PHOENIX SPREE

Living Berlin

Annual Report and Accounts 2017

PMM.

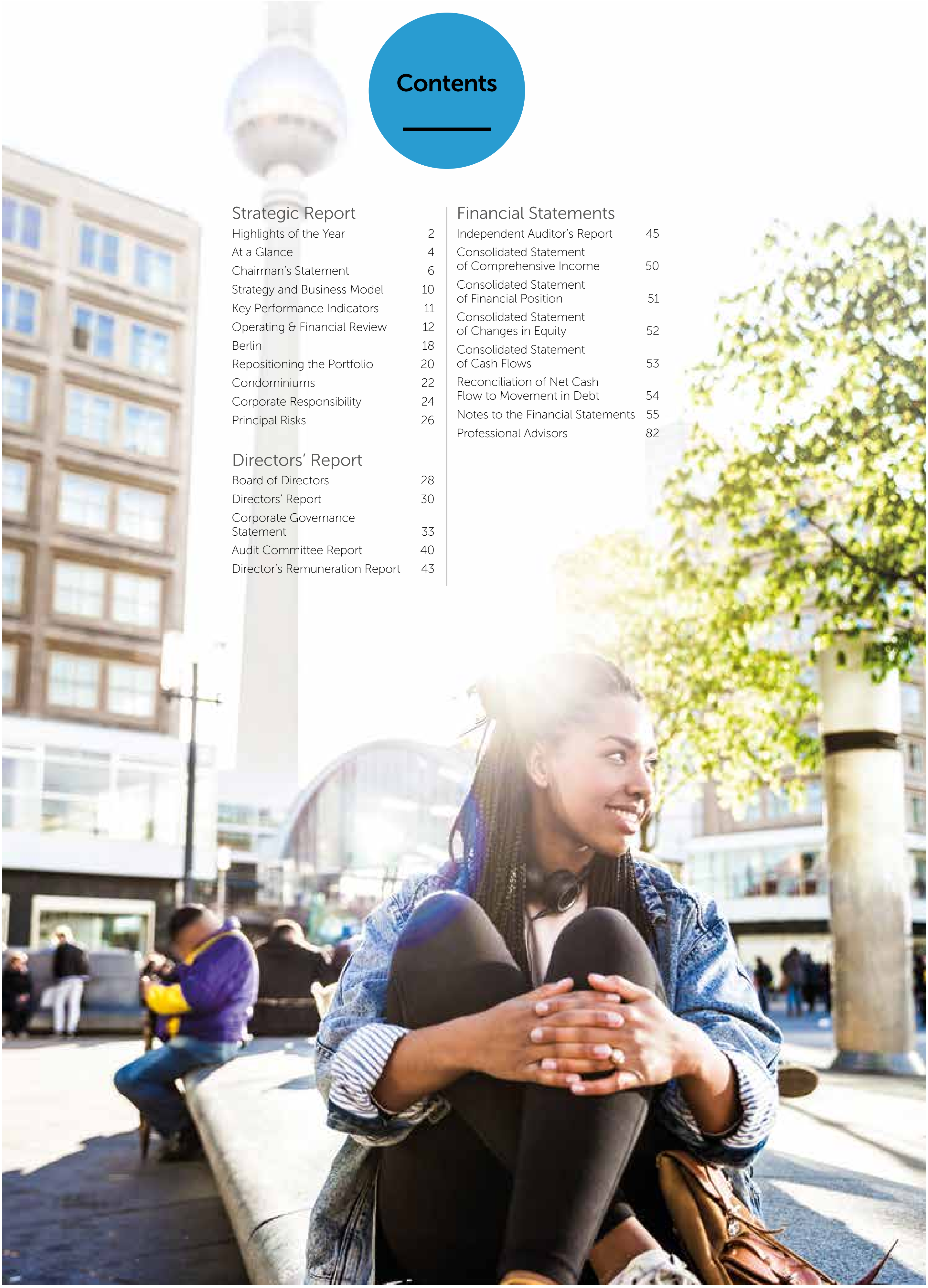
Introduction

Phoenix Spree Deutschland is an investment company founded in 2007 and listed on the London Stock Exchange. It is a long term investor in Berlin rental property, committed to improving the quality of accommodation to its customers.

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 has acted as the Property Advisor since the Company's inception. 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

Our targeted acquisition and disposal strategy has created a pure play Berlin portfolio with potential for greater economies of scale.

Financial highlights

- EPRA NAV per share grew by 50.5% to €4.11 (£3.65) at 31 December 2017 (31 December 2016: €2.73 (£2.33)).
- EPRA total return per share of 53.0% for the year (2016: 22.5%).
- IFRS NAV per share grew by 56.5% to €3.96 (£3.52) at 31 December 2017 (31 December 2016: €2.53 (£2.16)).
- Gross rental income up 13.5% year-on-year to €18.1 million (2016: €15.9 million).
- Profit before tax up 183.3% to €138.5 million (2016: €48.9 million).
- Net loan to value of 32.0% at 31 December 2017 (31 December 2016: 39.4%). All of the Group's debt has been refinanced within previous 18 months.
- New debt of €57.8 million signed during 2017. Average debt maturity now exceeds eight years. Average interest rate 2.1%.
- Final dividend per share of €5.0 cents (GBP: 4.4p), giving a total dividend per share of €7.3 cents (GBP: 6.4p) for 2017 (2016: €6.3 cents (GBP: 5.3p)).

Operational highlights

- Portfolio value increased by 43.8% to €609.3 million (31 December 2016: €423.8 million), 40.1% on a like-for-like basis.
- Berlin posted largest like-for-like valuation increase at 41.8%.
- Rent per sqm increased by 4.2% to €8.0 (31 December 2016: €7.6), 6.9% on a like-for-like basis.
- Berlin like-for-like rent per sqm increased by 8.4% to €8.4 (31 December 2016: €7.7).
- Rent on new lettings of €10.3 per sqm, a 7.9% increase over 2016.
- €6.7 million invested in renovations and modernisations across the entire Portfolio during 2017, representing over one-third of rental income.
- EPRA vacancy remains low at 2.9% (31 December 2016 2.6%).
- Condominium sale completion proceeds up 191.8% to €9.5 million with an average value per sqm of €3,868, a 20.1% premium to Berlin portfolio average value per sqm as at 31 December 2017.

Portfolio now purely focused on the attractive Berlin market

- Targeted acquisition and disposal strategy during 2017 has created a pure-play Berlin portfolio with potential for greater economies of scale and strategic benefits.
- Disposal of Central and Northern Germany portfolio notarised in December 2017 for €73.0 million, a 26% premium to the Jones Lang LaSalle valuation as at 30 June 2017.
- Sale of other non-Berlin assets during 2017, for combined proceeds of €48.3 million. All disposals at a significant premium to last reported book value.
- Contracts to acquire 366 units notarised during 2017, representing an aggregate purchase price of €55.9 million and an average price per sqm of €2,224.
- As at 20 April 2018, contracts to acquire a further 160 units in Berlin have been notarised since 31 December 2017 year end for an aggregate value of €24.8 million, representing an average price per sqm of €2,348.

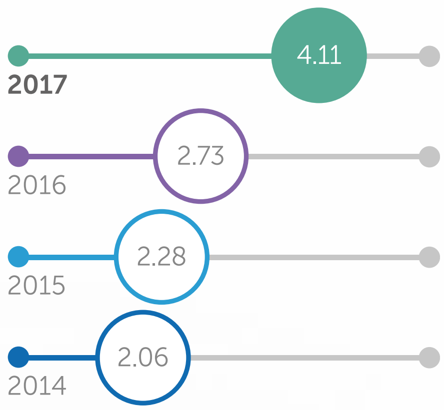
Outlook

- Berlin residential demographics remain favourable, driven by strong population growth, job creation and the ongoing process of urbanisation.
- Berlin residential property prices should continue to benefit from a lack of supply and growing demand from both owner-occupiers and investors.
- High embedded value within Portfolio: Berlin new leases signed at 40.1% premium to in-place rents during 2017, and 45.7% in the fourth quarter of 2017.
- Strong balance sheet, locking in long-term fixed rate debt at low interest rates, creates scope for further selective acquisitions.
- Due to careful selection, acquisition prices remain below value of in-place housing stock within the Portfolio and cost of new build construction.
- Further new condominium projects and sales are planned for the year ahead.

EPRA NAV/share

€4.11

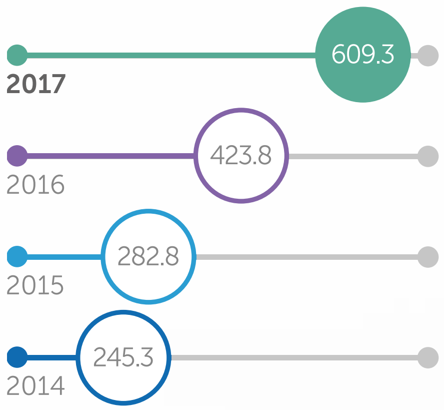
+50.5%



Portfolio value

€609.3m

+43.8%



Gross Rental Income

€18.1m

+13.5%

Profit before tax

€138.5m

+183.3%

Rent per sqm

€8.0

+4.2%

Rent on new lettings (per sqm)

€10.3

+7.9%

Invested in modernisations

€6.7m

Berlin acquisitions notarised

€55.9m

Condominium sales notarised

€9.1m

+58.9%

At a Glance

The Company acquires and manages German residential property. Since 2008, the aggregate value of the Portfolio (including the assets of sister fund PSPF) has risen from €167.8 million to €609.3 million as at 31 December 2017, with each year seeing an increase.

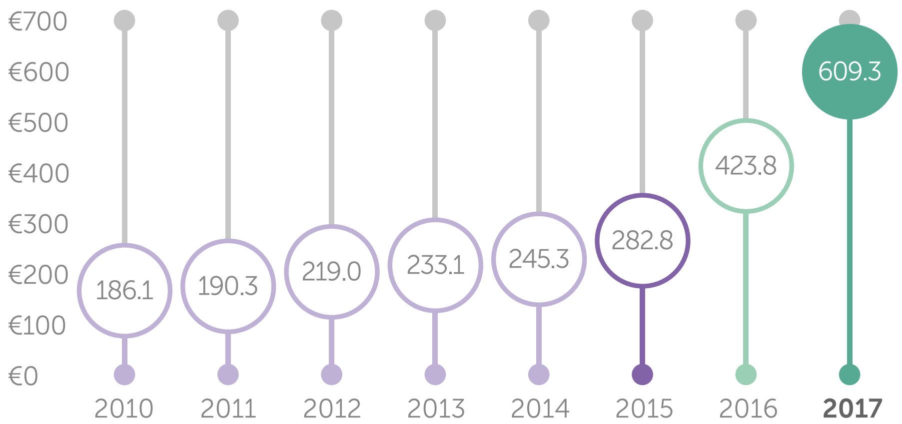
Since listing on the Main Market of the London Stock Exchange in June 2015, the Company has increased the Berlin focus of the Portfolio through a combination of carefully selected acquisitions and disposals, effectively creating a pure-play Berlin fund.

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.

PMM Partners has acted as property advisor and has an experienced team of property and investment professionals with an established record in the German residential property market.

Reported property portfolio valuation 2010-2017 €m

+43.8%



Properties	Usable space (sqm)	Commercial units	Residential units
122	214k	179	2,916

"We are a long term investor in Berlin rental property, committed to improving the quality of accommodation available to our customers."

Chairman's Statement

2017 was another year of strong performance for the Company. Market conditions in the Berlin residential property sector have remained favourable.

I am delighted to report that the Portfolio has recorded its best period of growth since Phoenix Spree was founded in 2007. Our financial results for the year provide further confirmation of our strategy of creating and actively managing a high-quality portfolio of Berlin assets.

A more focused Portfolio

We have made significant progress in our strategy to focus the Portfolio on Berlin, having disposed of a series of non-Berlin assets at a premium to book value. The proceeds from these disposals have been used to invest in the current portfolio and to fund further acquisitions in Berlin. Completion of the €73.0 million disposal of the Central and Northern Germany portfolio at a 26% premium to book value is expected in April 2018 whereupon Phoenix Spree will effectively become a pure-play Berlin fund, creating greater economies of scale.

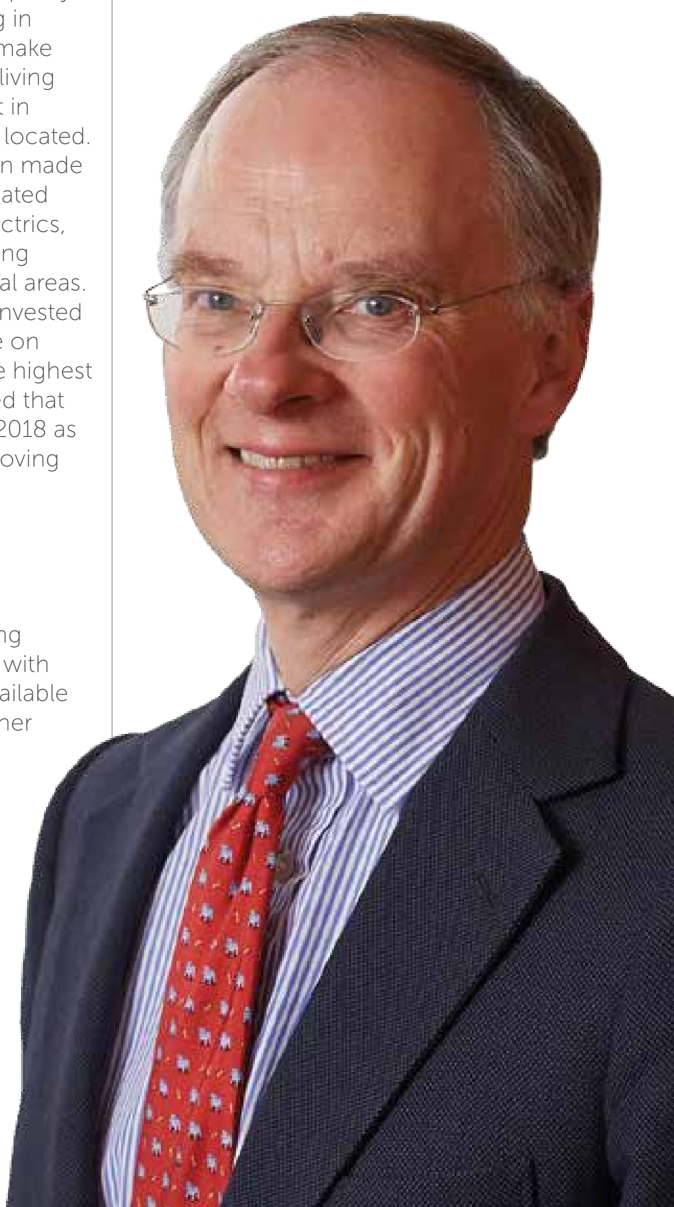
The Board is of the view that the Berlin market remains attractive with scope to continue the strategy of investing in the existing portfolio and to grow it further through the selective acquisition of residential assets. Although the competition for assets is intense, the expertise and strong local relationships of our property advisor have enabled the Company to identify a pipeline of attractive acquisition opportunities. We are pleased to have completed or notarised a further €75.8 million of acquisitions during 2017, all of which met our acquisition criteria.

Enhancing the Portfolio

The Company has continued to invest in its programme of renovations and modernisations throughout the year, as well as making a further outlay on the overall infrastructure of its properties. Many of the buildings acquired by the Company were over 100 years old and, at the time, were in a poor state of repair. The Board is committed to improving the quality of its accommodation, working in partnership with its tenants to make a positive contribution both to living standards and the environment in areas where our properties are located. Substantial investment has been made in projects encompassing outdated heating systems, plumbing, electrics, double glazing, hallways, building facades and outdoor communal areas. During 2017, the Company re-invested over a third of its rental income on improvement programmes, the highest level to date, and it is anticipated that this process will continue into 2018 as we maintain our focus on improving the overall standard of our tenanted buildings.

Strong financial performance

The Portfolio valuation has continued to benefit from strong market fundamentals in Berlin, with the ongoing undersupply of available rental property resulting in further yield compression. Portfolio and rental growth have also been driven by our active asset management strategy, including the modernisation and renovation of apartments.



"The Board is of the view that the Berlin market remains attractive with scope to continue the strategy of investing in the existing Portfolio."

On a like-for-like basis, excluding the impact of acquisitions and disposals, the Portfolio value increased by 40.1% and Berlin rental income grew by 9.1%. Our EPRA Net Asset Value per share rose by 50.5% to €4.11 and the EPRA vacancy rate remains low, ending the year below 3%. The period closed with a strong balance sheet, with a net loan to value of 32% and cash balances of €27.2 million.

The investment in the Portfolio continues to provide strong reversionary potential, with new leases in Berlin signed at an average 40.1% premium to in-place rents during the year. Rent levels for new tenants in fully refurbished apartments are set with reference to prevailing market levels and increases for existing tenants comply with the relevant regulations and local rent tables.

The Property Advisor has also continued to identify opportunities to divide and resell a small number of carefully selected apartment blocks as condominiums, the proceeds of which part fund the dividend with the balance reinvested in further acquisitions and Portfolio improvements. The average price per sqm achieved for condominiums sold or notarised represented a 26.9% premium to the average valuation per sqm for the Berlin portfolio.

Share price and dividend

The year to 31 December 2017 provided the strongest period of share price performance since the Company's stock market listing in 2015. Between 1 January 2017 and the end of the year, the share price rose from 232 pence to 393 pence, representing an increase of 69.4%. I am delighted that Phoenix Spree ended the year as not only the best-performing listed German residential fund, but also the best-performing UK listed real estate investment company in 2017.

The Board is pleased to recommend a final dividend of €5.0 cents per share (GBP 4.4 pence per share), taking the full year dividend to €7.3 cents per share (GBP 6.4 pence per share), representing a 16% increase on the 2016 full year Euro-denominated dividend. This dividend growth is reflective of the increase in the Portfolio value during the year and is paid from operating cash flows, including the disposal proceeds from condominium projects. The Company has historically aimed to provide its Shareholders with a secure and progressive dividend over the medium term, and subject to the distribution requirements for Non-Mainstream Pooled Investments. Following the disposal of the non-core portfolio in Northern Germany, the Company's portfolio is almost entirely focused on Berlin, where the Board continues to see significant potential for further acquisitions and capital growth, but where rental yields have historically been lower than in other parts of Germany. These factors may affect future dividend growth.

The total dividend in respect of the 2017 financial year amounts to €7.1 million, covered from operating cash flows of €5.8 million and condominium disposal proceeds of €9.1 million (total: €14.9 million). Since listing on the London Stock Market in June 2015, and including the final dividend for 2017, €17.3 million been returned to Shareholders.

Property Advisor

The Group has continued to benefit from the expertise of its property advisor, PMM Partners ('PMM'), which combines day-to-day asset management activities, capital structure management and a busy acquisition and disposal pipeline. During 2017, PMM has continued actively to manage the Portfolio, whilst simultaneously leveraging their local network and relationships to

Read about our commitment to Corporate Responsibility on page 24

Chairman's Statement
continued

source and acquire an attractive pipeline of new Berlin properties, as well as completing the divestment of the remainder of the Company's non-core buildings, at a premium to book value.

On the basis of the Company's strong performance over the three year's ending 31 December 2017, and the impressive growth achieved in EPRA NAV over that period, resulting in a total shareholder return for the three-year period, after all fees, of 106.4%, a performance fee under the Property Advisory Agreement to the Property Advisor of c.€34.0 million has become due. The parties have agreed to settle the performance fee (but not any further performance fees that may become due) through the issuance by the Company to the Property Advisor of 8,260,065 new shares in the Company at EPRA NAV per share. 50% of the shares issued in settlement of this fee are subject to a 12-month restriction on disposal. Application will be made for the new shares, once issued, to be admitted to trading on the premium segment of the Official List and to trading on the Main Market of the London Stock Exchange. The Board would like to thank all at PMM for their valued contribution, which is a key component of our ongoing success.

Corporate governance

The Board remains fully committed to high standards of corporate governance and behaving as a responsible business, addressing its environmental and social impacts as encapsulated in developing the Company's Corporate Responsibility Strategy. It takes very seriously its duties to operate with integrity, transparency and clear accountability towards its shareholders, tenants and other key stakeholders.

Following the year end, the Company announced the appointments of Charlotte Valeur, Jonathan Thompson and Monique O'Keefe as Independent Non-executive Directors, and that Matthew Northover, Richard Prosser and Andrew Weaver were stepping down as a Non-executive Directors. As well as strengthening the Board's independence, Charlotte, Jonathan and Monique bring with them a wealth of experience and insight across the real estate and advisory worlds which will be of great value to the Company as it continues to grow in years to come. Jonathan Thompson will also chair the Audit Committee.

On behalf of the Board, I thank Matthew, Richard and Andrew for their invaluable contribution to the Company during a period of considerable growth and its transition to a listed company on the Main Market of the London Stock Exchange in 2015. The Company will continue to benefit from Matthew's expertise through his ongoing involvement with PMM.

The Board has considered the principles and recommendations of the UK Corporate Governance Code and is pleased to confirm that the Company complies with the provisions of the Code, where applicable.

Market outlook

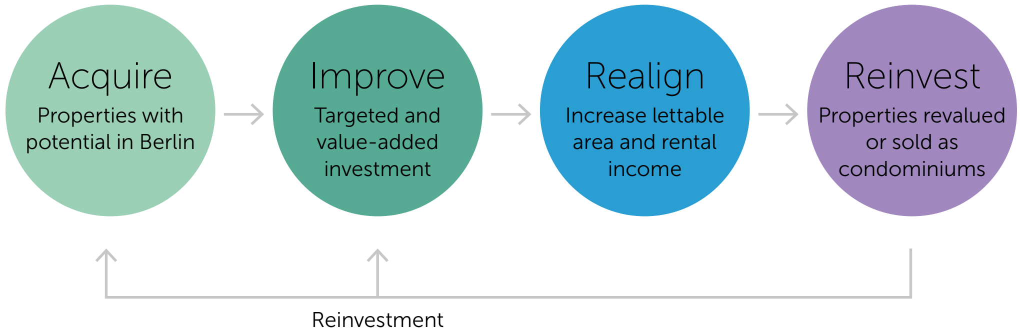
The German economy continues to benefit from record high employment levels and historically low interest rates. Economic growth reached a six-year high in 2017 and government forecasts suggest this rate of growth will be sustained in 2018.

Berlin's economic growth continues to outstrip the broader economy, with strong growth in the business services, media and technology sectors likely to lead to job creation and net inward migration trends remaining strong. Against this backdrop, the fundamentals of the Berlin residential market remain attractive: strong demand combined with limited supply, and high levels of transaction activity likely to be sustained by demand from both investors and owner-occupiers. With our business now fully focused on Berlin, and underpinned by the Property Advisor's active asset management strategy, the Board looks forward to the year ahead with confidence.

Robert Hingley
Chairman
26 April 2018

Strategy and Business Model

The Company's strategy is to manage and invest in our Portfolio in order to improve the overall standard of accommodation to our customers.



Underpinning this strategy is a business model which involves the acquisition, renovation and optimisation of properties to drive further reinvestment into the Portfolio.

Acquire
The Company focuses on apartment buildings which offer the potential for medium-term value creation through modernisation and renovation. The Property Advisor has historically focused its acquisitions on properties built before 1914 (Altbau). Since listing in June 2015, all buildings acquired have been located in Berlin, and typically require reinvestment to bring them up to modern standards. Single properties, packages and portfolios are considered.

Improve
Vacant units in poor condition are considered for full renovation and vacant attic space is reviewed for conversion to residential space. Depending on the level of historical underinvestment, apartment improvements can involve heating system and boiler upgrades, new insulation, double glazing, new plumbing, kitchen and bathroom renewal, new flooring, and redecoration. Communal areas, both indoor and outdoor, are also reviewed for potential improvement where investment has historically been lacking. A single apartment generally costs between €20,000 and €30,000 to renovate, while an entire building renovation might cost up to €2 million.

Realign
For properties considered to be core rental buildings, vacant units are re-let after refurbishment at the prevailing market rent. Tenant lists are reviewed carefully and, only 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. In addition to its core rental business, the Company also selectively identifies a small number of condominium projects. The condominium process involves the sub-division and re-sale of these apartment blocks with the intention of augmenting returns to reinvest in the Portfolio. The Company is committed to operating within the relevant regulatory and planning frameworks at all times during the realignment process.

Reinvest
The properties within the portfolio are revalued each year with the investment being reflected in an uplift in property values. To the extent that additional borrowing can be secured on higher property values, the proceeds are reinvested by way of acquisitions and improvements in the existing portfolio of buildings.

Key Performance Indicators

The Company has chosen a number of Key Performance Indicators, which the Board believes are relevant to help all stakeholders understand the performance of the Company and the underlying property portfolio.

Our key performance metrics are stated below.

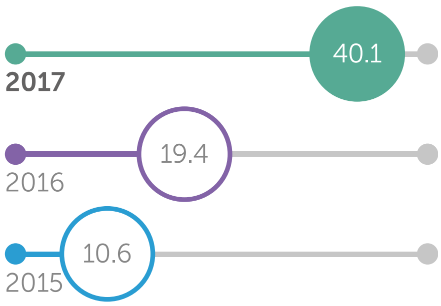
In 2017, the value of the property portfolio grew by 40.1% on a like-for-like basis (2016: 19.4%). This increase was assisted by an increase in like-for-like average rent per let sqm of 6.9% (2016: 5.3%). The EPRA vacancy rate of 2.9% has remained relatively unchanged compared with prior year (2016: 2.6%), and in line with expectations.

The Group continued with its targeted condominium programme, agreeing sales of €9.1 million during the financial year (2016: €5.7 million). EPRA NAV per share increased by 50.5% to €4.11 (2016: €2.73), and the total dividend for the year was €7.3 cents per share (GBP 6.4 pence per share) an increase of 16% (2016: €6.3 cents per share, GBP 5.3 pence per share).

Net loan to value has reduced from 39.4% at 31 December 2016 to 32% at 31 December 2017.

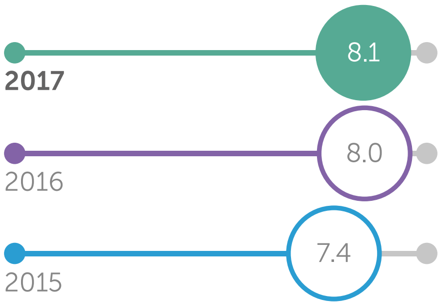
Like-for-like property portfolio value growth 2017 %

40.1%



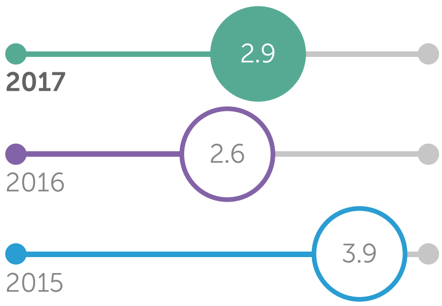
Like-for-like portfolio rent per sqm 2017 €

€8.1



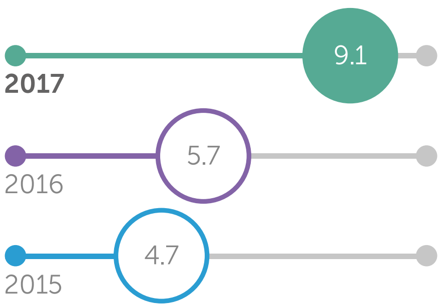
EPRA vacancy 2017 %

2.9%



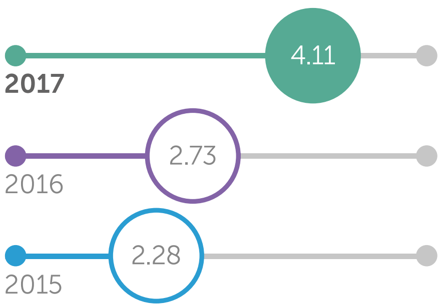
Condominium sales notarised 2017 €m

€9.1m



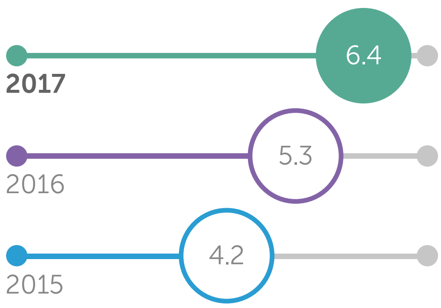
EPRA NAV per share 2017 €

€4.11



Dividend per share p

6.4p



Operating & Financial Review

The Company delivered another positive set of financial results for the year to 31 December 2017. The Portfolio has recorded its best period of growth since Phoenix Spree was founded in 2007.

Financial results

Reported revenue for the period was 13.5% higher at €18.1 million (2016: €15.9 million). PBT grew to €138.5 million (2016: €48.9 million). The results include a significant net valuation gain of €157.4 million (2016: €55.2 million) and a performance fee due to the Property Advisor of €26.3 million. As previously mentioned, the cumulative fee due under the terms of the Property Advisory Agreement for the three-year measurement period from January 2015 to December 2017 amounts to €34.0 million, to be satisfied in new shares issued at EPRA Net Asset Value. Reported earnings per share for the period were €1.21c (2016: €0.42c).

Financial highlights

€ million (unless otherwise stated)	31 December 2017	31 December 2016
Gross rental income	18.1	15.9
Profit before tax (PBT)	138.5	48.9
Reported EPS (€)	1.21	0.42
Investment property value	609.3	423.8
Net debt	195.1	167.1
Net LTV	32.0%	39.4%
IFRS NAV per share (€)	3.96	2.53
IFRS NAV per share (£)	3.52	2.16
EPRA NAV per share (€)	4.11	2.73
EPRA NAV per share (£)	3.65	2.33
Dividend per share (€ cents)	7.3	6.3
Dividend per share (£ pence)	6.4	5.3
EPRA NAV per share total return for period (€)	**53.0%**	22.5%
EPRA NAV per share total return for period (£)	**57.7%**	41.7%

Positive pricing trends

The year to December 2017 showed a continuation of the positive pricing trends in Berlin residential property, driven by an overall improvement in German economic growth, as well as the positive demographic trends in Berlin, creating an ongoing supply-demand imbalance of available rental properties within the city. The Portfolio has also benefitted from PMM's active asset management strategy and, following a targeted programme of non-core disposals and further Berlin acquisitions, the Company is now a pure-play Berlin investment, well positioned to benefit from these positive macro and demographic factors.

Portfolio value rises by 40.1%

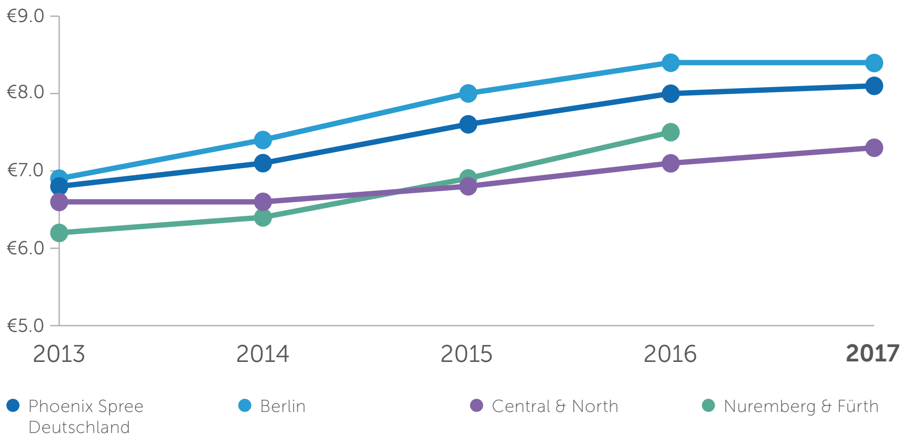
The Portfolio value grew by 43.8% from €423.8 million to €609.3 million during the year. Excluding the impact of acquisitions and disposals, the like-for-like increase was 40.1% (2016: 19.4%), representing the highest rate of growth in the funds' ten-year history. At the year end, the Portfolio was valued at €2,853 per sqm (31 December 2016: €1,965) which represents a gross fully-occupied yield of 3.4% (31 December 2016: 4.8%) and a net yield, using EPRA methodology, of 2.8% (31 December 2016: 4.2%).

All geographic markets registered valuation gains during the period, with Berlin seeing the largest like-for-like increase at 41.8%, followed by Central and North Germany 35.2%.

EPRA NAV increases by 50.5%

EPRA NAV per share increased by 50.5% in the period to €4.11 (£3.65) compared to €2.73 31 December 2016 (£2.33). Taking into account the dividends paid during 2017, EPRA total return per share was 53.0%, compared with 22.5% in 2016.

Rent per sqm by region 2013 to 2017 (€)



Portfolio regional overview 31 December 2017

Market	% of fund by value	Buildings	Residential units	Commercial units	Total units	Total sqm ('000)	Annualised Gross rent (€m)	Valuation (€m)	Value per sqm (€)	Fully occupied gross yield %	Vacancy %	EPRA vacancy %
Berlin (incl. Greater Area)*	86.7	85	2,140	134	2,274	164.1	14.9	528.5	3,220.3	3.1	7.1	2.7
Central & North Germany	12.7	36	758	34	792	45.8	3.8	77.1	1,682.8	5.3	5.7	4.3
Baden-Wurttemberg	0.6	1	18	11	29	3.6	0.3	3.7	1,026.1	10.0	6.0	0
Total	**100**	**122**	**2,916**	**179**	**3,095**	**213.5**	**19.0**	**609.3**	**2,853.4**	**3.4**	**6.8**	**2.9**

* Excludes eight properties (180 units) notarised between September 2017 and March 2018 which had not yet completed at 31 December 2017.

EPRA vacancy remains historically low

Reported vacancy as at 31 December 2017 was 6.8%, down from 9.1% as at 31 December 2016. On an EPRA basis, which adjusts for units undergoing redevelopment or reserved for resale, vacancy was 2.9% as at 31 December 2017, compared to 2.6% as at 31 December 2016. This reflects the ongoing strength in the rental market as well as steps undertaken by the Property Advisor to reduce the time associated with re-letting.

Rental income – Growth trend continues

Gross rental income increased 13.5% to €18.1 million, compared with €15.9 million in 2016. On a like-for-like basis, rental income grew by 7.2% compared with 2016. Headline average in-place rent per sqm was €8.0 as at 31 December 2017, compared with €7.6 as at 31 December 2016. On a like-for-like basis, rent per sqm grew by 6.9% compared to 2016. Berlin saw a like-for-like increase in rent per sqm of 8.4%, and Central and North Germany 3.8%. Following the publication in May of the new Mietspiegel, or rent table, rent adjustment notifications were issued to the relevant Berlin tenants in the second half of the year. The majority of new leases signed with the Portfolio include annual indexation (or 'Staffel') increases.

"The Group has continued to grow in Berlin with a number of targeted acquisitions."

As at 31 December 2017, the Company annualised contracted rental income was €19.1 million.

Recent letting prices achieve new highs for the Group

The Group enjoyed another strong letting performance in 2017. A total of 382 new leases were signed, representing 13.4% of the average units owned during the period. In Berlin, average new letting prices grew by 9.4% to €11.3 per sqm (2016: €10.6 per sqm). The non-Berlin portfolio also witnessed growth, with new letting prices rising by 2.3% to €8.0 per sqm.

Operating & Financial Review
continued

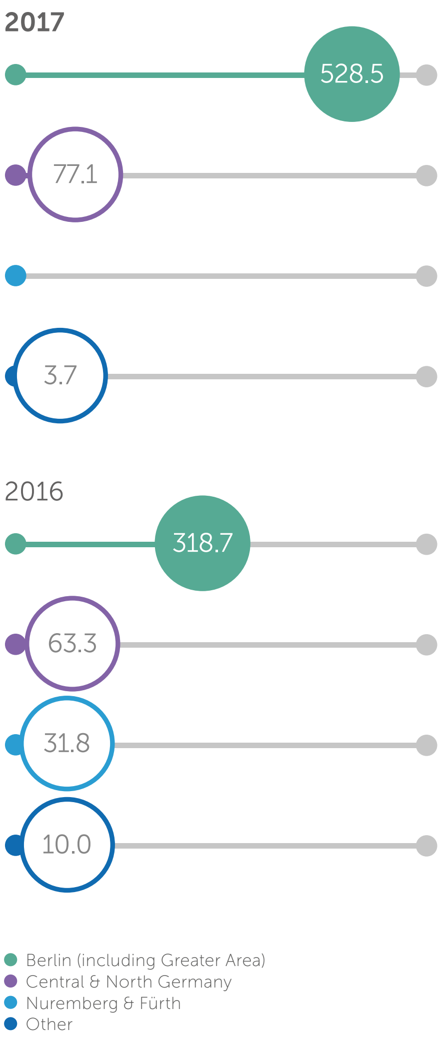
Significant reversionary rental potential remains
The premiums achieved on new letting prices when compared to in place rents demonstrate the significant reversionary potential within the Berlin portfolio.

During the final quarter of 2017, new lettings were signed at an average premium of 36.2% to passing rents and a record 45.7% 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 the rental market.

Further investment in the Portfolio
The Group continued with its programme of renovations and modernisations, investing €6.7 million across the entire Portfolio during 2017. In the Berlin rental portfolio, €3.7 million was invested across 117 vacant units, representing an average outlay of €301 per sqm. The average premium achieved on re-letting these vacant Berlin units was 60%.

An additional €1.0 million was invested in the development of condominium projects with the remaining €2.0 million invested in the infrastructure of properties within the Portfolio for items such as heating system upgrades and improvements to indoor and outdoor communal areas. All of these are recorded in the accounts as capital expenditure. A further €1.4 million spent on repairs and maintenance was expensed through the profit and loss account, compared to €1.1 million in 2016.

Portfolio valuations by region €m



Targeted acquisitions
The Group has continued to grow in Berlin with a number of targeted acquisitions. In total, 366 units (354 residential and 12 commercial) were notarised during 2017 for an aggregate purchase price of €55.9 million, at an average price per sqm of €2,224, and annual fully occupied rent of €2.0 million. As at 31 December 2017 €48.4 million of the notarised acquisitions had completed, with the remainder completing in the first quarter of 2018. Acquisitions have been financed using a combination of debt and equity, with a target net loan-to-value ratio of approximately 50%.

In the period from listing in June 2015 to 31 December 2017, the properties acquired by the Group were valued at €240.6 million at 31 December 2017. Properties that had completed by December 2017 were revalued by Jones Lang LaSalle ('JLL') as at December 2017 at an average 48.1% premium to purchase prices.

The Group intends to continue with its strategy of growing the Portfolio through selective Berlin acquisitions and, as at 20 April 2018, a further 160 units in Berlin had been notarised since the December 2017 year end for an aggregate value of €24.8 million, representing an average price per sqm of €2,348.

Profitable non-core disposals
The Group has also sold or notarised for sale a number of properties located outside Berlin, which had been classified as non-core. These disposals generated a profitable exit and release of capital which is expected to be re-deployed into further Berlin acquisitions and further investment in the Berlin portfolio. In April 2017, the Group completed

the sale of a mixed-use property, with a high commercial component, located in Teltow, Brandenburg. The sale proceeds of €3.8 million represented a 19% premium to June 2016 book value.

In July 2017, the Group completed the sale of a portfolio of 17 properties, located in Nuremberg and Fürth, for an aggregate consideration of €35.2 million. These properties were acquired in 2007 and 2008 for an aggregate purchase price of €13.9 million and the sale proceeds represented an 11% premium to the 31 December 2016 book value.

In December 2017, the Group exchanged contracts to sell a portfolio of 34 properties located in Bremen, Hannover, Hildesheim, Verden, Delmenhorst, Kiel, Oldenburg, Lüneburg and Lübeck for an aggregate cash consideration of €73.0 million. These buildings were acquired in 2006/2007 for an aggregate purchase price of €38.7 million and the sale price represented a 26% premium to the Jones Lang LaSalle valuation as at 30 June 2017.

Additionally, since 30 June 2017, a further four properties located in Central & North Germany were notarised for sale for a combined consideration of €6.7 million, 11% above the Jones Lang LaSalle valuation as at 30 June 2017.

Dividend

The Board is pleased to have declared a final dividend of €5.0 cents per share (GBP 4.4 pence per share), (2016 €4.3 cents) (GBP 3.7 pence per share), which is expected to be paid on or around 29 June 2018 to shareholders on the register at close of business on 8 June 2018, with an ex-dividend date of 7 June 2018. Taking into account the interim dividend paid in October 2017, the declared dividend for 2017 is €7.3 cents per share (GBP 6.4 pence per share), (2016: €6.3 cents per share) (GBP 5.3 pence per share).

Operating & Financial Review
continued

Financing

As at 31 December 2017, the Group had gross borrowings of €222.3 million (31 December 2016: €185.6 million) and cash balances of €27.2 million (31 December 2016: €18.5 million) equating to a net debt of €195.1 million (31 December 2016: €167.1 million) and a net loan to value on the Portfolio of 32.0% (31 December 2016: 39.4%). Nearly all loans have fixed interest rates and, at 31 December 2017, the blended interest rate of all loans across the Portfolio was 2.1%. The average remaining duration of the loan book at 31 December 2017 was 8.4 years (31 December 2016: 6.3 years). By 31 December 2017, all the Group's debt had been refinanced within the previous 18 months.

During the course of 2017, the following ten-year loan facilities were entered into in order to finance newly acquired properties: March 2017, €13.0 million facility; September 2017, €8.7 million facility; November 2017, €14.2 million facility. All the funds available from these facilities had been drawn as at 31 December 2017.

In February 2017, the Group successfully refinanced existing debt within Laxpan Mueller GmbH and Invador Grundbesitz GmbH, two companies acquired in 2016, which owned portfolios of Berlin properties. Existing debt of €11.2 million was repaid and a new ten year loan of €17.5 million was arranged, resulting in an equity release to the Group of €6.2 million before costs, all of which was drawn by 31 December 2017.

In July 2017, the Group successfully refinanced €79.6 million of existing debt, while securing a further equity release of €15.7 million before costs on the same pool of properties by way of a new ten-year loan facility. With the exception of €0.6 million, all of these funds had been drawn by 31 December 2017.

In April 2017, the Group announced the disposal of a non-core portfolio of 17 properties in Nuremberg and Fürth for €35.2 million. €18.3 million of the sale proceeds was used to repay debt. Further single property disposals amounting to €16.9 million were also completed during the year with related debt of €9.3 million being repaid.

In December 2017, the Group announced that it had exchanged contracts to sell a portfolio of 34 properties located in Central and North Germany for a cash consideration €73.0 million. The transaction is due to complete in the first half of 2018 and it is expected that €41.2 million of the proceeds will be used to repay debt.

Funds made available to the Group by way of equity releases or through disposals are used to invest in the existing portfolio and to fund new acquisitions. While currently well funded, the Group continues to assess its funding options for growth, including further debt, equity and joint ventures.

Market outlook

With the Portfolio now almost entirely focused in Berlin, it is now effectively a pure-play on the positive demographics and economic trends driving the performance of the Berlin residential market.

The outlook for Germany's economy has become increasingly favourable, with positive momentum underpinned by unprecedented European Central Bank stimuli. Thanks to record-low interest rates the Bundesbank calculates that the fiscal surplus in 2017 was the highest since the country's reunification. The Ifo Institute for Economic Research estimates that the German economy will expand by 2.6% in 2018, pointing to a broad upswing that is generating record-high employment and buoyant tax revenues. Business sentiment surveys and industrial data also point towards a vibrant German performance for 2018.

Focusing specifically on Berlin, the favourable supply-demand demographics look set to remain for the foreseeable future. JLL estimate that the Berlin population grew by

"The Portfolio is now effectively a pure play on the positive demographic and economic trends driving the Berlin residential market."

18,500 in H1 of 2017, with a similar trend expected in H2. Whilst population growth continues to fuel strong demand for Berlin residential property, scarcity of available development land, a shortage in new-build permits and high costs of construction continue to restrict supply. All-in new-build construction costs per sqm in Berlin are still estimated to be substantially higher than equivalent value per sqm of existing housing stock and the economic viability of new build projects by state-owned companies is constrained by the requirement to have at least 50% of new builds as social housing, with rents capped at €10 per sqm for at least the next five years.

The Berlin residential rental sector remains well regulated, offering tenants higher levels of protection. Whilst many key elements of potential new rent and planning regulations still need to be clarified following the creation of a new Grand Coalition, the direction of travel is likely to be the same, focusing on a combination of conservation areas which limit the ability to split properties into condominiums, subsidies to stimulate new supply and further rent controls. Phoenix Spree remains fully committed to operating within the regulatory framework and the Company's strategy will continue to evolve to ensure this is maintained.

The reversionary potential within the Portfolio both for rental apartments and condominiums should continue to drive performance positively in the event of any slowdown in the broader market. The Company's balance sheet remains strong, with scope for further refinancing following record appreciation in the value of our properties in 2017. We anticipate that the proceeds will be deployed into further enhancements to the existing Portfolio and, subject to the availability of properties which meet the Fund's acquisition criteria, additional Berlin acquisitions.

Berlin

The Berlin portfolio reported its best year to date.

The Berlin portfolio delivered its strongest performance since the fund's inception, with a like-for-like uplift in value of 41.8% (31 December 2016: 19.4%). The Board continues to believe that Berlin offers excellent potential for further growth in property and rental values.

The Group's Berlin portfolio is valued at €3,220 per sqm on average. Reported average rent per sqm stood at €8.1, a year-on-year increase of 4.7% compared with 2016, reflecting strong underlying like-for-like rental growth, partially offset by the impact of recent purchases, which typically exhibit lower rental values upon acquisition. On a like-for-like basis (excluding the impact of acquisitions and disposals), the increase in rent per sqm was 8.4%. The Berlin EPRA vacancy rate remained low at 2.7% (31 December 2016: 2.6%). New leases were signed at an average rent of €11.3 per sqm during the year, a record high and a premium of 40.1% to the average in-place rent during 2017.

Like-for-like portfolio value growth

41.8%

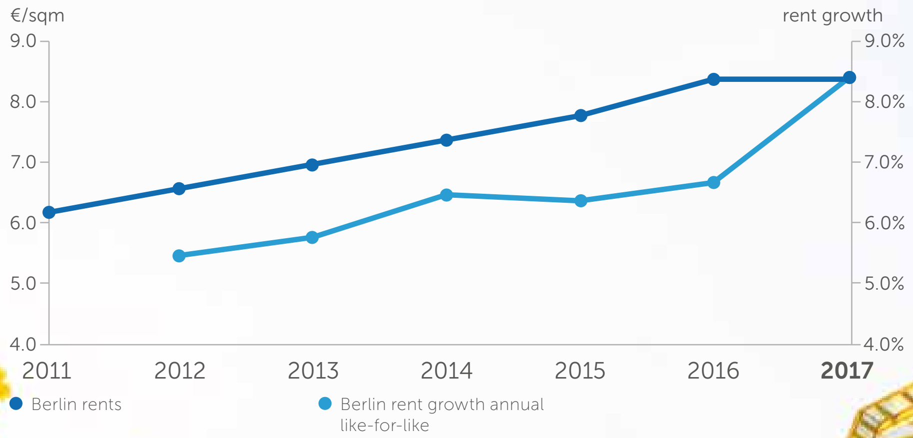
Like-for-like rent per sqm growth

8.4%

EPRA vacancy rate

2.7%

Berlin rent/rent growth




Rent per sqm (€)
14.0
12.0
10.0
8.0
6.0
4.0
2011
2012
2013
2014
2015
2016
2017
JLL Berlin average asking rent/sqm
Berlin average rent per sqm
Berlin average new leases signed by quarter

Repositioning the Portfolio

The Company has transitioned its geographic focus, disposing of non-core assets outside of Berlin.

When Phoenix Spree listed on the main market of the London Stock Exchange in June 2015, 63% of the assets by value were located in Berlin.

Since then, the Company has been transitioning the geographic focus of assets to create a larger, more focused Berlin portfolio offering greater economies of scale. This has involved a process of carefully selected Berlin acquisitions, combined with the disposal of non-Berlin assets. Since 2015, the Company has acquired €194.8 million of Berlin residential property, while disposing or notarising for sale assets outside of Berlin with an aggregate value of €130 million.

The geographic transition was essentially completed at the end of 2017 with the notarisation of the Company's remaining Northern Germany portfolio, the sale of which is expected to complete in the second quarter of 2018. At 31 December 2017, Berlin assets were valued at €528.5 million.

Following completion of all acquisitions and disposals notarised to date, Berlin is expected to represent over 99% of the Company's Portfolio value on a pro-forma basis. The Company will effectively be a pure play on Berlin's positive demographics and attractive growth prospects.

Berlin acquisitions since 2015 stock market listing (€m)

194.8

Berlin acquisitions 2017 (€m)

55.9

Non-core disposals since 2015 stock market listing (€m)

130.0

Disposal of properties 2017 (€m)

125.3

"The Group intends to continue with its strategy of growing the Portfolio through selective Berlin acquisitions."

Acquisitions notarised since 2015 stock market listing

Year	Region	Purchase price €	Units	sqm	Purchase price per sqm	Fully occupied yield
2015	Berlin	35,760,000	227	18,197	1,963	4.3%
2016	Berlin	78,305,000	634	41,406	1,891	4.4%
2017	Berlin	55,890,000	366	25,135	2,224	3.6%
2018 YTD	Berlin	24,845,000	160	10,583	2,348	3.8%
Total		**194,800,000**	**1,387**	**95,321**	**2,044**	**4.0%**

Disposals notarised since 2015 stock market listing

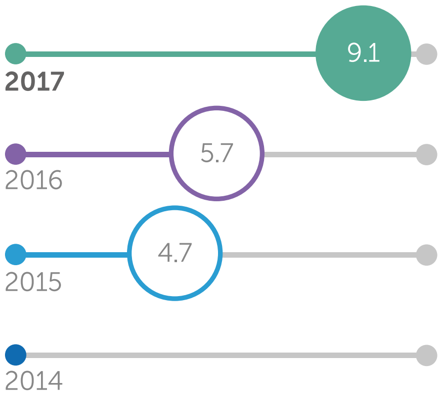
Region	2015 (€)	2016 (€)	2017 (€)	Premium to prior FY book value
Nuremberg & Fürth	870,000			77%
Berlin (including Greater Area)		3,800,000		19%
Baden-Wuerttemberg			6,100,000	7%
Central & North Germany			84,050,000	33%
Nuremberg & Fürth			35,170,000	11%
Total	**870,000**	**3,800,000**	**125,320,000**	**26%**

Condominiums

The Group has continued with its strategy of crystallising latent value through selectively reselling apartment blocks as individual units at significant premiums to book values.

This strategy is designed to take advantage of the differential that exists between the market value of a rental unit within an apartment block and the resale value of a unit as a private apartment. The process involves legally splitting the freeholds in a small number of carefully selected buildings and the sales comprise a combination of vacant and occupied units. As at 31 December 2017, 29% of properties (41% of the Berlin portfolio) had been legally split to allow the Company the flexibility to decide on condominium projects, should the circumstances be advantageous.

Condominium sales (€m)



Across the Group's three condominium projects, a total of 31 units were notarised for sale in 2017, with an aggregate sales value of €9.1 million, a 58.9% increase on 2016 notarisations. This represents an average price per sqm of €4,027, or €4,107 excluding commercial units and parking.

Condominium sales proceeds during 2017 represented a 20.1% premium to 31 December 2017 book value and the average price achieved per sqm for notarised condominiums represents a 73.6% premium to the average valuation per sqm for properties in the Berlin portfolio as at 31 December 2016, confirming the potential for valuation creation that can be achieved through apartment privatisation.

As at 31 December 2017, 65 units, representing aggregate proceeds of €17.0 million, had completed since condominium sales commenced in mid-2015. The Company expects to identify and prepare additional condominium projects for sale, either to tenants or new buyers, during 2018.

"A total of 31 units were notarised for sale in 2017 with an aggregate value of €9.1m."

Corporate Responsibility

Being a responsible Company, balancing the different interests of our key stakeholders and addressing our environmental and social impacts is intrinsically linked to our Company Values and strategy, and ultimately the success and sustainability of our business.

As a Board, we recognise the increasing expectation from stakeholders for companies to demonstrate that they are operating responsibly and striking a meaningful balance between pursuing economic interests whilst managing their social and environmental impacts for the benefit of all stakeholders.

Sustainability lies at the core of our business model. We often acquire properties that are in relatively poor condition and, through significant reinvestment, we modernise the apartments to improve the standard of accommodation for our customers and improve the look of the local neighbourhood.

The Board and our property advisor, PMM, have reviewed how sustainability is managed within our business and aligned these with the views of our stakeholders and business priorities to create our 'Better Futures' Corporate Responsibility ('CR') Plan. This Plan provides a framework to measure existing activities better while adding new initiatives to improve our overall sustainability.

Our CR Plan has four key pillars that are integrated throughout our business operations: Respecting our Environment, Investing in People, Valuing our Customers and Building our Communities.

The day-to-day running of the Company's operations is undertaken by our property advisor, PMM, who represent the majority of the operational headcount of the business, based out of offices in London and Berlin. We focus on PMM's employees within our Investing in People pillar and their offices when reviewing our direct environmental impact.

From a governance perspective, a CR Committee has been established to oversee the implementation of the Better Futures Plan, reporting on the progress to the Board and advising on any CR related material issues. We look forward to communicating our CR plans and progress to stakeholders, in due course.

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 costs 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 €57.8 million has been signed during 2017; with an average debt maturity exceeding eight years; and average interest rate reduced to 2.1%. During the past 18 months, 100% of the Group's debt has been refinanced.	Increasing
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. The next maturity date of any debt held with the Group is February 2025.	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 has no loan to value covenants on debt held. The Group does have debt service coverage covenants on its finance with DG Hyp, which are assessed annually in January. Both DG Hyp loan covenant requirements were met in January 2018, with significant headroom. 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.	At year end the Group had cash reserves of €27.2 million, and has signed debt in the first half of 2018 of €21.6 million. The Group has also notarised for sale over €77 million of non-core properties which are due to complete in the first half of 2018. Additionally, the Performance Fee due to the Property Advisor will be settled by way of issuing new shares in the Company. The Group therefore considers itself to have sufficient capital to support expansion for the foreseeable future. The Group continues to look for methods to raise further capital on an ongoing basis.	Unchanged

Risk	Impact	Mitigation	Movement
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.	
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.	
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 Advisors' reputation may have an adverse effect on the Groups' 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.	
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.	
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.	
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 the UK and Germany.	

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 capital markets.

Robert Hingley
Non-executive Director and Chairman

Robert acts as an independent Non-executive Director and Chairman of the Company. He had over 30 years' experience as a corporate finance adviser, retiring as a partner at Ondra Partners LLP in 2017. 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.

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 LSE listed companies'. He was also Chairman of Guernsey Housing Association LBG, standing down in June 2017; 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.

Charlotte Valeur
Non-executive Director

Charlotte has held a number of executive and non-executive roles in listed and private businesses. She was the Chair of the Board at both Kennedy Wilson Europe Real Estate Plc and a non-executive Director of 3i Infrastructure Plc. She is currently Chair of Blackstone GSO Loan Financing Ltd, as well as Non-Executive Director of JP Morgan Convertibles Income Fund Ltd and NTR Plc. She also serves as a trustee of Westminster University. Charlotte has over 30 years of experience in the Financial Services industry, working for a range of international investment banks in the City of London. She is also the Founder and CEO of GGG Ltd, trading as Global Governance Group.

Jonathan Thompson
Non-executive Director

Jonathan is a qualified accountant and spent 33 years with KPMG. He has extensive real estate and board-level experience, and is currently Chairman of the Investment Property Forum, Non-Executive Chairman of the Argent Group of investment and development businesses, Non-Executive Director and Chairman of the audit and valuation committee of Schroder European Real Estate Investment Trust Plc. Until September 2017 he was Non-Executive Board Member of Strutt & Parker and until December 2017 a Non-Executive Director of South West London & St George's Mental Health Trust.

Monique O'Keefe
Non-executive Director

Monique has over 20 years' financial services and legal experience. She currently holds directorships at a number of companies, including Kairos Wealth Limited, an investment and business consultancy based in Jersey that she co-founded, and Actera Group Limited. Between 2016 and 2017 Monique acted as Board Observer at Kennedy Wilson Real Estate (Europe) Limited. Monique was previously an investment banker at Goldman Sachs and Merrill Lynch and a structured finance lawyer at Clifford Chance and Minter Ellison. Monique is regulated by the Jersey Financial Services Commission to act as a company director and has been appointed as Chairman of the Corporate Responsibility Committee.

Directors' Report

The Directors are pleased to present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2017.

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 €5.0 cents (2016: €4.3 cents) per Ordinary Share to be paid on or around 29 June 2018 to ordinary Shareholders on the register on 8 June 2018.

The Directors declared a dividend of €4.3 cents per share on 26 April 2017, paid on 30 June 2017 to ordinary Shareholders on the register on 9 June 2017 and a further dividend of €2.28 cents per share on 26 September 2017, paid on 20 October 2017 to ordinary Shareholders on the register on 6 October 2017 (2016: €1.9 cents).

Directors

The Directors who served throughout 2017 and to date were as follows:

Name of Director	
R Hingley	Independent Non-executive Director, Chairman
R Prosser (resigned 17 April 2018)	Non-executive Director
M Northover (resigned 24 January 2018)	Non-executive Director
Q Spicer	Independent Non-executive Director
A Weaver (resigned 17 April 2018)	Non-executive Director
C Valeur (appointed 24 January 2018)	Independent Non-executive Director
J Thompson (appointed 24 January 2018)	Independent Non-executive Director
M O'Keefe (appointed 17 April 2018)	Independent 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 20 April 2018, 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	19.4%	17,952,197
Bracebridge Capital, LLC	6.5%	6,038,503

Requirements of the Listing Rules

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

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 26,32 to the accounts b) No controlling shareholder, not applicable
Details of contracts for the provision of services to the listed 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 33 to 39.

Financial instruments
Details of the financial risk management objectives and policies followed by the Directors can be found on pages 26 to 27.

Post balance sheet events
- In January 2018, the Company exchanged contracts for the acquisition of one individual property and a portfolio of four properties in Berlin with an aggregate consideration of €17.7 million. The Company also exchanged contracts to acquire two individual properties, one in February and the other in April, with an aggregate consideration of €7.1 million. These properties are still awaiting completion.
- The Company had exchanged contracts for the acquisition of two properties in Berlin with an aggregate purchase price of €7.5 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Both properties completed in Q1 2018.
- The Company exchanged contracts for the sale of nine condominiums in Berlin with an aggregate consideration of €3.5 million. Three of these condominium sales have subsequently completed at a value of €1.1 million. The remainder are expected to complete in Q2 2018.
- The Company had exchanged contracts for the sale of five condominiums in Berlin with an aggregate sales price of €1.8 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. These condominium sales have subsequently completed.
- In March 2018, the Company refinanced the debt held against a portfolio of buildings in Berlin. The new facility released equity of €7.8 million which was drawn in March 2018.

Directors' Report
continued

Post balance sheet events continued
- The Company has signed for a €12 million loan secured against seven properties notarised for acquisition in Q4 2017 and Q1 2018.
- The Company and the Property Advisor reached an agreement to settle the Performance Fee through the issuance of 8,260,065 new shares in the Company at EPRA NAV. The settlement is expected to take place in May 2018.

Auditor
Each of the Directors at the date of approval of this Annual Report has taken all the steps that he or she ought to have taken as a Director in order to make him or herself 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 2020:
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 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

Monique O'Keefe
Director
26 April 2018

Corporate Governance Statement

This Corporate Governance Statement comprises pages 33 to 39 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') most recently published in April 2016 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. Since Admission, the Company has complied with all of the provisions of the Code except as set out below:
- the role of the Chief Executive and Executives of the Board;
- Executive Directors' remuneration;
- the internal audit function; and
- the composition of the Audit Committee and Risk Committee.

The Board considers that the provisions relating to the Chief Executive and Executive Directors' remuneration are not relevant to the Group, as the running of the Group's business is outsourced to third parties and there are no executive directors. The objective of the Code, to separate the roles of the Chairman who runs the Board, and the running of the Group, is achieved because the Chairman is independent from the third-party providers. The remuneration of the Directors and the third-party providers is disclosed and explained in the notes to the financial statements.

The Group does not currently have an internal audit function, as the Board believes that it can ensure that the Group's risk management, governance and internal control processes are operating effectively without this. This is because the Group's business is conducted by relatively few individuals (through the outsourced service providers) who report to the Board, and its operations are not complex at present. However, if the Group increases in size, the appointment of an appropriately qualified and resourced internal audit department will be considered. 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, such internal audit department would report directly to the Audit and Risk Committee.

The members of the Audit and Risk Committees 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 structures which has been found to be invaluable to the Committee in identifying risks and assessing the mitigating controls which have been established. Neither Matthew Northover nor Richard Prosser, up to the dates of their resignations, were considered to be independent members of the Board as a consequence of their relationship with the Property Advisor or the Administrator, respectively. However, subsequent to the year end, Jonathan Thompson, an independent Non-executive Director, has been appointed to chair the Audit Committee, and Charlotte Valeur the Risk Committee, meaning that the Company will comply with the Code principles and recommendation on the composition of the Committee in future periods.

Following the changes to its composition, the Board is now wholly independent with no representation of external service providers on the Board.

Leadership

Composition, independence and role of the Board

During the year, the Board comprised 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, who is considered to be independent for the purposes of Listing Rule 15 as he has neither current nor historical employment with the Property Advisor nor any current directorships in any other investment funds managed by the Property Advisor. Listing Rule 15 requires there to be a majority of independent Directors on the Board as a whole which were previously not in place. This has been satisfied with appointments of two new independent Directors in January 2018 and a further appointment in April 2018.

Quentin Spicer is the senior independent Non-executive Director and has served on the Board since the incorporation of the Company. Quentin has served on the Board in excess of nine years, however, the Board does not consider that length of service affects his ability to act independently. The Board have evaluated his independence and consider him to remain independent for the same reasons listed above for Robert Hingley.

Corporate Governance Statement
continued

Subsequent to the year end, on 24 January 2018, the Company announced the appointments of two further independent Non-executive Directors, Charlotte Valeur and Jonathan Thompson. At the same time, Matthew Northover, a Non-independent Director, stepped down from the Board to focus on the business of the Property Advisor. Furthermore, on 17 April 2018, Monique O'Keefe was appointed as an independent Non-executive Director and Chair of the Corporate Responsibility Committee, and both Richard Prosser and Andrew Weaver stepped down from the Board.

Effectiveness

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 reports provided by the outsourced providers 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 Directors who held office at the two previous AGMs and did not retire shall retire from office and shall be available for re-election.

After the most recent appointments, the Board is satisfied that all 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; alongside those Directors who are deemed to be independent, in the Board's opinion, continuing to be so. The Board maintains its right to appoint further members if deemed necessary.

Committees of the Board

The Board has established new committees, the terms of reference for which will be shared in due course. The terms of reference for existing committees are available on the Company website at www.phoenixspree.com.

Audit and Risk Committee

The Audit and Risk Committee was responsible for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit and Risk Committee was 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 and objectivity and reviewing with the auditors the results and effectiveness of the audit.

In accordance with the Code, during the calendar year 2017, the Audit and Risk Committee was chaired by Richard Prosser, with Robert Hingley, Quentin Spicer (appointed April 2017) and Matthew Northover as members. The Board considered that Richard's experience made him suitably qualified to Chair the Audit and Risk Committee despite not being independent. The Audit and Risk Committee met no less than twice a year (having met four times during 2017). On 24 January 2018, Richard Prosser, Robert Hingley and Matthew Northover stepped down and Jonathan Thompson and Charlotte Valuer joined the Committee with Jonathan Thompson appointed as Chair. On 17 April 2018, Monique O'Keefe joined the Committee and the Audit and Risk Committee split to become a separate Audit Committee and Risk Committee.

Audit Committee

The Audit Committee is chaired by Jonathan Thompson with Quentin Spicer, Charlotte Valeur and Monique O'Keefe as members. The Audit Committee meets no less than three times a year and, if required, meetings can also be attended by the Property Advisor and the external auditor.

The Audit Committee is responsible for ensuring that the accounting policies of the Company are appropriate and being followed, disclosures provided are clear and reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit 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 and objectivity and reviewing with the auditors the results and effectiveness of the audit. Where requested by the Board, the Committee shall review and provide advice on whether the content of the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Risk Committee
The Risk Committee is chaired by Charlotte Valeur with Quentin Spicer, Jonathan Thompson and Monique O'Keefe as members. The Risk Committee meets no less than three times a year and, if required, meetings can also be attended by the Property Advisor.

The Risk Committee is responsible for advising the Board on the Company's overall risk appetite, tolerance and strategy. The Risk Committee will also oversee and advise the Board on the current risk assessment processes ensuring that both qualitative and quantitative metrics are used. Where requested by the Board, the Committee shall review and provide advice on whether the content of the Risk Management Report, as contained in the Annual Report, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The new committees which have been formed will have terms of reference to follow in due course.

Property Valuation Committee
The Company has established a Property Valuation Committee, which is chaired by Quentin Spicer, with Richard Prosser as a member, during the calendar year 2017. 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. During 2018, the Property Valuation Committee's composition has changed, following the appointment of the Board's new independent Directors. It continues to be chaired by Quentin Spicer with Charlotte Valeur and Jonathan Thompson joining as members on 24 January 2018. Richard Prosser ceased to be a member of the Property Valuation Committee following his resignation from the Board on 17 April 2018 and Monique O'Keefe and Robert Hingley were both appointed.

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 external valuer;
- register and discuss with the Property Advisor any asset specific issues highlighted by the valuer;
- 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 valuer. The Committee shall oversee the selection process for a new valuer 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 the Committee was satisfied with the Independent Valuation Report and values associated with all properties of the Group.

Corporate Social Responsibility Committee
On 17 April 2018, the Company formed a Corporate Social Responsibility Committee. The Corporate Social Responsibility Committee is chaired by Monique O'Keefe with Jonathan Thompson, Charlotte Valeur, Robert Hingley and Quentin Spicer as members. The Corporate Social Responsibility Committee meets no less than three times a year.

The Corporate Social Responsibility Committee is responsible for approving a strategy for discharging the Company's corporate and social responsibilities, overseeing the creation of appropriate policies and supporting measures along with ensuring that the policies are regularly reviewed and updated in line with national and international regulations. Where requested by the Board, the Committee shall review and provide advice on whether the content of the CR report,

Corporate Governance Statement
continued

as contained in the Company's Annual Report, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The new committees which have been formed will have terms of reference to follow in due course.

Management Engagement Committee
In accordance with the Code, the Management Engagement Committee was established to review the performance of the Property Advisor on an annual basis. During the calendar year 2017, it was chaired by Robert Hingley, with Richard Prosser and Quentin Spicer as members. On 24 January 2018, the Management Engagement Committee's composition has changed with Robert Hingley remaining as Chair but with Charlotte Valeur and Jonathan Thompson joining as members. Richard Prosser ceased to be a member of the Management Engagement Committee following his resignation from the Board on 17 April 2018 and Monique O'Keefe was appointed.

The Management Engagement Committee met once during the year and reported to the Board on its duties, which are to:
- monitor and evaluate the Property Advisor's 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. The Performance Period as set out in the Property Advisory agreement ended on 31 December 2017. According to the agreement, the Performance Fee is settled and a new three-year Performance Period commences benchmarked from the EPRA Net Asset Value of the Company as at 31 December 2017.

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 2017 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	4	4	–	–	1	1	2	2
R Prosser	4	4	4	4	2	2	1	1	–	–
M Northover	4	3	4	4	–	–	–	–	–	–
Q Spicer	4	4	4	3*	2	2	1	1	2	2
A Weaver	4	3	–	–	–	–	–	–	2	1

* Quentin Spicer was appointed to the Audit and Risk Committee on 25 April 2017.

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.

Upon appointment new Directors are briefed about their responsibilities and duties, together with relevant background information on the Company and assistance and information from representatives of the Investment Advisers and the Administrators.

New Directors are also provided with an opportunity to observe the Board before their appointment and meet representatives of the Property Advisors and Administrators to the Company.

All the Directors comply with mandatory continued professional development requirement and are encouraged to attend industry and other seminars covering issues and developments relevant to investment companies, and Board meetings regularly include agenda items on recent developments in governance and industry issues.

The Chair regularly reviews and agrees with each Director their training and development needs.

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.

Company Secretary
The Company Secretary is responsible for ensuring that Board procedures are followed. Under the guidance of the Chairman, the Secretary ensures that appropriate and timely 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 (particularly following the appointment of its new Non-executive Directors, subsequent to the year end) for their views to 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 AGM.

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

In applying the Code, the Board has considered a number or factors in determining the independence of each Non-executive Director. Following such 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 2017 or in the future, except as disclosed in relation to Matthew Northover or Richard Prosser, and in the case of Andrew Weaver, his connection with the Company's Jersey legal advisors.

Corporate Governance Statement
continued

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 takes 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 Chair and the Audit Committee.

The Board areas evaluated include:
- Board composition and quality;
- overall strategy, performance and risk;
- Shareholders value;
- governance;
- Board meetings;
- support and relations with suppliers;
- personal evaluation; and
- Chair's 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 Chair 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 Chair is satisfied with the outcome of the evaluation.

Following the changes to the Board, and if any potential future changes are made, due consideration to the evaluation process will be made.

Accountability

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 Company as described under the paragraph headed 'Strategy & Business Model' in the Strategic Report, 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 Financial Statements. 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 Board also maintain a formal schedule of matters specifically reserved solely for their decision.

Remuneration

In accordance with the Code, the Board has established a Nomination and Remuneration Committee which was chaired during the calendar year by Quentin Spicer (the Senior Independent Director), with Robert Hingley and Andrew Weaver as members. With effect from 24 January 2018, Charlotte Valeur and Jonathan Thompson joined the Nomination and Remuneration Committee as members. Andrew Weaver ceased to be a member of the Nomination and Remuneration Committee following his resignation from the Board on 17 April 2018 and was replaced by Monique O'Keefe.

The Nomination and Remuneration Committee met twice during the year.

As at the year-end there were five Directors, all of whom were male. The Directors have agreed that appointments to the Board should be made on the basis of the Group's specific needs based on merit, without reference to age, gender or religious belief. Charlotte Valeur and Jonathan Thompson were appointed to the Board on 24 January 2018 (with Matthew Northover stepping down) and Monique O'Keefe was appointed on 17 April 2018 (with Richard Prosser and Andrew Weaver stepping down).

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 Chair discusses governance and strategy with major Shareholders and Non-executive Directors are also provided the opportunity to attend meetings with major Shareholders.

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.

Audit 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 Committee

The Audit 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 from the Company's website www.phoenixspree.com.

Financial reporting

The Audit Committee is responsible for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit Committee is specifically charged under its terms of reference with advising 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 Committee

The Audit Committee is chaired by Jonathan Thompson with Quentin Spicer, Charlotte Valeur and Monique O'Keefe as members. The Audit Committee meets no less than three times a year and, if required, meetings can also be attended by the Property Advisor and the external auditor. The qualifications and experience of the members of the Audit and Risk Committee during the financial year are set out in their biographical details on pages 28 and 29.

Meetings

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

Settlement of Property Advisor Performance Fee	Mitigation
A significant focus for the Audit Committee is the settlement of the Performance Fee to the Property Advisor, which is due for settlement after the completion of its three year cycle at the end of 2017. It is material by nature of being due to a related party, and from its size, and its effect on the Financial Statements.	The Group has appointed RSM as external auditors who will validate that the Performance Fee calculation agrees with the mechanisms in the Property Advisor Agreement. It was agreed by the Property Advisor and the Board, in April 2018, that the Performance Fee be settled by the issuance of new shares in the Company. This ensures the liquidity of fund, while remaining in agreement with the terms of the Property Advisor Agreement.

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 partner

As a new audit firm and audit partner was appointed 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 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 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.

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 Committee Report
continued

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 Groups' (and its service providers') 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 26 to 27. The Directors do not consider that there are any significant problems facing the business in the coming year.

Internal audit
The Group does not currently have an internal audit function, as the Board believes that it can ensure that the Group's risk management, governance and internal control processes are operating effectively without this. This is because the Group's business is conducted by relatively few individuals (through the outsourced service providers) who report to the Board, and its operations are not complex at present. However, if the Group increases in size, the appointment of an appropriately qualified and resourced internal audit department will be considered.

Director's Remuneration Report

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

During 2017, the Nomination and Remuneration Committee comprised three Non-executive Directors and is chaired by Quentin Spicer, with Robert Hingley and Andrew Weaver as members. During 2018, Charlotte Valeur, Jonathan Thompson and Monique O'Keefe joined the Nomination and Remuneration Committee as members. Andrew Weaver ceased to be a member of the Nomination and Remuneration Committee following his resignation from the Board on 17 April 2018.

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 2018.

Duties

The Committee was 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 from the Company's website www.phoenixspree.com.

For the years ended 31 December 2017 and 31 December 2016 Directors' fees were as follows:

	2017 **£**	2016 £
R Hingley	**45,000**	42,708
R Prosser	**25,000**	25,000
M Northover	**Nil**	Nil
Q Spicer	**35,000**	32,500
A Weaver	**25,000**	25,000

Throughout 2017, Richard Prosser was a Director of Estera Fund Administrators (Jersey) Limited, the Group's Administrator. The remuneration of Estera is disclosed in note 32.

Throughout 2017, Andrew Weaver was a Partner in Appleby's, the Group's Jersey Legal Advisor. The remuneration of Appleby's is disclosed in note 32.

Director's Remuneration Report
continued

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

Jersey company law requires the Directors to prepare financial statements for each financial year, in accordance with generally accepted accounting principles. 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 consolidated 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 consolidated financial statements, 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

Monique O'Keefe
Director
26 April 2018

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

Opinion
We have audited the Group Financial Statements of Phoenix Spree Deutschland Limited for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the Financial Statements, including a summary of significant accounting policies. 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 Group Financial Statements give a true and fair view of the state of the Group's affairs as at 31 December 2017 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 Group Financial Statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991 and Article 4 of the IAS Regulation.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the annual report set out on pages 26 to 27 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on pages 26 to 27 in the annual report that they 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 Directors' statement set out on page 32 in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Group ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 32 in the annual report as to how they have assessed the prospects of the Group, 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 Group 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.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. 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 these matters.

Independent Auditor's Report

to the Members of Phoenix Spree Deutschland Limited continued

Valuation of investment properties held by the Group

Risk of material misstatement

This is detailed in the Audit Committee report on pages 40 to 42; the significant accounting judgements and estimates on page 62; significant accounting policies on pages 57 and 58 and notes 16 and 17 to the Financial Statements on pages 68 to 72.

The Group owns or controls through a portfolio of Special Purpose Vehicles (SPV's) a portfolio of investment properties which include residential and commercial. The total value of the portfolio at 31 December 2017 was €609.3 million (2016: €423.8 million), including properties designated as held for sale. These properties are all in Germany and predominately in Berlin.

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 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 audited 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 assessed the external valuer's qualifications and expertise and considered their terms of engagement. We also considered their objectivity and any other existing relationships with the Group and concluded that there was no evidence that their objectivity had been compromised.

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 reviewed the top 20 properties by value, and other properties where there were unusual movements in value compared to the average, or compared to the previous year, and discussed and challenged the valuation of the top 20 properties, and significant movements with the Property Advisor and the valuer, and obtained evidence to support the explanations received.

We tested ownership of the properties by reference to land registry records.

Performance fee payable to the Property Advisor

This is detailed in the Audit Committee report on pages 40 to 42; the significant accounting policies on page 57 and note 26 to the Financial Statements on pages 75 and 76.

Risk of material mis-statement

The performance fee payable to the Property Advisor, PMM Partners, warranted additional focus because the amount due under the agreement dated 9 February 2015 crystallised as at 31 December 2017. At €34 million the fee is material to the Financial Statements and was subject to contract terms which had to be amended during the course of the audit and involved judgement as to the interpretation of the calculations and the accounting treatment of the obligation. Details of the Property Advisors fee are set out in note 26 to the Financial Statements.

Audit approach adopted

We examined the original agreement, and the amended terms, and audited the calculation of the amount due. We have further reviewed the impact of the settlement of the fee on the financial position of the Group and the accounting treatment adopted, being to present the obligation as a component of equity as at the balance sheet date the Directors consider that it was probable that the liability would be settled in shares.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the Financial Statements as a whole. During planning 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 €9 million which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of €225,000 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

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

Other information
The other information comprises the information included in the annual report set out on pages 2 to 44 other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:
- Fair, balanced and understandable set out on page 44 – the statement by the Directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 40 to 42 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on pages 33 to 39 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us 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 failed to receive all the information and explanations which, to the best of our knowledge and belief, was necessary for our audit.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 44, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

to the Members of Phoenix Spree Deutschland Limited continued

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of our audit, we will consider the susceptibility of the Group and Parent Company to fraud and other irregularities, taking account of the business and control environment established and maintained by the Directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the Financial Statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the Financial Statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the Financial Statements is included in appendix 1 of this auditor's report. This description, which is located on page 49 forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 16 December 2014 to audit the Financial Statements for the year ending 31 December 2014 and subsequent financial periods.

The period of total uninterrupted engagement is 4 years, covering the years ending 31 December 2014 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

This report is made solely to the Company's members, as a body, in accordance with Article 113A 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 2018

Appendix 1: Auditor's responsibilities for the audit of the Financial Statements

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

Continuing operations	Notes	Year ended 31 December 2017 €'000	Year ended 31 December 2016 (restated – note 2.2) €'000
Revenue	6	**18,080**	15,934
Property expenses	7	**(7,000)**	(7,001)
Gross profit		**11,080**	8,933
Administrative expenses	8	**(2,967)**	(2,977)
Gain on disposal of investment property (including investment property held for sale)	10	**5,319**	799
Investment property fair value gain	11	**157,374**	55,226
Performance fee due to property advisor	26	**(26,339)**	(6,350)
Operating profit		**144,467**	55,631
Net finance charge	12	**(5,995)**	(6,756)
Profit before taxation		**138,472**	48,875
Income tax expense	13	**(26,150)**	(10,913)
Profit after taxation		**112,322**	37,962
Other comprehensive income		**–**	–
Total comprehensive income for the year		**112,322**	37,962
Total comprehensive income attributable to:			
Owners of the parent		**111,538**	36,998
Non-controlling interests		**784**	964
		112,322	37,962
Earnings per share attributable to the owners of the parent:			
From continuing operations			
Basic (€)	29	**1.21**	0.42
Diluted (€)	29	**1.11**	0.40

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	As at 31 December 2017 €'000	As at 31 December 2016 €'000
ASSETS			
Non-current assets			
Investment properties	16	**502,360**	395,829
Property, plant and equipment	18	**92**	40
Deferred tax asset	13	**527**	770
Loans and receivables	19	**2,323**	2,253
		505,302	398,892
Current Assets			
Investment properties – held for sale	17	**106,897**	27,970
Trade and other receivables	20	**10,001**	7,503
Cash and cash equivalents	21	**27,182**	18,450
		144,080	53,923
Total assets		**649,382**	452,815
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	22	**2,646**	9,169
Trade and other payables	23	**2,119**	1,331
Derivative financial instruments	24	**–**	392
Current tax	13	**2,914**	24
		7,679	10,916
Non-current liabilities			
Borrowings	22	**219,648**	176,423
Derivative financial instruments	24	**3,333**	4,477
Other financial liabilities	25	**5,663**	3,590
Deferred tax liability	13	**45,117**	22,150
		273,761	206,640
Total liabilities		**281,440**	217,556
Equity			
Stated capital	27	**162,630**	162,630
Share-based payment reserve	26	**33,953**	7,614
Retained earnings		**169,634**	64,074
Equity attributable to owners of the parent		**366,217**	234,318
Non-controlling interest	28	**1,725**	941
Total equity		**367,942**	235,259
Total equity and liabilities		**649,382**	452,815

The financial statements on pages 50 to 81 were approved by the Board of Directors and were signed on its behalf by:

Charlotte Valeur
Director
26 April 2018

Monique O'Keefe
Director
26 April 2018

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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 2016	**115,150**	**1,264**	**32,125**	**148,539**	**2,626**	**151,165**
Comprehensive income:						
Profit for the year	–	–	36,998	**36,998**	964	**37,962**
Other comprehensive income	–	–	–	**–**	–	**–**
Total comprehensive income for the year	–	–	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**
Comprehensive income:						
Profit for the year	–	–	111,538	**111,538**	784	**112,322**
Other comprehensive income	–	–	–	**–**	–	**–**
Total comprehensive income for the year	–	–	111,538	**111,538**	784	**112,322**
Transactions with owners – recognised directly in equity:						
Dividends paid	–	–	(5,978)	**(5,978)**	–	**(5,978)**
Performance fee	–	26,339	–	**26,339**	–	**26,339**
Balance at 31 December 2017	**162,630**	**33,953**	**169,634**	**366,217**	**1,725**	**367,942**

The share-based payment reserve has been established in relation to the issue of shares for the payment of the performance fee of the property advisor. Settlement to be made in May 2018.

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 2017

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Profit before taxation	**138,472**	48,875
Adjustments for:		
Net finance charge	**5,995**	6,756
Gain on disposal of investment property	**(5,319)**	(799)
Investment property revaluation gain	**(157,374)**	(55,226)
Depreciation	**23**	12
Performance fee charge	**26,339**	6,350
Operating cash flows before movements in working capital	**8,136**	5,968
Increase in receivables	**(3,048)**	(3,808)
Increase/(Decrease) in payables	**788**	(1,353)
Cash generated from operating activities	**5,876**	807
Income tax (paid)	**(50)**	–
Net cash generated from operating activities	**5,826**	807
Cash flow from investing activities		
Proceeds on disposal of investment property	**60,436**	4,250
Interest received	**103**	168
Capital expenditure on investment property	**(6,715)**	(4,189)
Property additions	**(76,486)**	(72,808)
Additions to property, plant and equipment	**(75)**	(22)
Loans issued to minority shareholders	**–**	(806)
Net cash used in investing activities	**(22,737)**	(73,407)
Cash flow from financing activities		
Interest paid on bank loans	**(5,080)**	(3,173)
Repayment of bank loans	**(117,712)**	(6,040)
Drawdown on bank loan facilities	**154,414**	45,394
Share issue	**–**	47,480
Dividends paid	**(5,978)**	(5,049)
Net cash generated from financing activities	**25,644**	78,612
Net increase in cash and cash equivalents	**8,733**	6,012
Cash and cash equivalents at beginning of year	**18,450**	12,757
Exchange gains/(losses) on cash and cash equivalents	**(1)**	(319)
Cash and cash equivalents at end of year	**27,182**	18,450

Reconciliation of Net Cash Flow to Movement in Debt
For the year ended 31 December 2017

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Cash flow from increase in debt financing	**36,702**	39,354
Change in net debt resulting from cash flows	**36,702**	39,354
Movement in debt in the year	**36,702**	39,354
Debt at the start of the year	**185,592**	146,238
Debt at the end of the year	**222,294**	185,592

Notes to the Financial Statements
For the year ended 31 December 2017

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, Guernsey 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.

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 International and Financial Reporting Interpretation Committee ('IFRIC') interpretations (collectively 'IFRS') 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 2017.

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 or 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 Change of accounting policy
The performance fee payable to the property manager had previously been disclosed in property expenses. Due to this fee being linked to the fair value increase, it is now presented separately in the consolidated statement of comprehensive income with a restatement of the prior year figures. This has resulted in a reduction of Property Expenses in 2016 by €6.35 million. The change of policy has no effect on reported profit.

2.3 Going concern
The Directors have prepared projections for the period to 31 December 2020. 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.

2.4 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.

Notes to the Financial Statements continued

For the year ended 31 December 2017

2. Summary of significant accounting policies continued

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.

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.

2.5 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 the 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.

2.6 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.

2. Summary of significant accounting policies continued

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.

2.7 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.

2.8 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 consolidated 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.

2.9 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.

2.10 Operating profit

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

2.11 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.

2.12 Exceptional items

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

2.13 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 within property expenses in the period in which they are incurred. These fees are detailed in note 7 and classified under 'Property advisors' fees and expenses'. The settlement of the Property Advisor performance fees is detailed in note 26. The Performance Fee is presented on the face of the Consolidated Statement of Comprehensive Income as a separate line item following restatement from 2016 as detailed in note 2.2. Due to the nature of the settlement of the Performance Fee, any movement in the amount payable at the year end is reflected within the share-based payment reserve on the Consolidated Statement of Financial Position.

2.14 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.

Notes to the Financial Statements continued

For the year ended 31 December 2017

2. Summary of significant accounting policies continued

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 16 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.

2.15 Current assets held for sale – Investment property

Non-current assets (and disposal groups) classified as held for sale are measured at the most recent valuation.

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.

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. Summary of significant accounting policies continued

2.18 Tenants deposits

Tenants 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 31.

(b) Loans and receivables

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

(i) Trade and other receivables

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

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

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

(ii) Cash and cash equivalents

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

(c) Equity instruments

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

Notes to the Financial Statements continued

For the year ended 31 December 2017

2. **Summary of significant accounting policies** continued

(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 that case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current tax

The current tax charge 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 2017 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 2017, 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 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2018
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
IFRIC 22 – Foreign currency transactions and advance consideration	Accounting periods beginning on or after 1 January 2018

The Directors have considered that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group. The Group has no income that is covered under IFRS 15 because its income deriving from rentals is covered under IAS 17. Furthermore, the impact of IFRS 16 removes the differentiation between financial and operational leases with regard to the Lessee party. As the Group is the lessor in their contractual arrangements IFRS 16's approach is substantially unchanged from its predecessor, IAS 17.

2. Summary of significant accounting policies continued

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
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Accounting periods beginning on or after 1 January 2018
Transfer of Investment Property (Amendments to IAS 40)	Accounting periods beginning on or after 1 January 2018
IFRIC 23 – Uncertainty over Income Tax Treatments	Accounting periods beginning on or after 1 January 2019

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 Risk Committee (previously the Audit and Risk Committee up to 17 April 2018) 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 24 to the consolidated financial statements.

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

(c) General property market risk

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

3.3 Credit risk

The risk of financial loss due to 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.

Notes to the Financial Statements continued
For the year ended 31 December 2017

3. **Financial risk management** continued
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 22 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 2017 €'000	As at 31 December 2016 €'000
Borrowings	**(222,294)**	(185,592)
Cash and cash equivalents	**27,182**	18,450
Net debt	**(195,112)**	(167,142)
Equity	**367,942**	235,259
Net debt to equity ratio	**53%**	71%

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 within the financial year;

i) Estimate of fair value of investment properties
The best evidence of fair value is current prices in an active market of investment properties with similar leases 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.

The Directors remain ultimately responsible for ensuring that the valuers are adequately qualified, competent and base their results on reasonable and realistic assumptions. The Directors have appointed JLL as the real estate valuation experts who determine the fair value of investment properties using recognised valuation techniques and the principles of IFRS 13. Further information on the valuation process can be found in note 16.

4. Critical accounting estimates and judgements continued

ii) Judgement in relation to the recognition of assets held for sale

Management has assumed the likelihood of investment properties – held for sale, being sold within 12 months, in accordance with the requirement of IFRS 5. Management considers that based on historical and current experience that the properties can be reasonably expected to sell within 12 months.

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; and
- commercial.

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

31 December 2016

	Residential €'000	Commercial €'000	Unallocated €'000	Total €'000
Investment property	332,496	63,333	–	395,829
Loans and receivables	–	–	2,253	2,253
Investment properties – 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 (restated – see note 2.2)	(11,215)	(2,136)	–	(7,001)
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
Performance fee	–	–	(6,350)	(6,350)
Operating profit	49,359	9,249	(9,327)	55,631
Net finance charge				(6,756)
Income tax expense				(10,913)
Profit for the year				37,962

Notes to the Financial Statements continued
For the year ended 31 December 2017

5. **Segmental information** continued
31 December 2017

	Residential €'000	Commercial €'000	Unallocated €'000	Total €'000
Investment properties	444,488	57,872	–	502,360
Loans and receivables	–	–	2,323	2,323
Investment properties – held for sale	94,582	12,315	–	106,897
Other assets	33,366	4,344	92	37,802
Liabilities	(265,020)	(7,843)	(8,577)	(281,440)
Net assets	**307,416**	**66,688**	**(6,162)**	**367,942**

	Residential €'000	Commercial €'000	Unallocated €'000	Total €'000
Revenue	15,997	2,083	–	18,080
Property expenses	(6,194)	(806)	–	(7,000)
Administrative expenses	–	–	(2,967)	(2,967)
Gain on disposal of investment property	5,319	–	–	5,319
Investment property fair value gain	139,245	18,129	–	157,374
Performance fee	–	–	(26,339)	(26,339)
Operating profit	**154,367**	**19,406**	**(29,306)**	**144,467**
Net finance charge				(5,995)
Income tax expense				(26,150)
Profit for the year				**112,322**

6. **Revenue**

	31 December 2017 €'000	31 December 2016 €'000
Rental income	**18,080**	15,934

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

	31 December 2017 €'000	31 December 2016 €'000
Not later than one year	**904**	309
Later than one year but not later than five years	**3,364**	3,171
Later than five years	**1,398**	2,605
	5,666	6,085

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 2017 €'000	31 December 2016 €'000
Property management expenses	**1,079**	1,100
Repairs and maintenance	**1,433**	1,102
Impairment charge – trade receivables	**41**	88
Other property expenses	**238**	1,324
Property advisors' fees and expenses	**4,209**	3,387
	7,000	7,001

8. Administrative expenses

	31 December 2017 €'000	31 December 2016 €'000
Secretarial & administration fees	**901**	658
Legal & professional fees	**1,045**	1,494
Directors' fees	**148**	150
Audit and accountancy fees	**894**	586
Bank charges	**56**	32
Loss on foreign exchange	**20**	319
Depreciation	**23**	12
Other income	**(120)**	(274)
	2,967	2,977

Key management compensation – the functions of management are undertaken by external providers of professional services, as set out in note 32.

Further details of the Directors' fees are set out in the Directors' Remuneration Report on page 43.

9. Auditor's remuneration

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

	31 December 2017 €'000	31 December 2016 €'000
Fees payable to the Group's auditor and its associates for the audit of the consolidated financial statements:	**176**	141
Fees payable to the Group's auditor and its associates for other services:		
– Corporate finance	**26**	150
– Audit-related assurance services	**24**	25
	226	316

10. Gains on disposal of investment property (including investment property held for sale)

	31 December 2017 €'000	31 December 2016 €'000
Net proceeds	**61,652**	4,250
Book value of disposals	**(55,117)**	(3,405)
Disposal costs	**(1,216)**	(46)
	5,319	799

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

Notes to the Financial Statements continued

For the year ended 31 December 2017

11. Investment property fair value gain

	31 December 2017 €'000	31 December 2016 €'000
Investment property fair value gain	**157,374**	55,226

Further information on investment properties is shown in note 16.

12. Net finance charge

	31 December 2017 €'000	31 December 2016 €'000
Interest income	**(116)**	(113)
Interest from partners' loans	**(57)**	(55)
(Gain)/Loss on interest rate swap	**(1,535)**	3,000
Interest payable on bank borrowings	**5,080**	2,753
Finance arrangement fee amortisation	**550**	217
Finance charge on redemption liability	**2,073**	954
	5,995	6,756

13. Income tax expense

The tax charge for the period is as follows:

	31 December 2017 €'000	31 December 2016 €'000
Current tax charge	**2,940**	24
Adjustment in respect of prior year	**–**	(1)
Deferred tax charge – origination and reversal of temporary differences	**23,210**	10,890
	26,150	10,913

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 2017 €'000	31 December 2016 €'000
Profit before tax on continuing operations	**138,472**	48,875
Tax at German income tax rate of 15.8% (2016: 15.8%)	**21,879**	7,722
Income not taxable	**(840)**	(126)
Recognition of timing differences on acquisition	**–**	1,686
Tax effect of expenses that are not deductible in determining taxable profit	**5,111**	1,631
Total tax charge for the year	**26,150**	10,913

Reconciliation of current tax liabilities

	31 December 2017 €'000	31 December 2016 €'000
Balance at beginning of year	**24**	–
Tax paid during the year	**(50)**	–
Current tax charge	**2,940**	24
Balance at end of year	**2,914**	24

13. Income tax expense continued

Reconciliation of deferred tax

	Capital gains on properties €'000 (Liabilities)	Interest rate swaps €'000 Asset	Total €'000 (Net liabilities)
Balance at 1 January 2016	(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)
Charged to the statement of comprehensive income	(22,967)	(243)	(23,210)
Deferred tax (liability)/asset at 31 December 2017	(45,117)	527	(44,590)

Jersey income tax

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

Guernsey income tax

The Group is liable to Guernsey income tax at 0%.

German tax

As a result of the Group's operations in Germany, the Group is subject to German Corporate Income Tax ('CIT') – the effective rate for Phoenix Spree Deutschland Limited for 2017 was 15.8% (2016: 15.8%).

Factors affecting future tax charges

The Group has accumulated tax losses of approximately €18.1 million (2016: €23.6 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 €0.3 million (2016: €2.2 million) as there is insufficient certainty the losses can be utilised by Group entities.

14. Dividends

	31 December 2017 €'000	31 December 2016 €'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2017 of €1.9 cents (1.6p) (2016: €1.9 cents (1.6p)) per share	**2,079**	1,635
Proposed final dividend for the year ended 31 December 2017 of €5.0 cents (4.4p) (2016: €4.3 cents (3.7p)) per share	**5,038**	3,977

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 consolidated financial statements. The proposed dividend is payable to all Shareholders on the Register of Members on 8 June 2018. The total estimated dividend to be paid is 4.4p per share. The payment of this dividend will not have any tax consequences for the Group.

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For the year ended 31 December 2017

15. 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, Guernsey and Germany.

Further details are given below:

	Country of incorporation	% holding	Nature of business
Phoenix Spree Deutschland I Limited	Jersey	100	Investment property
Phoenix Spree Deutschland II Limited	Jersey	100	Investment property
Phoenix Spree Deutschland III Limited	Jersey	100	Investment property
Phoenix Spree Deutschland IV Limited	Jersey	100	Investment property
Phoenix Spree Deutschland V Limited	Jersey	100	Investment property
Phoenix Spree Deutschland VII Limited	Jersey	100	Investment property
Phoenix Spree Deutschland IX Limited	Jersey	100	Investment property
Phoenix Spree Deutschland X Limited	Jersey	100	Finance vehicle
Phoenix Spree Deutschland XI Limited	Jersey	100	Investment property
Phoenix Spree Deutschland XII 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 (in liquidation)	Germany	100	Management of PSPF
PSPF Acquisition Vehicle GmbH (in liquidation)	Germany	99.64	Acquisition vehicle
PSPF Property GmbH & Co. KG (in liquidation)	Germany	94	Investment property
Phoenix Spree Property Fund Ltd & Co. KG	Germany	94.8	Investment property
PSPF General Partner (Guernsey) Limited	Guernsey	100	Management of PSPF

The investments in PSPF General Manager GmbH and 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.

16. Investment properties

	2017 €'000	2016 €'000
Fair value		
At 1 January	**423,799**	283,554
Capital expenditure	**6,715**	4,189
Property additions	**76,486**	84,235
Disposals	**(55,117)**	(3,405)
Fair value gain	**157,374**	55,226
Investment properties at fair value – as set out in the report by JLL	**609,257**	423,799
Assets considered as 'Held for Sale' (note 17)	**(106,897)**	(27,970)
At 31 December	**502,360**	395,829

The property portfolio was valued at 31 December 2017 by the Group's independent valuers, Jones Lang LaSalle GmbH ('JLL'), in accordance with the methodology described below. The valuations were performed in accordance with the current Appraisal and Valuation Standards, 8th edition (the 'Red Book') published by the Royal Institution of Chartered Surveyors ('RICS').

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 consolidated financial statements.

16. Investment properties continued

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 31) as the inputs to the discounted cash flow methodology which have a significant effect on the recorded fair value are not observable.

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

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

Discounted cash flow methodology ('DCF')

The fair value of investment properties is determined using discounted cash flows.

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.

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For the year ended 31 December 2017

16. Investment properties continued

The principal inputs to the valuation are as follows:

	Year ended 31 December 2017 Range	Year ended 31 December 2016 Range
Residential Properties		
Market Rent		
Rental Value (€ per sq. p.m.)	**5-13**	5-13
Stabilised residency vacancy (% per year)	**2**	2
Tenancy vacancy fluctuation (% per year)	**8-10**	10
Commercial Properties		
Market Rent		
Rental Value (€ per sq. p.m.)	**2-28**	1-29
Stabilised commercial vacancy (% per year)	**0-26**	0-4
Tenancy vacancy fluctuation (% per year)	**10**	10
Estimated Rental Value ('ERV')		
ERV per year (€'000)	**48-1,200**	25-1,014
ERV (€ per sq.)	**5-14**	5-13
Financial Rates		
Discount rate (%)	**3-9**	4-8
Portfolio yield (%)	**2-8**	3-8

Sensitivity

Changes in the key assumptions and inputs to the valuation models used would impact the valuations as follows:

Vacancy: A change in vacancy by 1% would not materially affect the investment property fair value assessment.

Rental value: All other factors remaining equal an increase in rental income would increase valuations. Correspondingly, a decrease in rental values would decrease valuations.

Discount rate: An increase of 0.5% in the discount rate would reduce the investment property fair value by €85.9 million, and a decrease in the discount rate would increase the investment property fair value by €129.9 million.

There are, however, inter-relationships between unobservable inputs as they are determined by market conditions. The existence of an increase of more than one unobservable input could amplify the impact on the valuation. Conversely, changes on unobservable inputs moving in opposite directions could cancel each other out, or lessen the overall effect.

16. Investment properties continued

The Group categorises all investment properties in the following three ways;

Rental scenario

Where properties have been valued under the 'Discounted Cashflow Methodology' and are intended to be held by the Group for the foreseeable future, they are considered valued under the 'Rental Scenario'. This will equal the 'Investment Properties line in the Non-Current Assets section of the Consolidated Statement of Financial Position.

Condominium scenario

Where properties have the potential or the benefit of all relevant permissions required to sell apartments individually (condominiums) then we refer to this as a 'condominium scenario'. These assets are considered held for sale under IFRS 5 and can be seen in note 17. The additional value is reflected by using a lower discount rate under the DCF Methodology. Properties' which do not have the benefit of all relevant permissions are described as valued using a standard 'rental scenario'.

Disposal scenario

Where properties have been notarised for sale prior to the balance sheet date, but have not completed; they are held at their notarised disposals value. These assets are considered held for sale under IFRS 5 and can be seen in note 17.

The table below sets out the assets valued using these three scenarios:

	31 December 2017 €'000	31 December 2016 €'000
Rental scenario	**502,360**	388,509
Condominium scenario	**29,847**	35,290
Disposal scenario	**77,050**	–
Total	**609,257**	423,799

The 2016 condominium scenario does not equal the 2016 assets held for sale due to an asset being valued under a condominium scenario methodology but did not meet the requirement of IFRS 5 to be treated as an asset held for sale.

The movement in the fair value of investment properties is included in the Consolidated Statement of Comprehensive Income as 'gain on disposal of investment property' and comprises:

	31 December 2017 €'000	31 December 2016 €'000
Investment properties	**155,787**	55,226
Properties held for sale (see note 17)	**1,587**	–
	157,374	55,226

17. Investment properties – Held for sale

	2017 €'000	2016 €'000
Fair value – held for sale investment properties		
At 1 January	**27,970**	–
Transferred from investment properties	**88,990**	27,970
Apartments sold	**(11,650)**	–
Valuation gain on apartments held for sale	**1,587**	–
At 31 December	**106,897**	27,970

Investment properties are re-classified as current assets and described as 'held for sale' in three different situations: properties notarised for sale at the reporting date; properties where at the reporting date the Group has obtained and implemented all relevant permissions required to sell individual apartment units, and efforts are being made to dispose of the assets (condominium); and properties which are being marketed for sale but have currently not been notarised.

Notes to the Financial Statements continued
For the year ended 31 December 2017

17. Investment properties – Held for sale continued
Properties notarised for sale by the reporting date are valued at their disposal price (disposal scenario), and other properties are valued using the condominium or rental scenarios (see note 16) as appropriate. The table below sets out the respective categories:

	2017 €'000	2016 €'000
Condominium scenario	**29,847**	–
Disposal scenario	**77,050**	–
	106,897	27,970

Investment properties held for sale are all expected to be sold within 12 months of the reporting date based on management knowledge of current and historic market conditions.

There were liabilities secured on the investment properties held for sale of €56.9 million (2016: €11.7 million).

18. Property, plant and equipment

	Equipment €'000
Cost or valuation	
As at 1 January 2016	36
Additions	22
As at 31 December 2016	**58**
Additions	**75**
As at 31 December 2017	**133**
Accumulated depreciation and impairment	
As at 1 January 2016	6
Charge for the year	12
As at 31 December 2016	**18**
Charge for the year	**23**
As at 31 December 2017	**41**
Carrying amount	
As at 31 December 2016	40
As at 31 December 2017	**92**

19. Loans and receivables

	31 December 2017 €'000	31 December 2016 €'000
At 1 January	**2,253**	1,382
Loans issued to minority interest – initial recognition at fair value	**–**	806
Accrued interest	**70**	65
At 31 December	**2,323**	2,253

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 of Accentero Real Estate AG (formerly Blitz B16 – 210 GmbH) in relation to the acquisition of the assets as share deals. This loan bears interest at 3% per annum.

20. Trade and other receivables

	31 December 2017 €'000	31 December 2016 €'000
Current		
Trade receivables	**691**	1,344
Less: impairment provision	**(342)**	(383)
Net receivables	**349**	961
Prepayments and accrued income	**6,521**	6,050
Investment property disposal proceeds receivable	**2,232**	21
Sundry receivables	**899**	471
	10,001	7,503

Aging analysis of trade receivables

	31 December 2017 €'000	31 December 2016 €'000
Up to 12 months	**344**	902
Between 1 year and 2 years	**5**	40
Over 3 years	**–**	19
	349	961

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

	31 December 2017 €'000	31 December 2016 €'000
Balance at the beginning of the year	**383**	295
Impairment losses recognised	**180**	319
Amounts written off as uncollectable	**(221)**	(231)
Balance at the end of the year	**342**	383

21. Cash and cash equivalents

	31 December 2017 €'000	31 December 2016 €'000
Cash at bank	**25,518**	17,107
Cash at agents	**1,664**	1,343
Cash and cash equivalents	**27,182**	18,450

Notes to the Financial Statements continued

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22. Borrowings

	31 December 2017 €'000	31 December 2016 €'000
Current liabilities		
Bank loans – Kreissparkasse Boblingen District Savings Bank	–	2,869
Bank loans – Deutsche Genossenschafts-Hypothekenbank AG	2,020	–
Bank loans – Berliner Sparkasse	626	–
Bank loans – Sparkasse Langenfeld	–	6,300
	2,646	9,169
Non-current liabilities		
Bank loans – Deutsche Genossenschafts-Hypothekenbank AG	167,656	171,418
Bank loans – Berliner Sparkasse	51,992	–
Bank loans – HypoVereinsbank	–	5,005
	219,648	176,423
	222,294	185,592

All borrowings are secured against the investment properties of the Group. As at 31 December 2017, the Company had €0.6 million of undrawn debt facilities (2016: €13.6 million was 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%).

23. Trade and other payables

	31 December 2017 €'000	31 December 2016 €'000
Trade payables	1,489	791
Accrued liabilities	622	533
Deferred income	8	7
	2,119	1,331

24. Derivative financial instruments

	31 December 2017 €'000	31 December 2016 €'000
Interest rate swaps – carried at fair value through profit or loss		
Balance at 1 January	4,869	1,869
Additions on acquisition	–	392
(Gain)/Loss in movement in fair value through profit or loss.	(1,536)	2,608
Balance at 31 December	3,333	4,869

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2017 were €188,165,000 (2016: €175,932,000). At 31 December 2017 the fixed interest rates vary from 0.402% to 0.775% (2016: 0.040% to 0.705%) above the main factoring Euribor rate.

Maturity analysis of interest rate swaps

	31 December 2017 €'000	31 December 2016 €'000
Less than 1 year	–	392
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
More than 5 years	3,333	4,477
	3,333	4,869

25. Other financial liabilities

	31 December 2017 €'000	31 December 2016 €'000
Balance at 1 January	**3,590**	–
Recognition of redemption liability	**–**	2,626
Profit share attributable to NCI in PSPF	**2,073**	964
Balance at 31 December	**5,663**	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 (€795 thousand, 2016: (€378 thousand)) 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.

26. Share-based payment reserve

	Performance Fee €'000
Balance at 1 January 2016	1,264
Fee charge for the period	6,350
Balance at 31 December 2016	7,614
Fee charge for the period	26,339
Balance at 31 December 2017	33,953

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 2015; and
(ii) the highest previously recorded EPRA NAV total return at the end of a performance period

The Company's EPRA NAV performance for the three years ending 31 December 2017 has resulted in a performance fee liability under the Property Advisory Agreement to the Property Advisor of circa €34 million. The parties have agreed that this performance fee (but not any further performance fees that may become due) shall be settled through the issuance by the Company to the Property Advisor of 8,260,065 new shares in the Company at EPRA NAV per share. 50% of the shares issued in settlement of this fee are subject to a 12-month restriction on disposal. Application will be made for the new shares, once issued, to be admitted to trading on the premium segment of the Official List and to trading on the Main Market of the London Stock Exchange.

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.

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26. Share-based payment reserve continued
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').

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 32.

27. Stated capital

	31 December 2017 €'000	31 December 2016 €'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**	47,480
	162,630	162,630

The number of shares in issue at 31 December 2017 was 92,491,344 (31 December 2016: 92,491,344).

28. Non-controlling interests

	Non-controlling interest %	**31 December 2017 €'000**	31 December 2016 €'000
Invador Grundbesitz GmbH	5.1	**915**	467
Laxpan Mueller GmbH	5.1	**810**	474
		1,725	941

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

29. Earnings per share

	31 December 2017	31 December 2016
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent (€'000)	**111,538**	36,998
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (Number)	**92,491,344**	88,587,235
Effect of dilutive potential Ordinary Shares (Number)	**7,677,250**	2,829,885
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (Number)	**100,168,594**	91,417,120
Earnings per share (€)	**1.21**	0.42
Diluted earnings per share (€)	**1.11**	0.40

30. Net asset value per share and EPRA net asset value

	31 December 2017	31 December 2016
Net assets (€'000)	**366,217**	234,318
Number of participating Ordinary Shares	**92,491,344**	92,491,344
Net asset value per share (€)	**3.96**	2.53

EPRA net asset value

	31 December 2017	31 December 2016
Net assets (€'000)	**366,217**	234,318
Add back deferred tax assets and liabilities, derivative financial instruments, goodwill and share-based payment reserves (€'000)	**13,970**	18,635
EPRA net asset value (€'000)	**380,187**	252,953
EPRA net asset value per share (€)	**4.11**	2.73

31. 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 the financial statements.

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; and
- derivative financial instruments.

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

	31 December 2017 €'000	31 December 2016 €'000
Loans and receivables		
Trade and other receivables – current	**3,480**	1,453
Cash and cash equivalents	**27,182**	18,450
Loans and receivables	**2,323**	2,253
	32,985	22,156

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

	31 December 2017 €'000	31 December 2016 €'000
Held at amortised cost		
Borrowings payable: current	**2,646**	9,169
Borrowings payable: non-current	**219,648**	176,423
Other financial liabilities	**5,663**	3,590
Trade and other payables	**2,119**	1,331
	230,076	190,513
Fair value through profit or loss		
Derivative financial liability – interest rate swaps	**3,333**	4,869
	3,333	4,869
	233,409	195,382

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31. 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 January 2022 and February 2027.

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 2017 €'000	31 December 2016 €'000
Financial liabilities		
Interest rate swaps – Level 2	**(3,333)**	(4,869)

The valuation basis for the investment properties is disclosed in note 16.

Financial risk management
The Group is exposed through its operations to the following financial risks:
- interest rate risk;
- foreign exchange risk;
- credit risk; and
- 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.

31. Financial instruments continued

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 2017 €'000	31 December 2016 €'000
Financial assets		
Cash and cash equivalents	**598**	553
Financial liabilities		
Trade and other payables	**(216)**	(204)
Net position	**382**	349

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 €'000	Strengthened by 10% Increase/ (Decrease) in post-tax loss and impact on equity €'000
31 December 2017	**38**	**(38)**
31 December 2016	35	(35)

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 2017 was 61%/30%/9% (31 December 2016: 19%/63%/16%). Barclays and Deutsche Bank have credit ratings of A and A- respectively.

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

Details of receivables from tenants in arrears at each reporting date can be found in note 20 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.

Notes to the Financial Statements continued

For the year ended 31 December 2017

31. Financial instruments continued

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.

Maturity analysis for financial liabilities

	Less than 1 year €'000	**Between 1-2 years €'000**	**Between 2-5 years €'000**	**More than 5 years €'000**	**Total €'000**
At 31 December 2017					
Borrowings payable: current	**2,646**	**–**	**–**	**–**	**2,646**
Borrowings payable: non-current	**–**	**–**	**–**	**219,648**	**219,648**
Other financial liabilities	**–**	**–**	**5,663**	**–**	**5,663**
Trade and other payables	**2,119**	**–**	**–**	**–**	**2,119**
	4,765	**–**	**5,663**	**219,648**	**230,076**

	Less than 1 year €'000	Between 1-2 years €'000	Between 2-5 years €'000	More than 5 years €'000	Total €'000
At 31 December 2016					
Borrowings payable: current	9,169	–	–	–	9,169
Borrowings payable: 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

The analysis of the market risk review and sensitivity analysis is detailed in note 16.

32. 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 2017, an amount of €690,165 (2016: €657,751) was payable to Estera Fund Administrators (Jersey) Limited and Estera Trust (Guernsey) Limited for accounting, administration and secretarial services. At 31 December 2017, €215,625 (2016: €187,515 Estera Fund Administrators (Jersey) Limited only) was outstanding.

During the year ended 31 December 2017, an amount of €40,044 (2016: €60,337) was payable to Appleby, law firm for legal and professional services. At 31 December 2017 €Nil (2016: €9,495) was outstanding.

32. Related party transactions continued

M Northover was a Director during 2017 and shareholder of PMM Partners (UK) Limited, the Group's appointed Property Advisor. During the year ended 31 December 2017, an amount of €4,209,000 (€4,110,000 Management Fees and €99,000 Other expenses and fees) (2016: €3,387,000 (€3,331,000 Management fees and €56,000 Other expenses and fees)) was payable to PMM Partners (UK) Limited. At 31 December 2017 €Nil (2016: €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 €26,339,000 (2016: €6,350,000). Please refer to note 26 for more details.

The Property Advisor has a controlling stake in IWA Real Estate Gmbh & Co. KG who are contracted to dispose of condominiums in Berlin on behalf of the Company. IWA does not receive a fee from the Company in providing this service.

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 €747,120 (2016: €704,500) each was owed to the Group. The loans bear interest of 4% per annum.

Dividends paid to Quentin Spicer in his capacity as a shareholder amounted to €1,527.

33. Events after the reporting date

In January 2018, the Company exchanged contracts for the acquisition of one individual property and a portfolio of four properties in Berlin with an aggregate consideration of €17.7 million. The Company also exchanged contracts to acquire two individual properties, one in February and the other in April, with an aggregate consideration of €7.1 million. These properties are still awaiting completion.

The Company had exchanged contracts for the acquisition of two properties in Berlin with an aggregate purchase price of €7.5 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. Both properties completed in Q1 2018.

The Company exchanged contracts for the sale of nine condominiums in Berlin with an aggregate consideration of €3.5 million. Three of these condominium sales have subsequently completed at a value of €1.1 million. The remainder are expected to complete in Q2 2018.

The Company had exchanged contracts for the sale of five condominiums in Berlin with an aggregate sales price of €1.8 million prior to the balance sheet date, which as at the balance sheet date had not yet completed. These condominium sales have subsequently completed.

In March 2018, the Company refinanced the debt held against a portfolio of buildings in Berlin. The new facility released equity of €7.8 million which was drawn in March 2018.

The Company has signed for a €12 million loan secured against seven properties notarised for acquisition in Q4 2017 and Q1 2018.

The Company and the Property Advisor agreed to settle the Performance Fee through the issuance of 8,260,065 new shares in the Company at EPRA NAV. The settlement is expected to take place in May 2018.

Professional Advisors

Property Advisor	PMM Partners (UK) Limited 54-56 Jermyn Street London SW1Y 6LX
Administrator Company Secretary and Registered Office	Estera Fund Administrators (Jersey) Limited Estera Secretaries (Jersey) Limited 13-14 Esplanade St. Helier Jersey JE1 1EE
Registrar	Link Asset Services (Jersey) Limited 12 Castle Street St. Helier Jersey JE2 3RT
Principal Banker	Barclays Private Clients International Limited 13 Library Place St. Helier Jersey JE4 8NE
English Legal Advisor	Stephenson Harwood LLP 1 Finsbury Circus London EC2M 7SH
Jersey Legal Advisor	Appleby 13-14 Esplanade St. Helier Jersey JE1 1BD
German Legal Advisor as to property law	Mittelstein Rechtsanwälte Alsterarkaden 20 Hamburg 20354 Germany
German Legal Advisor as to German partnership law	Taylor Wessing Partnerschaftsgesellschaft mbB Thurn-und-Taxis-Platz 6 60313 Frankfurt a.M. Germany
Sponsor and Broker	Liberum Capital Limited Ropemaker Place 25 Ropemaker Street London EC2Y 9LY
Independent Property Valuer	Jones Lang LaSalle Rahel-Hirsch-Strasse 10 10557 Berlin Germany
Auditor	RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB

Notes

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