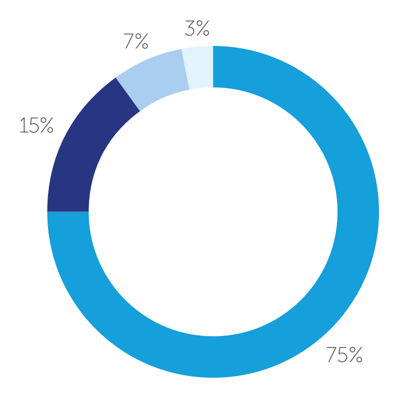
Properties by location in Germany

Residential Commercial

Kiel, Rendsburg, SCHLESWIG-HOLSTEIN, Lubeck, MECKLENBURG, Luneburg, Bremen, Winsen Luhe, Oldenburg, Verden, BRANDENBURG, NIEDERSACHSEN, Hannover, Berlin, Hildesheim, SAXONY-ANHALT, NORDRHEIN-WESTFALEN, SACHSEN, THURINGIA, HESSEN, RHINELAND-PFALZ, SAARLAND, Nuremberg & Fürth, BAYERN, Pforzheim, Holzgerlingen, BADEN-WÜRTTEMBERG

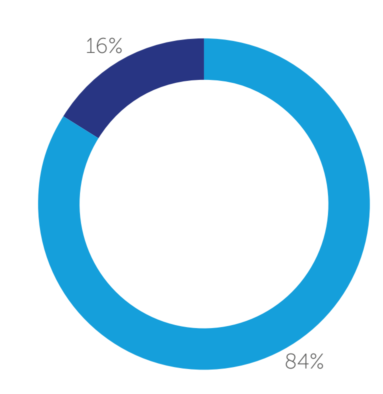
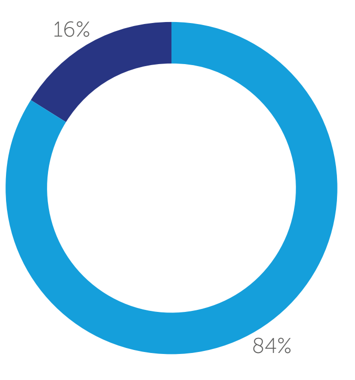
Riemannstrasse – local cafe life

Property by location (31 Dec 2016)



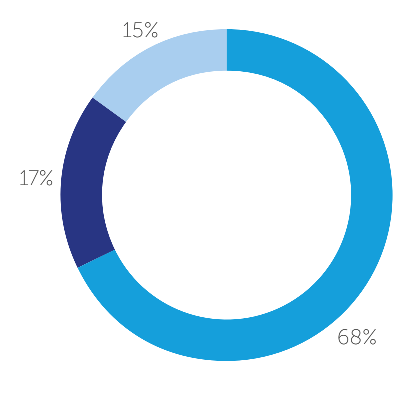
- Berlin
- Central & North Germany
- Nuremberg & Fürth
- Baden-Wurttemberg

Floor space by usage (31 Dec 2016)

- Residential
- Commercial

Property by age (31 Dec 2016)



- Before 1949
- 1950 to 1990
- After 1990

Properties
130

Usable space (sqm)
216k

Residential units
2,785

Commercial units
237

Chairman's Statement

The financial year 2016 has been another year of achievements and growth.

"We have continued to deliver against our strategy of actively managing and growing our high-quality portfolio."

Robert Hingley
Chairman

26 April 2017

It is pleasing to see that, in its first full financial year since listing on London Stock Exchange, the Group has had another year of achievements and growth. It has continued to deliver on its strategy, having enhanced the portfolio through a significant programme of property acquisitions, concluded selective portfolio disposals, capitalised on the stock market listing through the issuance of new equity and delivered another positive set of financial results.

FINANCIAL RESULTS
The financial results for the year to 31 December 2016 reflect strong operating trends. Positive market fundamentals continued to drive growth in demand for rental apartments, while supply remained constrained. These trends, combined with our active asset management strategy, delivered growth in rents and property values. The portfolio value increased by 49.5% to €423.8 million, or 19.4% on a like-for-like basis excluding the impact of acquisitions and disposals, whilst EPRA NAV per share rose by 19.7% to €2.73. During the year, new leases were signed at an average 27.0% premium to in-place rents and this, combined with the significant premium achieved on our condominium sales, demonstrates the strong reversionary potential that exists within the Portfolio. The EPRA vacancy rate improved, ending the year well below 3%, and the period closed with a strong balance sheet, showing a net loan to value of 39.4% and cash balances of €18.5 million.

Increase in share price during the financial year 2016

+49.5%

SHARE PRICE AND DIVIDEND

The year to 31 December 2016 saw the share price rise from 156 to 232 pence per share, representing an increase of 49.5% during the period, significantly outperforming the FTSE All Share Index, into which the Company gained inclusion in May 2016. While no guarantees can be provided as to future share price performance, it is nonetheless pleasing to see shareholders rewarded for their support during a period which saw considerable economic and stock market uncertainty in the periods leading up to and after the Brexit vote in June 2016.

The Company aims to provide its shareholders with a secure and progressive dividend over the medium term, paid from recurring net operating cashflows, and subject to the distribution requirements pertaining to Non-Mainstream Pooled Investments. Accordingly, the Board is pleased to have declared a final dividend of €4.3 cents per share (GBP 3.7 pence per share), taking the full year dividend to €6.3 cents per share (GBP 5.3 pence per share), representing an 8.4% increase on the 2015 full year Euro-denominated dividend. This is expected to be paid on or around 30 June 2017 to shareholders on the register at 9 June 2017.

SHARE PLACING AND DEBT REFINANCING

The Stock Market listing has provided the Fund with better access to capital markets and the Group successfully issued new equity in March 2016 by way of an Offer for Subscription and Share Placing, raising a total of £38 million before costs. The Group has also been successful in securing new debt facilities during 2016 and continues to refinance existing debt on more favourable terms, thus reducing the overall interest rate while simultaneously extending the maturity of the debt pool. Combined, these actions have provided the Group with the financial platform to grow the Portfolio through a series of carefully targeted acquisitions.

ACQUISITIONS & DISPOSALS

The Group grew the Portfolio, having completed or notarised a further €78.3 million of acquisitions, all of which were located in Berlin. The criteria for new acquisitions are rigorous, and it is pleasing that the Group continues, in a competitive marketplace, to source acquisitions that are capable of meeting or exceeding the Group's target returns.

During the financial year, the Group successfully sold several properties outside Berlin that had been identified as non-core. In April 2017, a portfolio of 17 properties located in Nuremberg and Fürth was notarised for sale at a significant premium to book value. On completion, the combined impact of these transactions will increase the contribution of Berlin to 81.9% of the Portfolio by value, leaving the Group better positioned to capitalise on the relatively more favourable market dynamics that the Board believe Berlin offers.

CONDOMINIUMS

The Group has also continued to divide and resell a small number of carefully selected apartment blocks as condominiums in order to monetise the arbitrage that exists between the value of an apartment block and the value of the same property sold as single apartments. During the year to 31 December 2016, the average achieved price per square metre for condominiums sold or notarised represented a 62% premium to the average valuation per square metre for the Fund's Berlin portfolio, demonstrating the potential that exists to unlock value by pursuing a targeted condominium strategy.

2016 Increase in EPRA NAV

+19.7%

PROPERTY ADVISOR

2016 has been another busy year for PMM Partners, the Group's Property Advisor. PMM Partners has combined its day-to-day asset management activities with a successful capital raising in the first quarter of the year, a busy acquisition and disposal pipeline, and a significant debt refinancing programme. The Board would like to thank PMM Partners for its ongoing contribution to the Group's performance.

CORPORATE GOVERNANCE

High standards of corporate governance are vital if the Group is to deliver its strategy and safeguard the interests of our shareholders and other valued stakeholders. The Directors are committed to ensuring that the Group 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 Group to apply the provisions of the UK Corporate Governance Code (the 'Code').

The Board has considered the principles and recommendations of the Code and is pleased to confirm that the Group complies with the provisions of the Code where applicable.

OUTLOOK

German residential market dynamics remain positive, particularly in Berlin, where demand for rental property continues to outstrip supply significantly and prices of existing housing stock compare favourably with new-build construction costs. Berlin's population continues to rise and job creation trends remain strong, further adding to rental property demand. The Directors believe these market forces have the potential to deliver further rent growth and yield compression in the year ahead. Combined with the Property Advisor's active asset management strategies and additional condominium programmes that are either planned or underway, the outlook for 2017 remains positive.

Strategy

The Group believes that German residential property, particularly in Berlin, is undergoing a period of structural change. It aims to capitalise on the reversionary potential within this market to drive capital growth and increase shareholder value.

Riemannstrasse, Berlin – Exterior

STRUCTURAL CHANGE

Although residential property prices in Germany have risen significantly during the past decade, demand continues to outstrip supply significantly, particularly in our core market, Berlin. The Board believes that this change is structural, rather than cyclical, and that the supply-demand imbalance will remain in the medium term. A lack of development land and relatively high new-build construction costs continue to limit supply of new housing stock. Factors which continue to place upward pressure on demand include high levels of job creation, net inward migration, low interest rates and favourable affordability metrics.

REVERSIONARY POTENTIAL

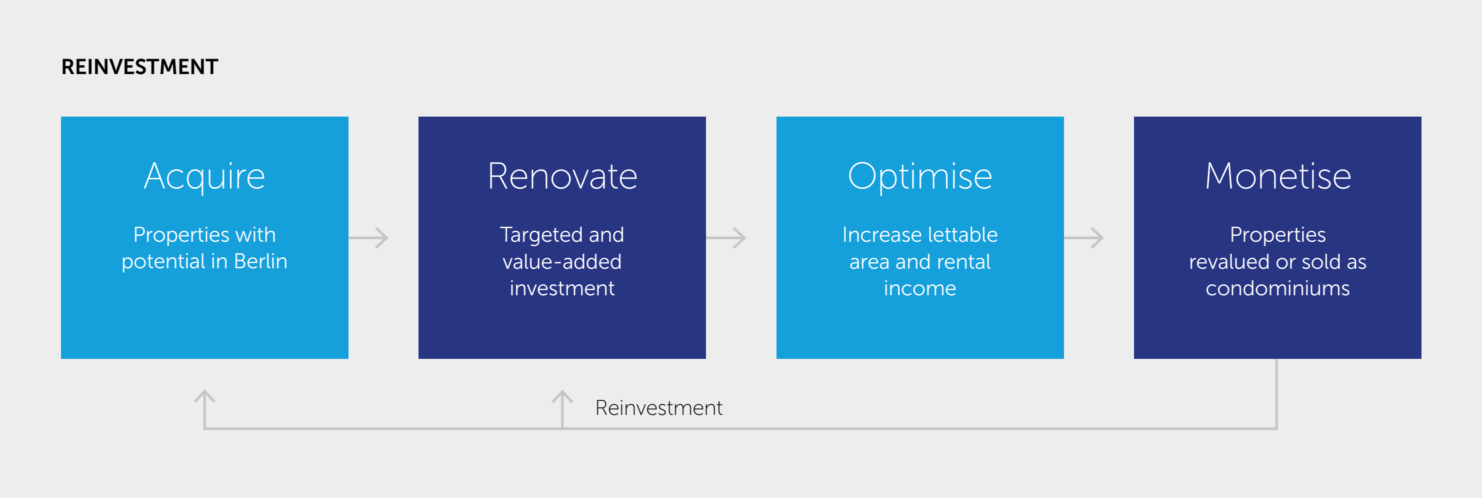
These positive structural tailwinds have created a strong reversionary dynamic in both the rental and owner-occupier markets. For rental properties in most urban areas, high demand and limited supply typically ensure that new rental contracts are priced at a significant premium to average passing rents. Limited supply and positive affordability metrics have similarly affected the owner-occupier market, where a premium can be derived from splitting freeholds in rental blocks and reselling as individual apartments. This has, in turn, had an upward effect on the values of investment properties held for rental.

This reversionary potential is particularly evident in Berlin, where the Group has actively sought to increase its exposure to this market since listing on the London Stock Exchange.

PMM Partners, the Group's Property Advisor, aims to maximise the reversionary potential that exists in the Group's core markets.

Business Model

The Group's business model is to acquire, renovate, optimise and monetise properties. PMM Partners has significant experience in generating rental and capital growth through innovative asset management, value-added investment and condominium sales.



ACQUIRE
The Group 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 resold profitably 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. Apartments occupied by long-standing tenants are considered for modernisation and vacant attic space is reviewed for conversion to residential space. A single apartment generally costs between €20,000 and €30,000 to renovate, while an entire building renovation might cost up to €2 million.

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 substantially above the level paid by previous tenants. Tenant lists are reviewed carefully and, where appropriate, rent increases are applied for, either where tenants are 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.

MONETISE
The properties within the portfolio are revalued each year. The increased rental income following renovation and optimisation is reflected in an uplift in property values which, in turn, generates 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.

Operational Review

The Group delivered another positive set of financial results for the year to 31 December 2016. Positive market fundamentals, combined with our active asset management strategy, delivered growth both in rents and property values.

PORTFOLIO VALUE RISES BY 19.4%

During 2016, the Portfolio value grew by 49.5% from €283.6 million to €423.8 million. On a like-for-like basis, property values rose by 19.4% (31 December 2015: 10.6%). The portfolio is now valued at €1,965 per sqm (31 December 2015: €1,635) which represents a gross fully occupied yield of 4.8% (31 December 2015: 5.7%) and a net yield, using EPRA methodology, of 4.2% (31 December 2015: 4.7%).

All geographic markets registered valuation gains during the period, with Berlin seeing the largest like-for-like increase at 24.3%, followed by Nuremberg & Fürth at 12.0% and Central and North Germany 10.4%.

The principal drivers behind the like-for-like growth in the Portfolio value were:

- strong growth in like-for-like rental income within the Portfolio;
- a further decline in market yields, driven by the low interest rate environment;
- continued high levels of investor interest in the Berlin property market; and
- further development of the condominium market, with single apartment prices in Berlin experiencing another year of double-digit growth, thus helping to drive prices for apartment blocks.

EPRA NAV INCREASES BY 19.7%

EPRA NAV per share increased by 19.7% in the period to €2.73 (£2.33) compared to €2.28 (£1.67) as at 31 December 2015. Taking into account the dividends paid during 2016, EPRA total return per share was 22%, approaching twice that achieved in 2015. The return for 2016 compares favourably to the Group's target return of 8-10% per annum. Non-recurring costs relating to the share placing in March 2016, reduced EPRA NAV by around 0.6%.

FINANCIAL HIGHLIGHTS

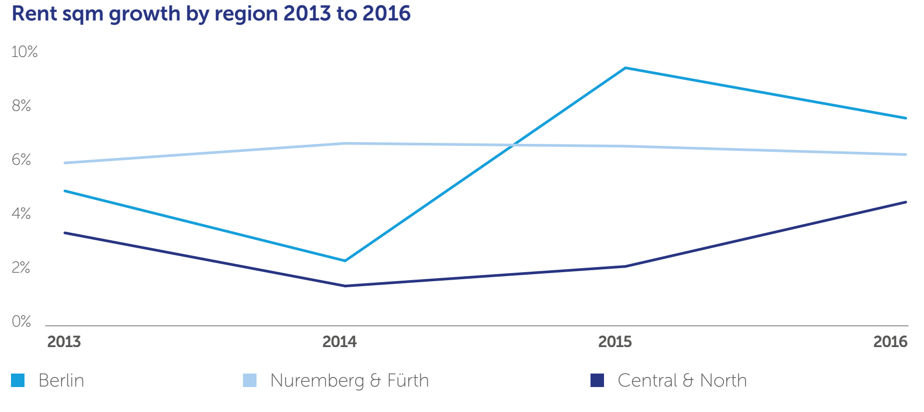
€ million (unless otherwise stated)	31 Dec 2016	31 Dec 2015
Gross rental income	15.9	12.1
Profit before tax	48.9	13.0
Pre-exceptional profit before tax	48.9	19.7
Reported EPS (€)	0.42	0.14
Investment property value	423.8	283.6
Net debt	167.1	121.0
Net LTV	39.4%	42.8%
EPRA NAV per share (€)	2.73	2.28
EPRA NAV per share (£)	2.33	1.67
Dividend per share (€ cents)	6.3	5.8
Dividend per share (£ pence)	5.3	4.2
EPRA NAV per share total return for period (€%)	**22.5%**	**17.5%**
EPRA NAV per share total return for period (£%)	**41.7%**	**10.7%**

RENTAL INCOME INCREASED BY 28%. VACANCY RATE AT AN ALL-TIME LOW

Annual net rental income increased to €18.0 million in the period to 31 December 2016, an increase of 27.8% compared with the year to 31 December 2015. On a like-for-like basis, rental income grew by 5.2% compared with 2015. Headline average in place rent per sqm stood at €7.6 as at 31 December 2016, compared with €7.5 as at 31 December 2015. On a like-for-like basis, rent per sqm grew by 5.3% compared with 2015. Berlin saw a like-for-like increase in rent per sqm of 6.1%, compared to 4.4% in Central and North Germany, with Nuremberg and Fürth recording highs of 7.5%.

Reported vacancy as at 31 December 2016 stood at 9.1%, down from 10.1% as at 31 December 2015. On an EPRA basis, which adjusts for units undergoing redevelopment or reserved for resale, vacancy stood at an all-time low of 2.6% as at 31 December 2016, compared to 3.9% as at 31 December 2015. This reflects a strong rental market as well as efforts by the asset manager to reduce the time associated with re-letting.

Rent sqm growth by region 2013 to 2016



RECENT LETTING PRICES ACHIEVE NEW HIGHS FOR THE GROUP

The Group enjoyed another strong letting performance in 2016. A total of 437 new leases were signed, representing 14.5% of the average units owned during the period. In Berlin, average new letting prices grew by 3.1% to €10.6 per sqm (2015: €10.3 per sqm), while Nuremberg & Fürth also witnessed growth, with new letting prices rising by 7.0% to €9.5 per sqm.

Notwithstanding growth in rental prices, the Portfolio continues to demonstrate significant reversionary potential. During the final quarter of 2016, new lettings were signed at an

PORTFOLIO REGIONAL OVERVIEW

Market	% of fund by value	Buildings	Resi units	Comm units	Total units	Total sqm ('000)	Total Gross rent (€m)	Valuation (€m)	Value per sqm (€)	Fully occupied gross yield %	Vacancy %	EPRA vacancy %
Berlin (incl. Greater Area)	75%	69	1,773	129	1,902	137.4	11.6	318.7	2,320	4.1%	9.7%	2.2%
Central & North Germany	15%	42	805	46	851	50.3	4.0	63.3	1,259	6.8%	5.7%	3.6%
Nuremberg & Fürth	7%	17	189	38	227	19.6	1.5	31.8	1,622	5.8%	14.7%	3.3%
Baden-Wurttemberg	3%	2	18	24	42	8.4	0.8	10.0	1,198	8.6%	5.1%	2.4%
Total	**100%**	**130**	**2,785**	**237**	**3,022**	**215.7**	**17.9**	**423.8**	**1,965**	**4.8%**	**9.1%**	**2.6%**

average premium of 30.6% to passing rents and 36.8% in Berlin. The Group believes this reversionary gap should underpin rental growth in the medium term, providing a buffer against any potential slow-down in market rental growth.

FURTHER INVESTMENT IN THE PORTFOLIO

The Group continued with its programme of renovations and modernisations, investing €2.2 million during 2016 across 215 units, representing an average outlay of €232 per sqm. The average premium achieved on re-letting these units was 40.7%. Additionally, €2.0 million was invested in the infrastructure of properties for items such as heating system upgrades. All of these categories were recorded as capital expenditure. A further €1.1 million spent on repairs and maintenance was expensed through the profit and loss account, compared to €0.9 million in the period to 31 December 2015.

TARGETED ACQUISITIONS

The Group has supplemented its organic growth with a number of targeted acquisitions. In total 634 units (596 residential and 38 commercial) were notarised during 2016 for an aggregate purchase price of €78.3 million, at an average value per sqm of €1,888 and annual fully occupied rent of €3.4 million. All the acquired properties are located in Berlin and complement the Group's existing portfolio. Combined, they will add 17.5% to rental income, and by value they increase exposure to the Berlin region from 70.5% to 76.3%. As at 31 December 2016 €58.4 million of the notarised acquisitions had completed, with the remainder expected to complete in the first quarter of 2017. Acquisitions have been financed using a combination of debt and equity, with a target net loan to value ratio of approximately 50%.

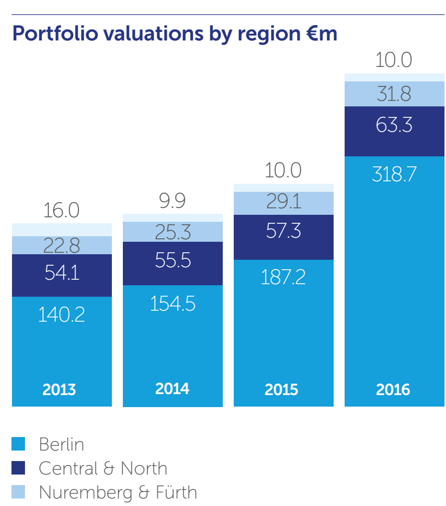
In the 18-month period between listing on the London Stock Exchange in June 2015 and the December 2016 financial year-end, the Group has acquired properties with an aggregate valuation of €114.1 million. Properties that had completed by December 2016 were revalued by Jones Lang LaSalle ('JLL') in December 2016 at an average 18.6% premium to purchase prices.

The Group intends to continue with its strategy of growing the Portfolio through selective acquisitions and, as at 1 April 2017, a further 74 units in Berlin had been notarised for an aggregate value of €12.3 million, representing a value per sqm of €1,780.

NON-CORE DISPOSALS INCREASE BERLIN FOCUS

The Group has also sold or notarised for sale a number of properties located outside Berlin which have been classified as non-core. These disposals represent a profitable exit and release capital which is expected to be re-deployed to increase exposure to the Berlin market.

Portfolio valuations by region €m



In November 2016, the Group notarised for sale a mixed-use property which had a high commercial component and is located in Teltow, Brandenburg. The sale proceeds of €3.8 million represented an 18.8% premium to June 2016 book value. The sale completed in April 2017.

In April 2017, the Group notarised for sale a portfolio of 17 properties, located in Nuremberg and Fürth, for an aggregate consideration of €35.25 million. These properties were acquired in 2007 and 2008 for an aggregate purchase price of €13.9 million and the sale proceeds represent an 11% premium to the December 2016 book value. Following completion of this portfolio disposal, and including acquisitions and disposals which were notarised in 2016 but had yet to complete by the financial year-end, Berlin will represent approximately 82% of the Group's portfolio value.

CONDOMINIUM SALES

During 2016, the Group continued with its strategy of crystallising the potential reversionary value within the portfolio through the selective sale of individual units as condominiums at significant premiums to book values. The Group's existing two sales programmes in Kreuzberg, Berlin were supplemented by the launch of a further sales programme in Friedrichshain, also in Berlin, in the final quarter of 2016.

A total of 22 individual units were notarised for sale in 2016, representing an aggregate sales value of €5.7 million and an average of €3,874 per sqm. As at 31 December 2016, a total of 31 units, representing proceeds of €7.5 million, had completed since the condominium project began in mid-2015. The sales comprise a combination of vacant and occupied units. It is expected that all units in the two projects in Kreuzberg will be sold during 2017 and the Group expects to launch further condominium sales programmes in 2017.

FINANCIAL RESULTS

The financial results for 2016 are for the first full period of consolidation of Phoenix Spree Property Fund, which was acquired in March 2015. Reported revenue for the period was 32.0% higher at €15.9 million (31 December 2015: €12.1 million). Profit before taxation ('PBT') grew to €48.9 million (31 December 2015: €13.0 million). The results include a significant net valuation gain of €55.2 million (31 December 2015: €18.1 million). The costs of the share placing in 2016 totalled €1.6 million and have been charged to equity. Reported earnings per share for the period were €0.42c (31 December 2015: €0.14c).

The Board is pleased to have declared a final dividend of €4.3 cents per share (GBP 3.7 pence per share), (31 December 2015: €3.9 cents) (GBP 2.9 pence per share), which is expected to be paid on or around 30 June 2017 to shareholders on the register at close of business on 9 June 2017, with an ex-dividend date of 8 June 2017. Taking into account the interim dividend paid in October 2016, the declared dividend for the financial year to 31 December 2016 is €6.3 cents per share (GBP 5.3 pence per share), (31 December 2015: €5.8 cents per share) (GBP 4.2 pence per share).

FINANCING

As at December 31 2016, the Group had gross borrowings of €185.6 million (31 December 2015: €133.8 million) and cash balances of €18.5 million (31 December 2015: €12.8 million) equating to a net debt of €167.1 million (31 December 2015: €121.0 million) and a net loan to value on the portfolio of 39.4%. These loans have fixed interest rates and, at 31 December 2016, the blended rate of all loans across the Portfolio was 2.0%. The average remaining duration of the loan book at 31 December 2016 was 6.3 years (31 December 2015: 5.4 years). As of March 2017, over 90% of the Group's debt has been refinanced within the previous 24 months.

In January 2016, the Group entered into a €16.7 million six-year loan facility to finance newly acquired properties. As at 31 December 2016, the whole of this facility had been drawn. In August 2016, the Group entered into a €9.3 million ten-year loan facility, of which €1.0 million was undrawn as at 31 December 2016. The remaining €1.0 million was subsequently drawn in March 2017. In September 2016, the Group entered into an €81.5 million eight-year loan agreement. This facility refinanced existing debt, as well as releasing equity, which was applied to acquisitions and value-added investment. As at 31 December 2016, €79.5 million of this facility had been drawn with the remaining €2.0 million also drawn in March 2017.

In July 2016, the Group acquired 94.8% of the shares in Laxpan and Invador, two companies owning properties in Berlin. The companies were acquired with existing debt in place and, as at 31 December 2016, this combined debt amounted to €11.3 million. In February 2017, the Group entered into a €17.5 million ten-year loan facility to refinance this debt, the balance in excess of the debt repayment being an equity release to the Group.

In December 2016, the Group entered into a €10.6 million two-year loan facility. While none of the facility was drawn at 31 December 2016, €9.9 million was drawn in February 2017. This facility was used to finance newly acquired properties and is designed to improve lead-times to loan disbursements. In due course, this shorter duration loan will be refinanced into longer-term debt.

The Group's strategy is to take advantage of current favourable debt markets to lock in lower rates of interest on its debt, while also extending the maturity of its loan book.

In March 2016, the Group successfully completed a share placing, issuing 22.6 million shares at a price of 168p, raising £38 million before costs. The proceeds of the placing were used to fund further property acquisitions and to invest in the existing portfolio.

Although currently well-funded, the Group will continue to assess its funding options for growth, including further debt, equity and joint ventures.

MARKET OUTLOOK

Although German ten-year bund yields have again moved into positive territory, they remain at historically low levels and, with Eurozone growth forecast to remain below 2.0% for 2017-2018, bond and interest rates are likely to remain low. The Directors believe that this provides a favourable backdrop for 2017.

Market dynamics remain particularly attractive in our core market, Berlin. Despite the above trend rental growth in recent years, affordability comparisons with other German cities are still favourable, with Berlin ranking 13th in terms of property prices, and outside the top 30 for rent levels. Positive demographic trends remain, with demand for housing stock significantly outstripping supply.

Inward migration, high job creation levels, falling unemployment and growth in Berlin's tourist and technology industries continue to fuel population growth. Between 2010 and 2015, the population grew by an average of almost 50,000 inhabitants per annum, accelerating to 43,000 in the first half of 2016 alone, and the city forecasts further substantial population growth over the next decade. By contrast, supply of housing stock remains limited, constrained by lack of available land for development and new-build construction costs that exceed the value of existing housing stock in most locations.

These market tailwinds have been evident within the Group's own portfolio during 2016, with record property values, vacancy at an all-time low and new letting prices at an all-time high. High new letting prices create a significant reversionary opportunity for the future and, given that recent new leases in our Berlin portfolio have been signed at an average 35.6% premium to in-place rents, the Board believes that significant opportunity remains to improve rental incomes through active asset management strategies. The Board believes that this, combined with further carefully selected Portfolio acquisitions and a continuation of our condominium sales programme, leaves the Group well placed for the year ahead.

Boxhagenerstrasse
– acquired December 2015

Our Investment Proposition

The Group provides 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, with a progressive dividend policy. The Group generates its investment returns through a number of streams:

- **Rental income:** The EPRA net rental yield on the investment portfolio in 2016 was 4.2%, which compares favourably to an average cost of debt of 2.0%.
- **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 5.1% per annum over the last three years. This is one of the main drivers of capital growth.
- **Yield compression:** Although German ten-year bund rates have risen in the latter part of 2016, they still remain at historically low levels and further property yield compression is possible, particularly in Berlin, given supply/demand imbalance.
- **Condominium profits:** Each year a part of the portfolio will be sold as single apartments. Sales prices are currently at a significant premium to rental values, which enables the Group to unlock value from its portfolio.

NAV per share

€2.73

Average adjusted NAV CAGR since 2011

17.3% per annum

Albertinenstrasse – acquired in February 2008

Key Performance Indicators

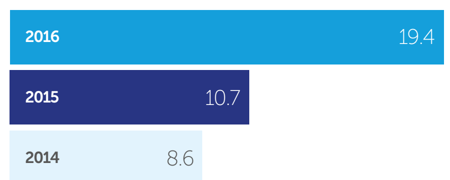
The Group has chosen a number of Key Performance Indicators ('KPIs') which the Board believes are relevant to help investors understand the performance of both the Group and the underlying property portfolio.

In 2016, the value of the property portfolio grew by 19.4% on a like-for-like for basis. This increase was driven by an increase in like-for-like average rent per let sqm of 5.3% (2015: 4.8%) and a decline in EPRA vacancy to 2.6% (2015: 3.9%).

The Group continued with its targeted condominium programme, agreeing sales of €5.7 million in the year to 31 December 2016 (2015: €4.7 million). EPRA NAV per share increased by 19.7% to €2.73, while the declared dividend for the year 2016 was €6.3 cents per share (GBP 5.3 pence per share), an increase of 8.4% in Euro terms versus 2015.

Like-for-like property portfolio value growth 2016 %

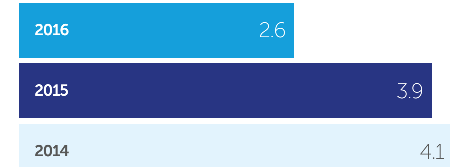
19.4%



Like-for-like portfolio rent per sqm 2016 €

EPRA vacancy 2016 %

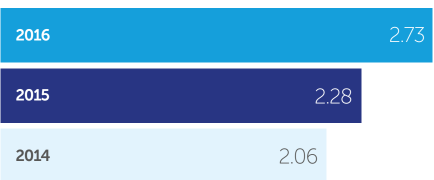
2.6%



Condominium sales 2016 €m

EPRA NAV per share 2016 €

€2.73



Dividend per share p

5.3p

Berlin

The Berlin portfolio reported its best year to date.

During 2016, the Berlin portfolio value grew by 24.3% on a like-for-like basis, an excellent rate of growth which demonstrates strong market fundamentals, underpinned by favourable demographics and a lack of new-build supply. The lack of supply can be explained by a combination of factors including lack of available land, tight planning controls and market values which are still below construction costs.

In the 11 months to November 2016, building permits were issued for some 19,100 new-build apartments in Berlin and JLL estimate that the total number of permits issued in 2016 as a whole is expected to reach 21,000. However, construction activity remains well below the current demand for more than 20,000 residential units per annum. This is because a significant proportion of building permits do not lead to completions given uncertainty surrounding building and planning policies and the fact that approval processes can take several years to complete. To illustrate the disparity between building permits granted and units completed, in 2015, building permits were granted for almost 18,000 new residential units in Berlin, but the number of completions was only 8,700.

The Group's portfolio is valued at €2,320 per sqm on average. With all-in new-build construction costs averaging around €3,000 per sqm, the Board believes that property prices in Berlin have further to grow before the supply and demand imbalance is rectified.

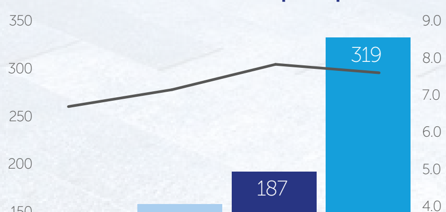
The growth in property values was underpinned by further increases in rental levels and a reduction in voids. Like-for-like rental growth in the period was 6.1%, and new leases were signed at an average rent of €10.6 per sqm, a premium of 35.6% to the average in-place rent. Meanwhile, the EPRA vacancy rate fell to a new low of 2.2% compared with 3.4% in 2015.

In 2016, the asset manager focused on integrating acquisitions made in the latter half of 2015 and during 2016. Business plans for these assets have been produced and a programme of investment and active asset management is underway which should yield increases in rents and property values during 2017.

Like-for-like portfolio value growth

24.3%

Portfolio value €m and rent per sqm €



Like-for-like rent per sqm growth

6.1%

EPRA vacancy rate

2.2%

"During 2016, the Berlin portfolio value grew by 24.3% on a like-for-like basis, an excellent rate of growth which demonstrates strong market fundamentals, underpinned by favourable demographics and a lack of new-build supply."

Chapter One Coffee, Mittenwalderstrasse

Rent per sqm €

* 2016 includes impact of acquisitions acquired at lower initial rent per sqm than Berlin portfolio average.

Nuremberg & Fürth

The Nuremberg and Fürth region produced another year of pleasing performance in 2016.

Rent per sqm saw a 7.5% like-for-like annual increase. This uplift was again driven by the significant premium achieved on new lettings, when compared to passing rents, of 27.8% in 2016. Property values also benefitted from strong market conditions, rising 12.0% during the year. EPRA vacancy increased slightly to 3.3% (31 December 2015: 1.5%).

The past 12 months have seen a significant increase in investor interest in the region and, following a strategic review of the Group's presence in Nuremberg and Fürth, it was announced in April 2017 that contracts had been exchanged to sell the entire portfolio of properties to a single buyer. These properties were acquired in 2007 and 2008 for an aggregate purchase price of €13.9 million and the aggregate sale proceeds of €35.25 million represent an 11% premium to the 31 December 2016 valuation.

Like-for-like portfolio value growth

12.0%

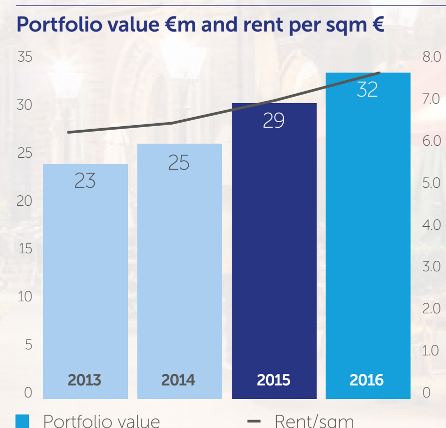
Like-for-like rent per sqm growth

7.5%

EPRA vacancy rate

3.3%

Portfolio value €m and rent per sqm €



Northern Germany

Growth in the Northern Germany portfolio, which consists of the cities and surrounding areas of Bremen, Hanover and Kiel, picked up significantly in 2016.

Property values increased by 10.4%, up from 3.2% in 2015, while average rent per sqm rose by 4.4%. With EPRA vacancy at an all-time low of 3.6%, and a final quarter lettings' premium of 26.3% to passing rents, the Group hopes to continue 2016's positive trend in 2017.

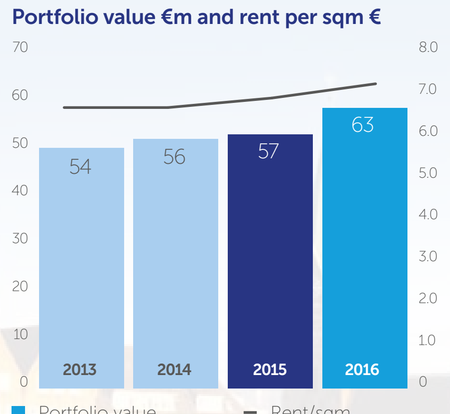
Like-for-like portfolio value growth

10.4%

Like-for-like rent per sqm growth

4.4%

Portfolio value €m and rent per sqm €



EPRA vacancy rate

3.6%

Acquisitions: Investing in Berlin

During 2016, the Group grew its Berlin portfolio with a number of targeted acquisitions. In total, 596 residential and 38 commercial units were notarised during the period, for an aggregate purchase price of €78.3 million, and with annual fully occupied rent of €3.4 million.

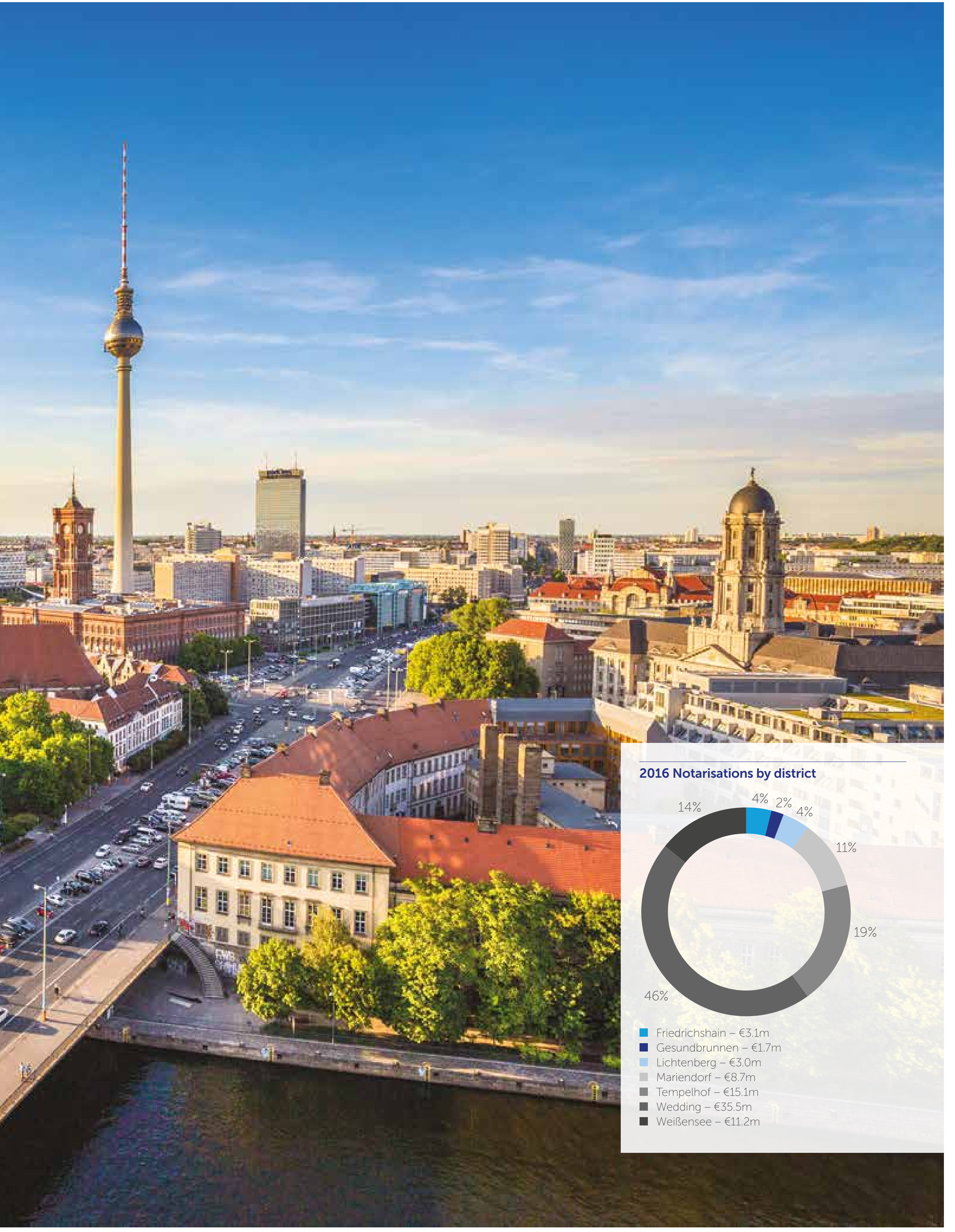
The majority of properties acquired were 'Altbau', constructed at the turn of the 20th century and located in developing areas of central Berlin. The properties were acquired in single asset deals or small packages of up to four buildings, in line with the Group's strategy of selectively acquiring buildings that meet its strict return criteria. The Group's external valuers, Jones Lang LaSalle ('JLL'), have since revalued acquisitions that had been notarised and completed during 2016 at an average premium of 15.1% to their original purchase price.

Including acquisitions that had been notarised but had yet to complete as at 31 December 2016, the percentage of the Group's assets located in Berlin is forecast to increase from 75.2% to 76.3%, rising to 81.9% of the Group's portfolio by value on completion of disposal of the Group's Nuremberg and Fürth portfolio, which was notarised after the financial year-end.

During 2017, the Group intends to make further acquisitions in Berlin and, as of 31 March 2017, has notarised three further properties for an aggregate investment of €12.3m.

ACQUISITION SUMMARY

	2015 Notarisations	2016 Notarisations	Total notarisations as at 31 December 2016
Purchase price (€)	35,760,000	78,305,000	114,065,000
Sqm	18,217	41,481	59,698
Purchase price/sqm (€)	1,963	1,888	1,911
Fully Occupied Yield	4.4%	4.3%	4.4%


2016 Notarisations by district
14%
4%
2%
4%
11%
19%
46%
Friedrichshain – €3.1m
Gesundbrunnen – €1.7m
Lichtenberg – €3.0m
Mariendorf – €8.7m
Tempelhof – €15.1m
Wedding – €35.5m
Weißensee – €11.2m

Condominiums

2016 saw the Group launch its third condominium sales project, for a property in Boxhagenerstrasse, in Berlin-Friedrichshain.

Unlike the first two sales projects, where the assets had been owned by the Group for a decade, Boxhagenerstrasse was acquired in 2015. The project commenced during the fourth quarter 2016, achieving sales values averaging €4,110 per sqm, a 59% premium to the acquisition price of €2,585 per sqm. As at 31 March 2017, nine units had been notarised for sale out of a total of 67 units.

Across the Group's three condominium projects, a total of 22 units were notarised for sale in 2016, with an aggregate sales value of €5.7 million, and representing a 30.3% premium to book value. This represents an average value per sqm of €3,762, or €3,874 excluding commercial units. The average price achieved per sqm for notarised condominiums represents a 62.2% premium to the average valuation per sqm for properties in the Berlin portfolio as at 31 December 2016.

As at 31 December 2016, 31 units representing proceeds of €7.5 million had completed since condominium sales commenced in mid-2015. These sales constitute a combination of vacant and occupied units. It is expected that the remaining units of the first two projects will be sold during 2017 and the Group will continue to identify and prepare additional properties suitable for future condominium sales projects.

Units sold

22

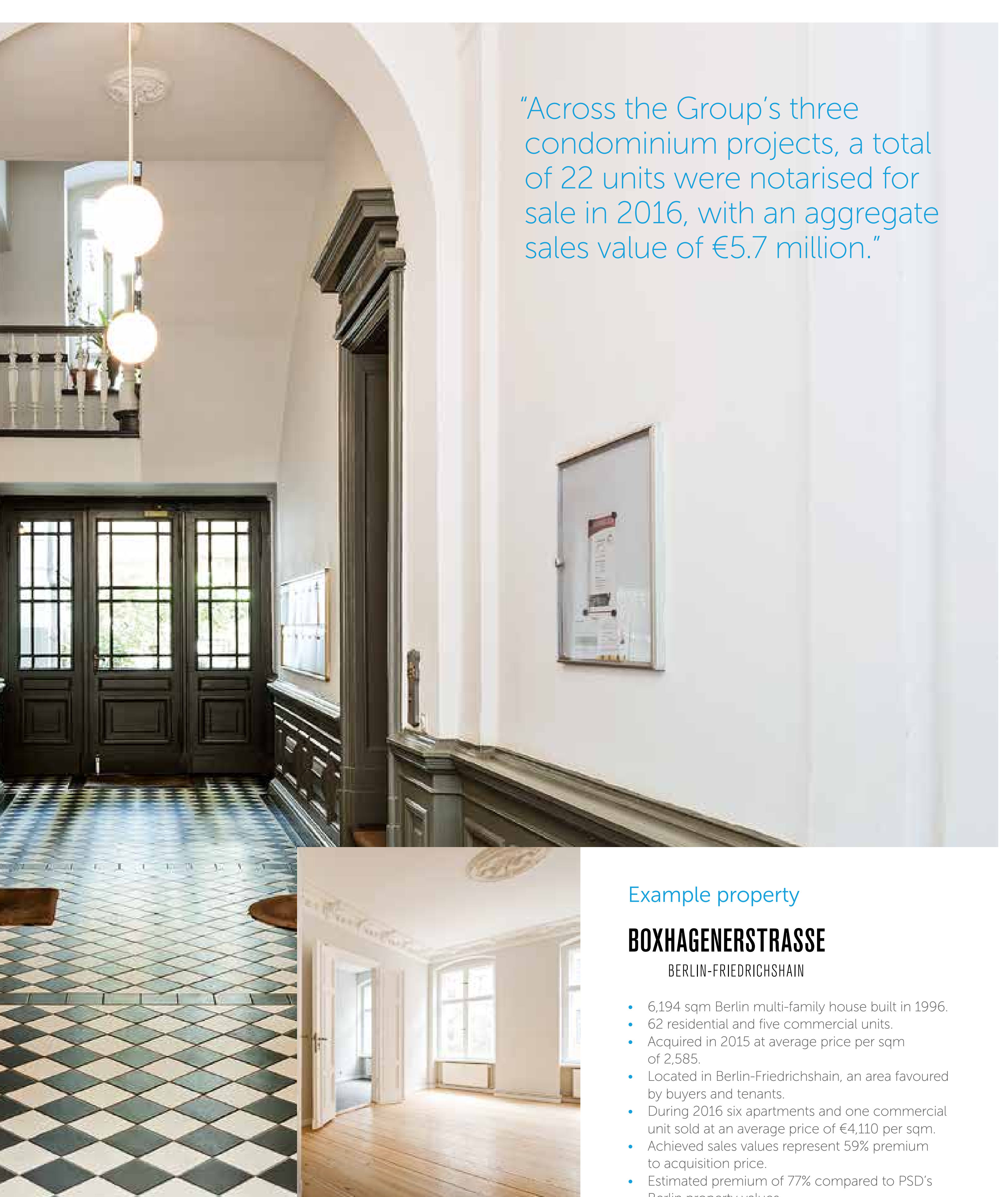
Sales value

€5.7m

Achieved sales premium to value of properties in the Berlin portfolio

62%

Riemannstrasse, Berlin. Acquired February 2007



"Across the Group's three condominium projects, a total of 22 units were notarised for sale in 2016, with an aggregate sales value of €5.7 million."

Example interior – Riemannstrasse

Example property

BOXHAGENERSTRASSE

BERLIN-FRIEDRICHSHAIN

- 6,194 sqm Berlin multi-family house built in 1996.
- 62 residential and five commercial units.
- Acquired in 2015 at average price per sqm of 2,585.
- Located in Berlin-Friedrichshain, an area favoured by buyers and tenants.
- During 2016 six apartments and one commercial unit sold at an average price of €4,110 per sqm.
- Achieved sales values represent 59% premium to acquisition price.
- Estimated premium of 77% compared to PSD's Berlin property values.

Principal Risks

The Board 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 Group property valuations could negatively affect the valuation of the Portfolio and the ability of the Group to sell properties within the portfolio at valuations which satisfy the Group'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.	Unchanged
ADVERSE INTEREST RATE MOVEMENTS	Future interest rate rises could increase the borrowing cost to the Group which, in turn, could negatively affect the Group's financial performance.	The Property Advisor has a record of securing financing across the Portfolio. The Group mitigates its exposure to adverse interest rate movements through the use of interest rate swaps. New debt of €101.4 million has been signed during H2 2016; with an average debt maturity exceeding six years; and average interest rate reduced to 2.0%. During the past 24 months, more than 90% of the Group's debt has been refinanced.	Unchanged
AVAILABILITY OF NEW DEBT	Inability to negotiate new debt facilities on satisfactory terms could restrict the Group'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.	Unchanged
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 Group 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.	Unchanged
INSUFFICIENT CAPITAL TO SUPPORT EXPANSION	Lack of capital may restrict the ability of the Group to pursue future investment opportunities consistent with the overall investment objectives.	In March 2016 the Group raised gross proceeds of £38 million by way of a Firm Placing and Offer for Subscription at 168 pence per new share demonstrating the ability of the Group to raise equity.	Unchanged
INSUFFICIENT INVESTMENT OPPORTUNITY	Availability of potential investments which meet the Group'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. It has specialised acquisition personnel and 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.	Increasing

RISK	IMPACT	MITIGATION	MOVEMENT
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 Group 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.	II
RELIANCE ON THE PROPERTY ADVISOR AND ITS KEY PERSONNEL	The Group'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 Group's performance.	Since Listing on the London Stock Exchange, the Property Advisor has expanded headcount through the recruitment of several additional experienced Berlin-based personnel. Additionally, senior Property Advisor personnel and their families retain a stake in the Group, aligning their interests with other key stakeholders.	II
REPUTATIONAL RISK	Adverse publicity and inaccurate media reporting could reflect negatively on stakeholders' perception of the Group, its strategy and its key personnel.	The Group has retained an external public relations consultancy and press releases are approved by the Board prior to release. The Group maintains regular communication with key shareholders and conducts presentations and roadshows to provide investors with relevant information on the Group, its strategy and key personnel.	II
MACRO ECONOMIC ENVIRONMENT	A deterioration in economic growth and a recessionary environment could adversely affect 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 Group strategy is tailored accordingly.	II
NON-COMPLIANCE WITH NEW REGULATORY ACCOUNTING AND TAXATION LEGISLATION	Failure to identify and respond to the introduction of new financial regulation in a timely manner. Risk of reputational damage, penalties or fines.	The Group employs external compliance and corporate governance advisor to provide updates and boardroom briefings on regulatory changes likely to impact the Group. The Group works closely with external accountants and tax advisors to keep up to date with changes to financial regulation in both UK and Germany.	II

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 of 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
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. Since June 2000, Richard has been a Director of Estera Trust (Jersey) Limited (previously Appleby Trust (Jersey) Limited) and a partner of the Appleby Group until a management buyout in December 2015. He is 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 2017 following his 2016, 2015 and 2014 recognitions. He was also recognised in the 50 Most Influential list in 2017 by ePrivate Client. 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 and Chairman of the Aberdeen Latin American Income Fund Limited, 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
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, both are LSE listed companies; Guernsey Housing Association LBG; and is a Non-executive Director of a number of other funds including Summit Germany Limited. 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 2016.

GENERAL INFORMATION

The Company is a public limited company and 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 €4.3 cents (2015: €3.9 cents) per Ordinary Share to be paid on or around 30 June 2017 to ordinary shareholders on the register on 9 June 2017.

The Directors declared a dividend of €1.9 cents per share on 22 September 2016, paid on 10 October 2016 to ordinary shareholders on the register on 30 September 2016 (2015: €1.8 cents).

DIRECTORS

The Directors who served throughout the year were as follows:

Name of Director	
R Hingley	Independent Non-executive Director, Chairman
R Prosser	Non-executive Director
M Northover	Non-executive Director
Q Spicer	Independent Non-executive Director
A Weaver	Non-executive Director

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 27 April 2017, 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	No. of Ordinary Shares
Woodford Investment Management LLP	21%	20,006,946
Bracebridge Capital, LLC	6.5%	6,038,503

Directors' Report continued

REQUIREMENTS OF THE LISTING RULES
The following table provides references to where the information required by the Listing Rule 9.8.4R is disclosed.

Listing Rule requirement	
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 9.2.18 R (Publication of unaudited financial information).	Not applicable
Details of any long-term incentive schemes as required by LR 9.4.3 R.	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 29,35 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 28 to 32.

FINANCIAL INSTRUMENTS
Details of the financial risk management objectives and policies followed by the Directors can be found on pages 22 to 23.

POST BALANCE SHEET EVENTS
The Group exchanged contracts for the acquisition of three properties in Berlin with an aggregate consideration of €12.3 million. These three properties are still awaiting completion.

The Group had exchanged contracts for the acquisition of three properties in Berlin with an aggregate purchase price of €19.9 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Two of these properties to the value of €15.4 million completed in Q1 2017, and the third property with a purchase price €4.5 million is expected to complete in the second quarter.

The Group exchanged contracts for the sale of 11 condominiums in Berlin with an aggregate consideration of €2.4 million. Three of these condominium sales have subsequently completed at a value of €0.7 million. The remaining eight are expected to complete during the second quarter.

The Group had exchanged contracts for the sale of ten condominiums in Berlin with an aggregate sales price of €2.9 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Eight of these condominium sales have subsequently completed in Q1 2017 at a value of €2.6 million. The remaining two are due to complete in Q2 2017.

The Group has notarised for sale all the properties held by a subsidiary fund, which are located in the Nürnberg and Fürth area, for a gross consideration of €35.3 million. The initial approach was made by buyers in January 2017 and the transaction is expected to complete in July 2017.

The Group had notarised for sale a property in Teltow prior to the balance sheet date for €3.8 million which had yet to complete at the balance sheet date. It subsequently completed in April 2017.

In February 2017 the Group drew down €9.9 million euros of debt from a €10.6 million short-term loan facility.

In February 2017 the Group refinanced the remaining €11.3 million of debt held against the buildings acquired as part of the Laxpan and Invador share deals in 2016. A new facility of €17.5 million was signed of which €9.6 million is currently drawn.

The Group drew down the final €1 million of the €9.3 million facility signed in August 2016 after exceeding a required annualised net rent of the properties secured under the loan.

The Group drew down the final €2.0 million of the €81.5 million facility signed in 2016 on two buildings in Kiel and Luneberg.

The Group has signed for a €13 million loan secured against the properties notarised for acquisition in 2017; €11.1 million of this loan has been dispersed.

AUDITOR

Each of the Directors at the date of approval of this Annual Report has taken all the 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 Group's auditor is aware of that information. The Directors are not aware of any relevant audit information which has not been disclosed to the auditor.

RSM UK Audit LLP has 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 the Group has sufficiently robust forecasts as part of its business plan. 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, in particular, the impact of the following factors affecting the projections of cash flows for the three-year period ending 31 December 2019:

a) the potential operating cash flow requirement of the Group;
b) seasonal fluctuations in working capital requirements;
c) property vacancy rates;
d) rent arrears and bad debts;
e) capital and administration expenditure (excluding potential acquisitions as set out below) 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 the above, 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

Richard Prosser
Director

26 April 2017

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.

This Corporate Governance Statement comprises pages 28 to 32 and forms part of the Directors' Report.

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 principles of the UK Corporate Governance Code ('the Code') published on 17 September 2014 and explain to shareholders how they have done so 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 role of the Chief Executive;
- Executive Directors' remuneration;
- the internal audit function and
- the composition of the Audit and Risk Committee.

The Board considers that the provisions relating to the Chief Executive and Executive Directors' remuneration are not relevant to the Group, being a smaller listed externally managed investment company with an entirely Non-executive Board.

All of the Group's day-to-day functions are outsourced to third parties the Group does not have an internal audit function and this is explained in the Audit and Risk Committee's report. 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 members of the Audit and Risk Committee have been selected for their experience and expertise in relation to the risks, financial reporting and internal controls relating to the Group. The members bring specific experience in relation to the property investment sector and externally managed Groups which has been found to be invaluable to the Committee in identifying risks and assessing the mitigating controls which have been established. As a consequence of their relationship with the Property Advisor and Administrator, both Matthew Northover and Richard Prosser are considered to not be independent members of the Board.

LEADERSHIP

COMPOSITION, INDEPENDENCE AND ROLE OF THE BOARD

The Board currently comprises three Non-executive Directors and two independent Non-executive Directors, one of whom also acts as Chairman of 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:

- has no current or historical employment with the Property Advisor; and
- has 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 Group'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 Group and also ensuring protection of investors. The Board has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Group:

- the overall objectives of the Group as described under the sections 'Strategy' and 'Business Model' set out on pages 6 to 7 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 Group'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 Group 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 Group's position and performance, business model and strategy. In seeking to achieve this, the Directors have set out the Group'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 Group 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 understand the Group's business and financial performance better.

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 Association 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 Group 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 Annual General Meetings 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 Group.

COMMITTEES OF THE BOARD

The Board has established various committees and approved their terms of reference which are available on its website at www.phoenixspree.com.

AUDIT AND RISK COMMITTEE

In accordance with the Code, the Audit and Risk Committee is chaired by Richard Prosser, with Robert Hingley, Quentin Spicer 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 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.

The Property Valuation Committee met twice during the year and reported to the Board on its duties, which are to:

- review significant adjustments from the previous property valuation report;
- review the individual valuations of each property;
- receive any commentary from the Property Advisor and/or Directors following the review meeting held with the valuer;
- register and discuss with the Property Advisor any asset specific issues highlighted by the valuers;
- review material, unexplained, movements in the Group's Net Asset Value and to recommend the release of the Net Asset Value announcement following that review;
- review compliance with applicable standards and guidelines including those issued by the Royal Institution of Chartered Surveyors and the UKLA Listing Rules;
- review the findings and any recommendations or statements made by the valuer;
- review at least annually, consider and make recommendations to the Board, in relation to the appointment, remuneration, re-appointment and removal of the Group's external valuer. The Committee shall oversee the selection process for new valuers and if a valuer resigns the Committee shall investigate the issues leading to this and decide whether any action is required; and
- consider any further matters relating to the valuation of the properties.

The Committee reported to the Board its findings on the property valuation and that the Committee was satisfied with the independent valuation report and values associated with all properties of the Group.

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.

The Management Engagement Committee met twice during the year and reported to the Board on its duties, which are to:

- monitor and evaluate the Property Advisor's investment performance and compliance with the terms of the Property Advisory Agreement and, if necessary, provide appropriate guidance, which may include considering the merit of obtaining an independent appraisal of the Property Advisor's services on an annual basis;
- review the terms of the Property Advisory Agreement from time to time to ensure that the terms thereof conform with market and industry practice and remain in the best interests of shareholders and make recommendations to the Board on any variation to the terms of the Property Advisory Agreement which it considers necessary or desirable;
- review and making the appropriate recommendations to the Board as to whether the continuing appointment of the Property Advisor is in the best interests of the Group and Shareholders, and the reasons for this recommendation;
- review the level and method of remuneration, the basis on which the performance fees (if any) are calculated and the notice period of the Property Advisor, giving due consideration to the competitive position of the Group against its peer group;
- consider whether the asset and estate management fee should be based on gross assets, net assets or market capitalisation;
- ensure that the basis of any performance fee or performance-related element does not encourage excessive risk and that it rewards demonstrably superior performance by the Property Advisor in managing the portfolio against the Group's stated objectives when compared to a suitable benchmark or peer group;
- ensure that a sound system of risk management and internal control is maintained and reviewed annually in order to safeguard shareholders' investment and the Group's assets;
- review, consider and recommend any amendments to the terms of the appointment and remuneration of providers of other services to the Group; and
- consider any points of conflict which may arise between the providers of services to the Group.

The Committee keeps under review the performance of the Property Advisor and the level and terms of the management fee. In the opinion of the Directors, the continuing appointment of the Property Advisor on the terms agreed is in the interests of shareholders as a whole.

NOMINATION AND REMUNERATION COMMITTEE

In accordance with the Code, the Nomination and Remuneration Committee is chaired by Quentin Spicer the Senior Independent Director, with Robert Hingley and Andrew Weaver as members. The Nomination and Remuneration Committee met once during the year.

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, given the size of the Board and its recent admittance to the London Stock Exchange. However the Board will review the gender diversity of its make up as part of its succession planning.

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 2016 and, where appropriate, the number of such meetings attended by each Director.

	Scheduled Board		Audit & Risk		Property Valuation		Management Engagement		Nomination & Remuneration	
	Held	Attend	Held	Attend	Held	Attend	Held	Attend	Held	Attend
R Hingley	4	4	3	3	–	–	2	2	1	1
R Prosser	4	4	3	3	2	2	2	2	–	–
M Northover	4	4	3	3	–	–	–	–	–	–
Q Spicer	4	4	–	–	2	2	2	2	1	1
A Weaver	4	4	–	–	–	–	–	–	1	1

Ad hoc meetings are held as required by the Board members to instruct on, and be kept informed of material matters relating to the running of the Group.

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

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are complied with. Under the guidance of the Chairman, the Secretary ensures that appropriate 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 and 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 Annual General Meeting.

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.

Following assessment the Board considers each of the Non-executive Directors to be independent in both character and judgement, and that there are no circumstances that give rise to question their respective judgements when considering matters put before the Board in 2016 or in the future.

NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS

The Board has assessed that the holdings of the 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.

The structure 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 strategy.

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.

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 has carried 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.

The Chairman led the evaluation which focused on the following issues:

- 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.

The Chairman is satisfied with the outcome of the evaluation.

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 Group, covering:
  - formal announcements relating to the Group's financial performance;
  - significant financial reporting issues and judgements;
  - matters raised by the external auditors; and
  - the 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 Group'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

The Audit and Risk Committee is chaired by Richard Prosser, with Robert Hingley, Quentin Spicer and Matthew Northover as members. The Board considers that Richard Prosser's experience makes him suitably qualified to chair the Audit and Risk Committee. The qualifications and experience of the members of the Audit and Risk Committee are set out in their biographical details on page 24.

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

Valuation of investment property	Mitigation
A significant focus for the Audit 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 Group has appointed Jones Lang LaSalle ('JLL') to act as the Independent Property Valuer. The Audit and Risk Committee is satisfied that the valuer is independent and that it conducted its work in accordance with the Royal Institution of Chartered Surveyors Valuation Standards ('RICS'). 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

Following 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 and found this to be satisfactory.

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 and concluded that they had.

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 share placing. 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.

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

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

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 Group 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 Group'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 Group.

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 pages 22 to 23. The Directors do not consider that there are any significant problems facing the business in the coming year.

INTERNAL AUDIT

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

If and when 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

INTRODUCTION
This report is on the activities of the Nomination and Remuneration Committee. The information provided in this part of the Directors' Report is not subject to audit.

REMUNERATION POLICY
The Nomination and Remuneration Committee comprises three Non-executive Directors and is chaired by Quentin Spicer, with Robert Hingley and Andrew Weaver as members. The Group's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. There were no changes to the policy during the year and it is intended that this policy will continue to apply for the year ending 31 December 2017.

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 Group 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.

The terms of reference of the Nomination and Remuneration Committee can be obtained by contacting the administrator.

For the years ended 31 December 2016 and 31 December 2015 Directors' fees incurred were as follows:

	2016 **£**	2015 £
R Hingley	**42,708**	21,667
R Prosser	**25,000**	17,247
M Northover	**£Nil**	£Nil
Q Spicer	**32,500**	23,065
A Weaver	**25,000**	17,427

Matthew Northover is a Director and shareholder of PMM Partners (UK) Limited, the Group'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 notes 29 and 35.

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; and
- 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 principal risks and uncertainties they face, as well as the business model and strategy of the Group; and
- the Annual Report and Accounts, as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

For and on behalf of the Board

Richard Prosser
Director

26 April 2017

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

OPINION ON FINANCIAL STATEMENTS

We have audited the Group financial statements ('the financial statements') on pages 40 to 67. 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.

In our opinion

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991 and Article 4 of the 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 Directors' 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.

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 33 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 carried out audit tests on 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 carried out audit tests on the inputs provided by the Property Advisor to the valuer and ensured these reflected the correct inputs for each property.

We obtained 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.

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 €4.6 million (2015 €2.6 million) which was not changed during the course of the audit. This figure was calculated by taking an average of a set percentage of the total for gross assets; the profit before tax for the year; the level of rental income and the smallest disclosable item. We report to the Audit Committee all unadjusted misstatements in excess of €115,000 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's revenue, Group's profit and total Group assets, and was performed to the materiality levels set out above.

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.

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, was necessary for our audit.

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 on pages 28 to 32 of the Annual Report relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As more fully explained in the Directors' Responsibilities Statement set out on page 37, 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.

We read the other financial and non-financial information contained in the Annual Report and consider the implications for our report if we become aware of any material inconsistency with the financial statements or with knowledge acquired by us in the course of performing the audit, or any material misstatement of fact within the other information. We also read the information in the Directors' Report and consider the implications for our report if we become aware of any material inconsistency with the financial statements.

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.

Euan Banks for and on behalf of RSM UK Audit LLP
Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

26 April 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

Continuing operations	Notes	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Revenue	6	**15,934**	12,070
Property expenses	7	**(13,351)**	(7,258)
Gross profit		**2,583**	4,812
Administrative expenses	8	**(2,977)**	(2,149)
Gain on disposal of investment property (including investment property held for sale)	10	**799**	670
Investment property fair value gain	11	**55,226**	18,148
Operating profit before exceptional costs		**55,631**	21,481
Exceptional items – transaction costs	12	**–**	(2,256)
Exceptional items – impairment of goodwill		**–**	(4,493)
Operating profit		**55,631**	14,732
Net finance charge	13	**(6,756)**	(3,164)
Gain on financial asset	14	**–**	1,395
Profit before taxation		**48,875**	12,963
Income tax expense	15	**(10,913)**	(2,640)
Profit after taxation		**37,962**	10,323
Other comprehensive income		**–**	–
Total comprehensive income for the year		**37,962**	10,323
Total comprehensive income attributable to:			
Owners of the parent		**36,998**	9,721
Non-controlling interests		**964**	602
		37,962	10,323
Earnings per share attributable to the owners of the parent:			
From continuing operations			
Basic (€)	32	**0.42**	0.14
Diluted (€)	32	**0.40**	0.14

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	As at 31 December 2016 €'000	As at 31 December 2015 €'000
ASSETS			
Non-current assets			
Investment properties	19	**395,829**	283,554
Property, plant and equipment	21	**40**	30
Deferred tax asset	15	**770**	296
Loans and receivables	22	**2,253**	1,382
		398,892	285,262
Current assets			
Investment properties – held for sale	20	**27,970**	–
Trade and other receivables	23	**7,503**	2,286
Cash and cash equivalents	24	**18,450**	12,757
		53,923	15,043
Total assets		**452,815**	300,305
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	25	**9,169**	11,523
Trade and other payables	26	**1,331**	2,684
Derivative financial instruments	27	**392**	–
Current tax	15	**24**	–
		10,916	14,207
Non-current liabilities			
Borrowings	25	**176,423**	122,278
Derivative financial instruments	27	**4,477**	1,869
Other financial liabilities	28	**3,590**	–
Deferred tax liability	15	**22,150**	10,786
		206,640	134,933
Total liabilities		**217,556**	149,140
Equity			
Stated capital	30	**162,630**	115,150
Share-based payment reserve	29	**7,614**	1,264
Retained earnings		**64,074**	32,125
Equity attributable to owners of the parent		**234,318**	148,539
Non-controlling interest	31	**941**	2,626
Total equity		**235,259**	151,165
Total equity and liabilities		**452,815**	300,305

The financial statements on pages 40 to page 67 were approved by the Board of Directors and authorised for issue and signed on its behalf by:

Andrew Weaver
Director

Richard Prosser
Director

26 April 2017

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to the owners of the parent					
	Stated capital €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
Balance at 1 January 2015	**67,708**	**8,949**	**23,640**	**100,297**	**(4)**	**100,293**
Comprehensive income:						
Profit for the period	–	–	9,721	**9,721**	602	**10,323**
Other comprehensive income	–	–	–	**–**	–	**–**
Total comprehensive income for the period	–	–	9,721	**9,721**	602	**10,323**
Transactions with owners – recognised directly in equity:						
Issue of share capital	39,052	–	–	**39,052**	–	**39,052**
Dividends paid	–	–	(1,236)	**(1,236)**	–	**(1,236)**
Performance fee	8,390	(7,685)	–	**705**	–	**705**
Acquisition of subsidiary	–	–	–	**–**	2,028	**2,028**
Balance at 31 December 2015	**115,150**	**1,264**	**32,125**	**148,539**	**2,626**	**151,165**
Comprehensive income:						
Profit for the period	–	–	36,998	**36,998**	964	**37,962**
Other comprehensive income	–	–	–	**–**	–	**–**
Total comprehensive income for the period	–	–	36,998	**36,998**	964	**37,962**
Transactions with owners – recognised directly in equity:						
Issue of share capital	49,080	–	–	**49,080**	–	**49,080**
Dividends paid	–	–	(5,049)	**(5,049)**	–	**(5,049)**
Performance fee	–	6,350	–	**6,350**	–	**6,350**
Recognition of redemption liability	–	–	–	**–**	(3,590)	**(3,590)**
Acquisition of subsidiaries	–	–	–	**–**	941	**941**
Cost related to share placing	(1,600)	–	–	**(1,600)**	–	**(1,600)**
Balance at 31 December 2016	**162,630**	**7,614**	**64,074**	**234,318**	**941**	**235,259**

The share-based payment reserve has been established in relation to the future issue of shares for the payment of the performance bonus of the property manager.

Retained earnings are the undistributed reserves to be either reinvested within the Group or distributed to shareholders as dividends.

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Profit before tax	**48,875**	12,963
Adjustments for:		
Net finance charge	**6,756**	3,164
Gain on disposal of investment property	**(799)**	(670)
Investment property revaluation gain	**(55,226)**	(18,148)
Gain on financial asset	**–**	(1,395)
Depreciation	**12**	6
Performance fee charge	**6,350**	1,264
Impairment of goodwill	**–**	4,493
Operating cash flows before movements in working capital	**5,968**	1,677
(Increase)/Decrease in receivables	**(3,808)**	1,807
(Decrease)/Increase in payables	**(1,353)**	1,250
Cash generated from operating activities	**807**	4,734
Income tax received	**–**	5
Net cash generated from operating activities	**807**	4,739
Cash flow from investing activities		
Proceeds on disposal of investment property	**4,250**	5,502
Acquisition of subsidiary	**–**	1,165
Interest received	**168**	6
Capital expenditure on investment property	**(4,189)**	(3,934)
Property additions	**(72,808)**	(17,413)
Additions to property, plant and equipment	**(22)**	(23)
Loans to partners	**–**	(1,365)
Loans issued to minority shareholders	**(806)**	–
Net cash used in investing activities	**(73,407)**	(16,062)
Cash flow from financing activities		
Interest paid on bank loans	**(3,173)**	(3,978)
Repayment of bank loans	**(6,040)**	(46,000)
Drawdown on bank loan facilities	**45,394**	72,266
Share issue	**47,480**	–
Cash-settled synthetic equity fee	**–**	(559)
Dividends paid	**(5,049)**	(1,236)
Net cash generated from financing activities	**78,612**	20,493
Net increase in cash and cash equivalents	**6,012**	9,170
Cash and cash equivalents at beginning of period	**12,757**	3,583
Exchange (losses)/gains on cash and cash equivalents	**(319)**	4
Cash and cash equivalents at end of period	**18,450**	12,757

Property additions amounting to €84,235,000 (see note 19) are disclosed within Cash flow from investing activities as €72,808,000 having been adjusted for non-cash flow items of €11,427,000 relating to the acquisition of the loans associated with properties within Laxpan Muller GmbH and Invador Grundbesitz GmbH. This reduced cash on drawdown on bank loan facilities, as well as reduced the cash outflows on property additions.

Notes to the Financial Statements
For the year ended 31 December 2016

1. GENERAL INFORMATION
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 Invador Grundbesitz GmbH and Laxpan Mueller GmbH, companies with the same activities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies adopted are set out below.

2.1 BASIS OF PREPARATION
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 2016.

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.

2.2 GOING CONCERN
The Directors have prepared projections for the period to 31 December 2019. 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 resources and expects to comply with all covenants for the foreseeable future. The Group's business activities together with the factors likely to affect its future development and the Group's objectives, policies and processes from managing its capital and its risks are set out in the Strategic Report. 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.

2.3 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.

2.4 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.

2.5 ASSET ACQUISITION

The Group applies the acquisition method to account for asset acquisitions. 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 an asset acquisition 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.

No goodwill is recognised on asset acquisitions where the nature of the acquisition on the subsidiary is to acquire the property held in the entity. The consideration for the asset acquisition is attributed to the property as fair value at the acquisition date.

2.6 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.

2.7 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 reporting 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.

2.8 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 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 19 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, where the carrying amount is the higher of cost or fair value) is included in profit or loss in the period in which the property is derecognised.

2.14 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group will recognise an asset in this category once the Board has committed the sale of an asset and marketing has commenced.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

After the disposal takes place, the Group accounts for any retained interest in the associate in accordance with IAS 39 unless the retained interest continues to be an associate, in which case the Group uses the equity method (see the accounting policy regarding investments in associates above).

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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 re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 34.

(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.

Notes to the Financial Statements continued
For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
2.19 FINANCIAL INSTRUMENTS CONTINUED
(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.

2.20 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.

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.

2.21 NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2016 have had an impact on the Group.

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 2016, as adopted by the European Union, and have not been early adopted:

Title	As issued by the IASB, mandatory for accounting periods starting on or after
IFRS 15 Revenue from Contracts with Customers	Accounting periods beginning on or after 1 January 2018
IFRS 16 Leases	Accounting periods beginning on or after 1 January 2019

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 Group when the relevant standards and interpretations come into effect as a result of being a lessor of rental property and its revenue recognition not having to take into account any bundled sales.

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

Title	As issued by the IASB, mandatory for accounting periods starting on or after
Disclosure Initiative (Amendments to IAS 7)	Accounting periods beginning on or after 1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	Accounting periods beginning on or after 1 January 2017
IFRS 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Accounting periods beginning on or after 1 January 2018

While the above standards have not yet been adopted by the EU, the Group 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 27 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. FINANCIAL RISK MANAGEMENT CONTINUED

3.3 CREDIT RISK

The risk of financial loss due to 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 25 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 2016 €'000	As at 31 December 2015 €'000
Borrowings	**(185,592)**	(133,801)
Cash and cash equivalents	**18,450**	12,757
Net debt	**(167,142)**	(121,044)
Equity	**235,259**	151,165
Net debt to equity ratio	**71%**	80%

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.
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) ACCOUNTING FOR ACQUISITIONS AS EITHER BUSINESS COMBINATION OR ASSET PURCHASE

The estimates and judgements inherent in accounting for acquisitions are to define if the acquisition is either a business combination or asset purchase. The Group determines whether an acquisition is a business combination or asset acquisition based on the nature of the acquisition. The judgement is made based on the level of assets and liabilities with in the acquisition and if the business is being acquired as going concern or only to acquire the property asset within the asset.

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 focussed 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.

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)
Administrative expenses	–	–	(2,149)	(2,149)
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 2016	**Residential €'000**	**Commercial €'000**	**Unallocated €'000**	**Total €'000**
Goodwill	**–**	**–**	**–**	**–**
Investment property	**332,496**	**63,333**	**–**	**395,829**
Loans and receivables	**–**	**–**	**2,253**	**2,253**
Assets held for sale	**23,495**	**4,475**	**–**	**27,970**
Other assets	**22,447**	**4,276**	**40**	**26,763**
Liabilities	**(179,711)**	**(34,231)**	**(3,614)**	**(217,556)**
Net assets	**198,727**	**37,853**	**(1,321)**	**235,259**

	Residential €'000	**Commercial €'000**	**Unallocated €'000**	**Total €'000**
Revenue	**13,385**	**2,549**	**–**	**15,934**
Property expenses	**(11,215)**	**(2,136)**	**–**	**(13,351)**
Administrative expenses	**–**	**–**	**(2,977)**	**(2,977)**
Gain on disposal of investment property	**799**	**–**	**–**	**799**
Investment property fair value gain	**46,390**	**8,836**	**–**	**55,226**
Operating profit	**49,359**	**9,249**	**(2,977)**	**55,631**
Net finance charge				**(6,756)**
Income tax expense				**(10,913)**
Profit for the period				**37,962**

6. REVENUE

	31 December 2016 €'000	31 December 2015 €'000
Rental income	**15,934**	12,070

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

	31 December 2016 €'000	31 December 2015 €'000
Not later than one year	**309**	119
Later than one year but not later than five years	**3,171**	1,036
Later than five years	**2,605**	583
	6,085	1,738

Revenue comprises 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.

The leasing arrangements for residential property are with individual tenants, with one month notice for cancellation of the lease in most cases.

The commercial leases are non-cancellable, with an average lease period of three years.

7. PROPERTY EXPENSES

	31 December 2016 €'000	31 December 2015 €'000
Property management expenses	**1,100**	942
Repairs and maintenance	**1,102**	921
Impairment charge – trade receivables	**88**	153
Other property expenses	**1,324**	1,404
Property advisors' fees and expenses	**3,387**	2,574
Property advisors' performance accrued fee (note 29)	**6,350**	1,264
	13,351	7,258

8. ADMINISTRATIVE EXPENSES

	31 December 2016 €'000	31 December 2015 €'000
Secretarial and administration fees	**658**	400
Legal and professional fees	**1,494**	1,386
Directors' fees	**150**	108
Accountancy fees	**445**	319
Fees paid to the auditors	**141**	156
Bank charges	**32**	39
Loss/(Profit) on foreign exchange	**319**	(4)
Depreciation	**12**	6
Other income relating to cost recovery	**(274)**	(261)
	2,977	2,149

The Group did not have any employees during any of the reporting periods and 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 35.

Further details of the Directors' fees are set out in the Directors' Remuneration Report on page 36.

9. AUDITOR'S REMUNERATION

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

	31 December 2016 €'000	31 December 2015 €'000
Fees payable to the Group's auditor and its associates for the audit of the consolidated financial statements:	**141**	156
Fees payable to the Group's auditor and its associates for other services:		
– Corporate finance	**150**	299
– Audit-related assurance services	**25**	34
	316	489

The non-audit fees for work performed in relation to the share placing amounting to €150,000 has been deducted from stated capital.

10. GAINS ON DISPOSAL OF INVESTMENT PROPERTY (INCLUDING INVESTMENT PROPERTY HELD FOR SALE)

	31 December 2016 €'000	31 December 2015 €'000
Net proceeds	**4,250**	5,502
Book value of disposals	**(3,405)**	(4,832)
Disposal costs	**(46)**	–
	799	670

Where there has been a partial disposal of a property, the net book value of the asset sold is calculated on a per square metre rate, based on the prior period valuation.

11. INVESTMENT PROPERTY FAIR VALUE GAIN

	31 December 2016 €'000	31 December 2015 €'000
Investment property fair value gain	**55,226**	18,148

Further information on investment properties is shown in note 19.

12. EXCEPTIONAL ITEMS

	31 December 2016 €'000	31 December 2015 €'000
Professional fees associated with stock market listing and acquisition of subsidiaries	–	2,256
	–	2,256

Exceptional costs have been defined as those costs directly attributable to the listing on the London Stock Exchange and any costs directly associated with the acquisition of subsidiaries.

13. NET FINANCE CHARGE

	31 December 2016 €'000	31 December 2015 €'000
Interest income	**(113)**	(6)
Interest from partners' loans	**(55)**	–
Loss/(Gain) on interest rate swap	**3,000**	(808)
Interest payable on bank borrowings	**3,924**	3,978
	6,756	3,164

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016 €'000	31 December 2015 €'000
Equity interest in Phoenix Spree Property Fund GmbH and Co.KG:		
Balance at the beginning of the year	–	36,859
On acquisition of subsidiary	–	(38,254)
Gain on financial asset	–	1,395
	–	–

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 was 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 was completed by virtue of the acquisition PSPF.

The VRL capital loan amounting to €0.3 million (2015: €0.3 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 date 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 2016.

15. INCOME TAX EXPENSE

The tax charge for the period is as follows:

	31 December 2016 €'000	31 December 2015 €'000
Current tax charge	24	(24)
Adjustment in respect of prior year	(1)	–
Deferred tax charge – origination and reversal of temporary differences	10,890	2,664
Total tax charge on profit on ordinary activities	10,913	2,640

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

	31 December 2016 €'000	31 December 2015 €'000
Profit before tax on continuing operations	48,875	12,963
Tax at the German income tax rate of 15.8% (2015: 15.8%)	7,722	2,048
Income not taxable	(126)	(220)
Recognition of timing differences on acquisition	1,686	–
Tax effect of expenses that are not deductible in determining taxable profit	1,631	812
Total tax charge for the year	10,913	2,640

RECONCILIATION OF CURRENT TAX LIABILITIES

	31 December 2016 €'000	31 December 2015 €'000
Balance at beginning of year	–	19
Tax received during the year	–	5
Current tax charge/(credit)	24	(24)
Balance at end of year	24	–

RECONCILIATION OF DEFERRED TAX

	Capital gains on properties €'000 (Liability)	Interest rate swaps €'000 Asset	Total €'000 (Net liability)
Balance at 1 January 2015	**(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)**
Charged to the statement of comprehensive income	(11,364)	474	(10,890)
Deferred tax (liability)/asset at 31 December 2016	**(22,150)**	**770**	**(21,380)**

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') – effective rate for Phoenix Spree Deutschland Limited for 2016 was 15.8% (2015: 15.8%).

FACTORS AFFECTING FUTURE TAX CHARGES

The Group has accumulated tax losses of approximately €23.6 million (2015: €22.9 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 losses of €2.2 million (2015: €Nil) as there is insufficient certainty the losses can be utilised by Group entities.

16. DIVIDENDS

	31 December 2016 €'000	31 December 2015 €'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2016 of €1.9 cents (1.6p) (2015: €1.8 cents (1.3p)) per share	**1,635**	1,236
Proposed final dividend for the year ended 31 December 2016 of €4.3 cents (3.7p) (2015: €3.9 cents (2.9p)) per share	**3,977**	3,414

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 9 June 2017. The total estimated dividend to be paid is 3.7 pence per share. The payment of this dividend will not have any tax consequences for the Group.

17. GOODWILL

	€'000
Cost:	
1 January 2015	193
Acquisition of subsidiary	4,493
At 31 December 2015 and 31 December 2016	4,686
Accumulated impairment losses:	
At 1 January 2015	(193)
Impairment charge for the year – exceptional item	(4,493)
At 31 December 2015	**(4,686)**
Impairment charge for the year	
At 31 December 2016	**(4,686)**
Carrying amount:	
At 31 December 2015	–
At 31 December 2016	**–**

18. 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 operated out of Jersey and Germany.

Further details are given below:

	Country of incorporation	% Holdings	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
Phoenix Spree Deutschland X Limited	Jersey	100	Finance vehicle
Phoenix Spree Deutschland XI Limited	Jersey	100	Investment property
Phoenix Property Holding GmbH & Co.KG	Germany	100	Holding company
Laxpan Mueller GmbH	Germany	94.9	Investment property
Invador Grundbesitz GmbH	Germany	94.9	Investment property
PSPF Holdings GmbH	Germany	100	Holding company
PSPF General Manager GmbH	Germany	100	Management of PSPF
PSPF Acquisition Vehicle GmbH	Germany	99.64	Acquisition vehicle
PSPF Property GmbH & Co. KG	Germany	94	Investment property
Phoenix Spree Property Fund Ltd & Co. KG	Germany	94.8	Investment property
PSPF General Partner Limited	UK	100	Management of PSPF

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

During the current year Laxpan Mueller GmbH and Invador Grundbesitz GmbH were acquired, the acquisitions were recognised as asset acquisitions.

19. INVESTMENT PROPERTIES

	€'000
Fair value	
At 1 January 2015	**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**
Capital expenditure	4,189
Property additions	84,235
Reclassified as investment properties – held for sale	(27,970)
Disposals	(3,405)
Fair value gain	55,226
At 31 December 2016	**395,829**

The property portfolio was valued at 31 December 2016 by the Group's independent valuers, Jones Lang LaSalle GmbH ('JLL'), 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 Advisors 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.

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 the financial statements.

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 which requires that the 'highest and best use' value is taken into account where that use is physically possible, legally permissible and financially feasible for the property concerned, and irrespective of the current or intended use.

All properties are valued as Level 3 measurements under the fair value hierarchy (see note 34) as the inputs which have a significant effect on the recorded fair value are not observable for the discounted cash flow method.

The unrealised fair value gain in respect of investment property is disclosed in the Income Statement as 'Investment Property fair value gain'.

Valuations are undertaken using the discounted cash flow valuation technique as described below and with the following inputs.

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.

Input	**Year ended 31 December 2016 Range**	Year ended 31 December 2015 Range
Market rent		
Residential (€ per sqm p.m.)	**5–13**	6–12
Commercial (€ per sqm p.m.)	**1–29**	1–25
Parking (€ per unit p.m.)	**10–80**	16–92
Indexation (%)	**0–2**	0–2
Estimated rental value ('ERV')		
ERV per year (€'000)	**25–1,014**	33–907
ERV (€ per sqm)	**5–13**	1–12
Costs		
Management (€ per unit/year)	**250**	240–280
Management indexation (%)	**1.39**	1.39
Maintenance (€ per sqm p.a.)	**2–9**	2–9
Maintenance indexation (%)	**2.38**	2.18
Capital expenditure (€'000)	**0–266**	0–500
Vacancy		
Tenancy fluctuation (% per year)	**10**	10
Stabilised residency vacancy (% per year)	**2**	2
Stabilised commercial vacancy (% per year)	**0–4**	0–4
Stabilised parking vacancy (% per year)	**0–4**	0–5
Financial rates		
Discount rate (%)	**4–8**	5–8
Capitalisation rate (%)	**3–8**	4–8

The properties held for sale are also valued with the DCF method, but with a sales scenario (sale of all units within a defined period of time) based on comparable sales prices for condominiums. The properties with the sales potential are valued using the same DCF method as with a rental scenario, however, the sales potential is considered with a lower discount rate.

19. INVESTMENT PROPERTIES CONTINUED

DISCOUNTED CASH FLOW METHOD ('DCF') CONTINUED

The total of properties under a sales scenario will not equal Investment property – held for sale due to the fact a property is being valued under this scenario but will not be sold in the next 12 months.

The table below sets out the assets valued using both the discounted cash flow method using both scenarios:

	31 December 2016 €'000	31 December 2015 €'000
Rental scenario	**388,509**	269,842
Sales scenario	**35,290**	12,920
Total	**423,799**	282,762

The Directors consider that the variable with the greatest potential impact on the valuation of investment property is the discount rate. The impact on the valuation of the investment properties of a change in the discount rate of 0.5% (increase and decrease) is as follows:

	Increase of 0.5% in the discount rates used 31 December 2016 €'000	Decrease of 0.5% in the discount rates used 31 December 2015 €'000
Investment properties – adjusted market value	**382,701**	475,501
Percentage impact on reported fair value	**(9.7%)**	12.2%

20. INVESTMENT PROPERTIES – HELD FOR SALE

	2016 €'000	2015 €'000
Fair value – held for sale investment properties		
At 1 January	**–**	–
Reclassified from investment properties	**27,970**	–
At 31 December	**27,970**	–

Investment properties are re-classified as current assets, and described as 'held for sale' when at the balance sheet date the Group has obtained and implemented all relevant permissions required to sell individual units, and efforts are being made to dispose of the assets. The assets held for sale are disclosed in the Segmental Information note 5.

Investment properties – held for sale are all expected to be sold within 12 months of the reporting date.

21. PROPERTY, PLANT AND EQUIPMENT

	€'000
Cost or valuation	
As at 1 January 2015	–
Acquisition of subsidiary	13
Additions	23
As at 1 January 2016	**36**
Additions	**22**
As at 31 December 2016	**58**
Accumulated depreciation and impairment	
As at 1 January 2015	–
Charge for the year	6
As at 1 January 2016	**6**
Charge for the year	**12**
As at 31 December 2016	**18**
Carrying amount	
As at 31 December 2015	30
As at 31 December 2016	**40**

22. LOANS AND RECEIVABLES

	31 December 2016 €'000	31 December 2015 €'000
At 1 January	**1,382**	–
Loans issued – initial recognition at fair value		1,338
Loans issued to minority interest – initial recognition at fair value	**806**	–
Accrued interest	**65**	44
At 31 December	**2,253**	1,382

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

The Group also entered into a loan agreement with the minority interest (Blitz B16 – 210 GmbH) in relation to the acquisition of the assets as share deals. This loan bears interest at 3% per annum, and was repaid in full in January 2017.

23. TRADE AND OTHER RECEIVABLES

	31 December 2016 €'000	31 December 2015 €'000
Current		
Trade receivables	**1,344**	1,015
Less: Impairment provision	**(383)**	(295)
Net receivables	**961**	720
Prepayments and accrued income	**6,050**	1,566
Investment property disposal proceeds receivable	**21**	–
Sundry receivables	**471**	–
	7,503	2,286

AGING ANALYSIS OF TRADE RECEIVABLES

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Up to 12 months	**902**	693
Between 1 year and 2 years	**40**	27
Over 3 years	**19**	0
	961	720

Movements in the impairment provision against trade receivables are as follows:

	31 December 2016 €'000	31 December 2015 €'000
Balance at the beginning of the year	**295**	325
Impairment losses recognised	**319**	123
Utilisation of provision	**(231)**	(153)
Balance at the end of the year	**383**	295

24. CASH AND CASH EQUIVALENTS

	31 December 2016 €'000	31 December 2015 €'000
Cash at bank	**17,107**	11,772
Cash at agents	**1,343**	985
Cash and cash equivalents	**18,450**	12,757

25. BORROWINGS

	31 December 2016 €'000	31 December 2015 €'000
Current liabilities		
Bank loans – Kreissparkasse Boblingen District Savings Bank	**2,869**	–
Bank loans – EuroHypo AG	**–**	2,978
Bank loans – Deutsche Hypothekenbank AG	**–**	8,545
Bank loans – Sparkasse Langenfeld	**6,300**	–
	9,169	11,523
Non-current liabilities		
Bank loans – Deutsche Genossenschafts–Hypothekenbank AG	**171,418**	119,262
Bank loans – Kreissparkasse Boblingen District Savings Bank	**–**	3,016
Bank loans – HypoVereinsbank	**5,005**	–
	176,423	122,278
	185,592	133,801

All borrowings are secured against the investment properties of the Group. As at the year end an amount of €13.6 million is available to be drawn down, from three separate loan facilities. €2.0 million from a €81.5 million facility with interest rate 1.4%, €1 million from a €9.3 million facility with interest rate 1.34% and €10.6 million undrawn, from a €10.6 million facility with interest rate 1.75%.

26. TRADE AND OTHER PAYABLES

	31 December 2016 €'000	31 December 2015 €'000
Trade payables	**791**	1,584
Other payables	**–**	373
Other provisions and accrued liabilities	**533**	459
Deferred income	**7**	214
VAT	**–**	54
	1,331	2,684

27. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016 €'000	31 December 2015 €'000
Interest rate swaps – carried at fair value through profit or loss		
Balance at start of period	**1,869**	1,496
Additions on acquisition	**392**	1,181
Loss/(Gain) in movement in fair value through profit or loss	**2,608**	(808)
Balance at end of period	**4,869**	1,869

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2016 were €175,932,000 (2015: €120,007,000). At 31 December 2016 the fixed interest rates vary from 0.040% to 0.705% (2015: 0.040% to 0.895%) above the main factoring Euribor rate.

MATURITY ANALYSIS OF INTEREST RATE SWAPS

	31 December 2016 €'000	31 December 2015 €'000
Less than 1 year	**392**	–
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**–**	1,102
More than 5 years	**4,477**	767
	4,869	1,869

28. OTHER FINANCIAL LIABILITIES

	31 December 2016 €'000	31 December 2015 €'000
Balance at start of period	–	–
Recognition of redemption liability	2,626	–
Increase in profit attributable to NCI	964	–
Balance at end of period	3,590	–

The redemption liability relates to the put option held by the minority shareholders of PSPF for the purchase of the minority interest in PSPF. The option period starts on 6 June 2020. The amount of the purchase price will be based on the EPRA NAV on the balance sheet date as well as the movement in the EPRA NAV during the year and the proportion of EPRA NAV attributable to the non-controlling interest in PSPF. A portion of the liability (€378k) is recognised to cover the tax charge of the minority in PSPF on the proceeds received if they choose to exercise their put option.

The recognition of the redemption liability has been accounted for as a reduction in the Non-Controlling Interest with the remainder of the recognition against the Group's retained earnings. Also see the Consolidated Statement of Changes in Equity for the recognition accounting.

Further information on the redemption liability treatment in the prior year can be seen in note 31.

29. SHARE-BASED PAYMENT RESERVE

	Synthetic equity fee €'000	Performance fee €'000	Share-based payment total €'000
Balance at 1 January 2015	**559**	**8,390**	**8,949**
Fee charge for the period	–	1,264	1,264
Equity settled during the period	–	(8,390)	(8,390)
Cash settled during the period	(559)	–	(559)
Balance at 31 December 2015	**–**	**1,264**	**1,264**
Fee charge for the period	–	6,350	6,350
Balance at 31 December 2016	**–**	**7,614**	**7,614**

PROPERTY ADVISOR FEES

The Property Advisor is 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 Group 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 4 March 2016; and
(ii) the highest previously recorded EPRA NAV total return at the end of a performance period.

The Performance Fee will be settled through the payment of cash by the Group which then has to be used to subscribe for shares at the EPRA NAV price per share.

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

(i) 1.50% of the EPRA NAV of the Group where the EPRA NAV of the Group is equal to or less than €250 million;
(ii) 1.25% of the EPRA NAV of the Group between €250 million and €500 million; and
(iii) 1% of the EPRA NAV of the Group greater than €500 million.

The Property Advisor is entitled to a capex monitoring fee equal to 7% of any capital expenditure incurred by any Subsidiary which the Property Advisor is responsible for managing (the 'Capex Monitoring Fee').

29. SHARE-BASED PAYMENT RESERVE CONTINUED

PROPERTY ADVISOR FEES CONTINUED

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

(i) 0.1% of the value of any borrowing arrangement which the Property Advisor has negotiated and/or supervised; and
(ii) a fixed fee of £1,000 in respect of any borrowing arrangement which the Property Advisor has renegotiated or varied.

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.

Details of the fees paid to the Property Advisor are set out in note 35.

30. STATED CAPITAL

	31 December 2016 €'000	31 December 2015 €'000
Issued and fully paid:		
40,522,364 participating shares of no par value, issued at a consideration of GBP1 each	**60,027**	60,027
5,896,369 participating shares of no par value, issued at a consideration of GBP1.11 each	**7,681**	7,681
19,237,484 participating shares of no par value, issued at a consideration of GBP1.46 each	**39,052**	39,052
4,216,080 participating shares of no par value, issued at a consideration of GBP1.44 each	**8,390**	8,390
22,619,047 participating shares of no par value, issued at a consideration of GBP1.68 each on 4 March 2016, less costs of €1.6 million associated with placing	**47,480**	–
	162,630	115,150

The number of shares in issue at 31 December 2016 was 92,491,344 (31 December 2015: 69,872,297).

31. NON-CONTROLLING INTEREST

	Non-controlling interest %	31 December 2016	31 December 2015
PSPF Property GmbH & Co. KG	5.2%	**–**	2,626
Invador Grundbesitz GmbH	5.1%	**467**	–
Laxpan Mueller GmbH	5.1%	**474**	–
		941	2,626

The non-controlling interest relates to the subsidiaries Invador Grundbesitz GmbH and Laxpan Mueller GmbH.

During the current year the certainty over the put option crystallisation has increased to a level were the Directors has derecognised the NCI associated with the option and recognised a financial liability to purchase the remaining 5.2% in PSPF Property GmbH & Co. KG.

32. EARNINGS PER SHARE

	31 December 2016	31 December 2015
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent (€'000)	**36,998**	9,721
Weighted average number of ordinary shares for the purposes of basic earnings per share (number)	**88,587,235**	69,872,297
Effect of dilutive potential ordinary shares (number)	**2,829,885**	638,818
Weighted average number of ordinary shares for the purposes of diluted earnings per share (number)	**91,471,120**	70,511,115
Earnings per share (€)	**0.42**	0.14
Diluted earnings per share (€)	**0.40**	0.14

33. NET ASSETS VALUE PER SHARE AND EPRA NET ASSET VALUE

	31 December 2016	31 December 2015
Net assets (€'000)	**234,318**	148,539
Number of participating Ordinary Shares	**92,491,344**	69,872,298
Net asset value per share (€)	**2.53**	2.13

EPRA net asset value	31 December 2016	31 December 2015
Net assets (€'000)	**234,318**	148,539
Add back deferred tax assets and liabilities, derivative financial instruments, goodwill and share-based payment reserves	**18,635**	11,095
EPRA net asset value (€'000)	**252,953**	159,634
EPRA net asset value per share (€)	**2.73**	2.28

34. 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 Group held the following financial assets at each reporting date:

	31 December 2016 €'000	31 December 2015 €'000
Loans and receivables:		
Trade and other receivables: Current	**1,453**	720
Cash and cash equivalents	**18,450**	12,757
Loans and receivables	**2,253**	1,382
	22,156	14,859

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

	31 December 2016 €'000	31 December 2015 €'000
Held at amortised cost:		
Borrowings payable: Current	**9,169**	11,523
Borrowings payable: Non-current	**176,423**	122,278
Other financial liabilities	**3,590**	–
Trade and other payables	**1,331**	2,630
	190,513	136,431
Fair value through profit or loss:		
Derivative financial liability – interest rate swaps	**4,869**	1,869
	4,869	1,869
	195,382	138,300

34. 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 swap was valued externally by the respective counterparty banks by comparison with the market price for the relevant date.

The interest rate swaps are expected to mature between November 2017 and August 2026.

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	**31 December 2016 €'000**	31 December 2015 €'000
Financial liabilities		
Interest rate swaps – Level 2	**(4,869)**	(1,869)

The valuation basis for the investment properties is disclosed in note 19.

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

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 Group 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

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 amount of the Group's foreign currency (non Euro) denominated monetary assets and liabilities are shown below, all the amounts are for Sterling balance only:

	31 December 2016 €'000	31 December 2015 €'000
Financial assets		
Cash and cash equivalents	**553**	3,191
Financial liabilities		
Trade and other payables	**(204)**	(156)
Net position	**349**	3,035

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:

	Weakened by 10% Increase/ (decrease) in post-tax loss and impact on equity	Strengthened by 10% Increase/ (decrease) in post-tax loss and impact on equity
31 December 2016	**35**	**(35)**
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 and Deutsche Bank. The split of cash held at each of the banks respectively at 31 December 2016 was 19%/63%/16% (December 2015: 28%/33%/39%) 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 can be found in note 23 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.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

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.

34. FINANCIAL INSTRUMENTS CONTINUED

MATURITY ANALYSIS FOR FINANCIAL LIABILITIES:

	Less than 1 year €'000	Between 1 and 2 years €'000	Between 2-5 years €'000	More than 5 years €'000	Total €'000
At 31 December 2016					
Borrowings: Current	**9,169**	**–**	**–**	**–**	**9,169**
Borrowings: Non-current	**–**	**–**	**–**	**176,423**	**176,423**
Other financial liabilities	**–**	**–**	**3,590**	**–**	**3,590**
Trade and other payables	**1,331**	**–**	**–**	**–**	**1,331**
	10,500	**–**	**3,590**	**176,423**	**190,513**

	Less than 1 year €'000	Between 1 and 2 years €'000	Between 2-5 years €'000	More than 5 years €'000	Total €'000
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

35. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere are as follows:

R Prosser is a director of Estera Fund Administrators (Jersey) Limited and Estera Trust (Guernsey) Limited, both of which provide administration services to the Group.

A Weaver is a partner of the Jersey law firm, Appleby which provides legal services to the Group and a member of Appleby group.

During the year ended 31 December 2016, an amount of €657,751 (2015: €718,721) was payable to Estera Fund Administrators (Jersey) Limited and Estera Trust (Guernsey) Limited for accounting, administration and secretarial services. At December 2016, €187,515 (2015: €125,671 Estera Fund Administrators (Jersey) Limited only) was outstanding.

During the year ended 31 December 2016, an amount of €60,337 (2015: €375,595) was payable to Appleby, law firm for legal and professional services. At December 2016 €9,495 (2015: €11,352) was outstanding.

M Northover is a Director and shareholder of PMM Partners (UK) Limited, the Group's appointed Property Advisor. During the year ended 31 December 2016, an amount of €3,387,000 (2015: €2,574,000) was payable to PMM Partners (UK) Limited. At December 2016 €Nil (2015: €Nil) was outstanding.

The Property Advisor is also entitled to an asset and estate management performance fee. The charge for the period in respect of the performance fee was €6,350,000 (2015 €1,264,000). The fee is payable contingent on the Group achieving an 8% total return to the shareholders per annum.

In March 2015 the Group also entered into an option agreement to acquire the remaining 5.2% interest in Phoenix Spree Property Fund GmbH & Co.KG from the remaining partners being M Hilton and P 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 at the fair value of the remaining interest.

The Group entered into an unsecured loan agreement with M Hilton and P Ruddle in connection with the acquisition of PSPF. At the period end an amount of €704,500 (2015: €691,000) each was owed to the Group. The loans bear interest of 4% per annum.

36. EVENTS AFTER THE REPORTING DATE

The Group exchanged contracts for the acquisition of three properties in Berlin with an aggregate consideration of €12.3 million. These three properties are still awaiting completion.

The Group had exchanged contracts for the acquisition of three properties in Berlin with an aggregate purchase price of €19.9 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Two of these properties to the value of €15.4 mIllion completed in Q1 2017, and the third property with a purchase price €4.5 million is expected to complete in the second quarter.

The Group exchanged contracts for the sale of 11 condominiums in Berlin with an aggregate consideration of €2.4 million. Three of these condominium sales have subsequently completed at a value of €0.7 million. The remaining eight are expected to complete during the second quarter.

The Group had exchanged contracts for the sale of ten condominiums in Berlin with an aggregate sales price of €2.9 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Eight of these condominium sales have subsequently completed in Q1 2017 at a value of €2.6 million. The remaining two are due to complete in Q2 2017.

The Group has notarised for sale all the properties held by a subsidiary fund, which are located in the Nurnberg and Fürth area, for a gross consideration of €35.3 million. The initial approach was made by buyers in January 2017 and the transaction is expected to complete in July 2017.

The Group had notarised for sale a property in Teltow prior to the balance sheet date for €3.8 million which had yet to complete at the balance sheet date. It subsequently completed in April 2017.

In February 2017 The Group drew down €9.9 million euros of debt from a €10.6 million short-term loan facility.

In February 2017 The Group refinanced the remaining €11.3 million of debt held against the buildings acquired as part of the Laxpan and Invador share deals in 2016. A new facility of €17.5 million was signed of which €9.6 million is currently drawn.

The Group drew down the final €1 million of the €9.3 million facility signed in August 2016 after exceeding a required annualised net rent of the properties secured under the loan.

The Group drew down the final €2.0 million of the €81.5 million facility signed in 2016 on two buildings in Kiel and Luneberg.

The Group has signed for a €13 million loan secured against the properties notarised for acquisition in 2017; €11.1 million of this loan has been dispersed.

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