# DRUM INCOME PLUS REIT PLC

# INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS

## For the six months to 30 September 2015

**Company number: 9511797**

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The Association of
Investment Companies

## Chairman's Statement

I am delighted to present the Interim report of Drum Income Plus REIT plc (the "Company") for the six months to 30 September 2015.

The Company listed on the London Stock Exchange on 29 May 2015, and raised £31.9m gross of share capital prior to issue costs. It has, subsequent to launch, entered into the REIT regime for the purposes of UK taxation.

The Company has extended its accounting period to 30 September 2016, and therefore this first Interim report covers the period from 1 April until 30 September 2015. The Board is pleased to take this opportunity to welcome all Shareholders.

## Financial Highlights

The Company's net asset value ("NAV") as at 30 September 2015 was 96.37 pence per share. This represents a decrease in NAV of 3.6% since launch, of which 2.0% is accounted for by costs incurred in respect of the launch.

As at 30 September 2015 the share price was 105 pence, an increase of 5% from the 100 pence at launch. This represents a premium of 9.0% to the NAV at 30 September 2015.

As presented in the Condensed Statement of Comprehensive Income on page 5, the Company incurred a loss of £510,000 for the 6 months ended 30 September 2015 (period from incorporation to 31 March 2015: £nil). The revenue loss of £128,000 represents the early stages of the Company's development where the rental income generated has been outweighed by day-to-day expenses. The revaluation loss of £382,000 in the period reflects the fact that the fair value of the Company's property portfolio at 30 September 2015 is impaired by the extent of the initial acquisition costs.

## Investment Activity

The Company has been active in the period since launch as the proceeds of the listing have been invested. As at 30 September two properties have been acquired, one an office complex in Gateshead and the other a retail park in Dunfermline. The cost of these properties was £7.3m. These investments are reflected in the balance sheet on page 6. Subsequent to the balance sheet date of 30 September 2015 the Company acquired two further properties, in Gosforth and Glasgow. The total consideration for the four properties is approximately £26m. A fifth property is under negotiation and if acquired will result in all of the proceeds of the issue being invested. Further details of the properties purchased since 30 September 2015 are included in the notes to the condensed interim financial statements on page 15.

The Board is delighted that the proceeds of the issue have been invested in properties at yields very much in line with those described in the Prospectus.

## Debt

The Board said in the Prospectus that it intended to target initial gearing, calculated as borrowings as a percentage of the Company's gross assets, of 40% and this remains the case. I am pleased to inform shareholders that negotiations are well advanced to enter into a 12 month debt facility the terms of which are attractive to the Company and give flexibility in respect of future funding strategies.

**Dividend**

It was stated in the Prospectus that once fully invested the Company intended to pay an annualised dividend of 5 pence per Ordinary share. It is expected that the first quarterly dividend will be paid once the full net proceeds of the Offer and available borrowings have been invested in income producing investments.

**Special Reserve**

On 18 November 2015 the High Court confirmed the cancellation of the Company's share premium account. The special reserve created as a result of the cancellation can be applied in any manner in which the Company's profits available for distribution are to be applied. Further details of this transaction are included in the notes to the condensed interim financial statements on page 15.

**Going Concern**

As at 27 November 2015 the Company has £5.2m of cash reserves. While the Company is in negotiations to purchase a fifth property, these negotiations have not concluded and as such there is currently no contractual commitment. In the event the acquisition does progress, the Company has sufficient funds available to conclude the purchase.

Based on financial projections which extend beyond twelve months from the date of this report, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors have concluded that they should prepare the condensed interim financial statements under the going concern basis.

**Outlook**

Your Board is pleased that the proceeds of the listing have been invested and that more opportunities offering similar value characteristics are under consideration. Since listing the legal advisers have been made aware of additional interest in the Company's equity as the validity of the investment case becomes proven. The Board and its advisers are exploring ways in which further equity may be raised by the Company and I hope to be in a position to write to you in the near future with greater detail on such proposals.

**John Evans**
**Chairman**
**27 November 2015**

## Condensed Statement of Comprehensive Income

### For the six months ended 30 September 2015

| | Notes | Six months ended 30 September 2015 (unaudited) Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Rental income | | 45 | - | 45 |
| Total revenue | | 45 | - | 45 |
| Unrealised losses on investments held at fair value | | - | (382) | (382) |
| **Total income** | | 45 | (382) | (337) |
| **Expenditure** | | | | |
| Asset Manager's fee | 2 | (48) | - | (48) |
| Other expenses | | (162) | - | (162) |
| **Total expenditure** | | (210) | - | (210) |
| Loss before finance costs and taxation | | (165) | (382) | (547) |
| **Net finance costs** | | | | |
| Interest receivable | | 37 | - | 37 |
| Loss before taxation | | (128) | (382) | (510) |
| Taxation | | - | - | - |
| Loss for the period | | (128) | (382) | (510) |
| **Total comprehensive Loss for the period** | | **(128)** | **(382)** | **(510)** |
| Basic and diluted loss per share (pence) | 3 | (0.59) | (1.76) | (2.35) |

The total column of this statement represents the Company's Condensed Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are prepared under guidance published by the Association of Investment Companies.

The Company had no revenue or expenditure in the prior period, being the initial period from incorporation on 26 March 2015 to 31 March 2015. Accordingly no comparative information is presented.

All revenue and capital items in the above statement are derived from continuing operations.

No operations were discontinued in the period.

The accompanying notes are an integral part of these condensed interim financial statements.

**Condensed Statement of Financial Position**
**As at 30 September 2015**

| | | As at 30 September 2015 (unaudited) £'000 | As at 31 March 2015 (audited) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 4 | 6,924 | - |
| | | **6,924** | - |
| **Current assets** | | | |
| Trade and other receivables | | 177 | 50 |
| Cash and cash equivalents | | 23,810 | - |
| | | 23,987 | 50 |
| **Total assets** | | **30,911** | **50** |
| **Current liabilities** | | | |
| Trade and other payables | | (203) | - |
| **Total liabilities** | | **(203)** | **-** |
| **Net assets** | | **30,708** | **50** |
| | | | |
| **Equity** | | | |
| Share capital | 6 | 3,186 | 1 |
| Share premium | 7 | 28,032 | 49 |
| Capital reserve | 7 | (382) | - |
| Revenue reserve | 7 | (128) | - |
| **Total equity** | | **30,708** | **50** |
| | | | |
| Net asset value per ordinary share (pence) | 5 | 96.37 | 100.00 |

Registered number: 9511797

The accompanying notes are an integral part of these condensed interim financial statements.

The condensed interim financial statements on pages 9 to 15 were approved by the Board of Directors on 27 November 2015 and were signed on its behalf by:

John Evans, Chairman

## Condensed Statement of Changes in Equity

### For the six months to 30 September 2015 (unaudited)

| | Share capital account £'000 | Share premium £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **As at 31 March 2015** | 1 | 49 | - | - | 50 |
| **Loss and total comprehensive loss for the period:** | - | - | (382) | (128) | (510) |
| **Transactions with owners recognised in equity:** | | | | | |
| Issue of ordinary share capital | 3,185 | 28,629 | - | - | 31,814 |
| Issue costs | - | (646) | - | - | (646) |
| **As at 30 September 2015** | **3,186** | **28,032** | **(382)** | **(128)** | **30,708** |

### For the period to 31 March 2015 (audited)

| | Share capital account £'000 | Share premium £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **As at 26 March 2015** | | | | | |
| **Total comprehensive loss for the period:** | - | - | - | - | - |
| **Transactions with owners recognised in equity:** | | | | | |
| Issue of ordinary share capital | 1 | 49 | - | - | 50 |
| **As at 31 March 2015** | **1** | **49** | **-** | **-** | **50** |

**Condensed Cash Flow Statement**

**For the six months ended 30 September 2015**

| | **Six months ended 30 September 2015 (unaudited) £'000** |
|---|---|
| **Cash flows from operating activities** | |
| Loss before finance costs and taxation | (547) |
| Adjustments for: | |
| Revaluation loss on property portfolio | 382 |
| Increase in trade and other receivables | (177) |
| Increase in trade and other payables | 203 |
| **Net cash outflow from operating activities before interest and taxation** | (139) |
| Interest received | 37 |
| **Net cash outflow from operating activities** | **(102)** |
| **Investing activities** | |
| Purchase of investment properties | (7,306) |
| **Net cash outflow from investing activities** | **(7,306)** |
| **Cash flows from financing activities** | |
| Issue of ordinary share capital | 31,864 |
| Issue costs | (646) |
| **Net cash inflow from financing activities** | **31,218** |
| **Net increase in cash** | **23,810** |
| Opening cash | - |
| **Closing cash** | **23,810** |

The Company had no cashflows in the prior period, being the initial period from incorporation on 26 March 2015 to 31 March 2015. Accordingly no comparative information is presented.

**Notes to the Condensed Interim Financial Statements**

## 1. Accounting policies

### 1.1 Trading period

The condensed interim financial statements of the Company's reporting period are for the six months ended 30 September 2015.

### 1.2 Going concern

The Company raised £31.9m, excluding issue costs, from an equity placement and began to deploy these funds through the purchase of two properties in the period. As at 30 September 2015 the Company held £23.8m in cash that had not been invested in property. Subsequent to 30 September the Company completed two further acquisitions and a further property purchase at an advanced stage, although not committed. The assets are considered to have stable income streams and have potential for capital appreciation.

Based on financial projections which extend beyond twelve months from the date of this report, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors have concluded that they should prepare the condensed interim financial statements on a going concern basis.

### 1.3 Basis of preparation

The condensed interim financial statements for the six months ended 30 September 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the prospectus issued by the Company in April 2015.

The accounting policies noted below are expected to be consistent with those of the Company's annual financial statements which will be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Companies Act 2006.

The condensed interim financial statements for the Company for the six months ended 30 September 2015 have been reviewed by the Company's Auditor and approved by the Directors for issue on 27 November 2015.

**Standards not affecting the reported results and financial position**

IASB and IFRIC have issued the following relevant standards and interpretations with an effective date after the date of these condensed interim financial statements:

| International Accounting Standards (IAS / IFRSs) | Effective date |
|---|---|
| IFRS 15 - Revenue from Contracts with Customers | 1 January 2017 |

Management are of the view that adoption will not materially change financial performance or the reported position within the condensed interim financial statements, although management will fully assess the impact on revenue recognition and related disclosures in subsequent periods.

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**1.4 Significant accounting judgements, estimates and assumptions**
The preparation of the Company's condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the condensed interim financial statements:

(a) Operating lease contracts - the Company as lessor
The Company has acquired investment properties which are subject to commercial property leases with tenants. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

(b) Fair value of investment property
The market value of investment property would normally be determined, by a real estate valuation expert, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties would be valued on an individual basis. The valuation expert would use recognised valuation techniques and the principles of IFRS 13.

Due to the proximity of the purchase date of the properties (19 August 2015 and 7 September 2015) to the period end date of 30 September 2015, the Board have determined that it is appropriate to value the properties at cost, excluding acquisition costs, as a proxy for fair value. Subsequent valuations will be completed by Savills in their capacity as external valuers.

**1.5 Summary of significant accounting policies**

**Segmental information**
The Directors are of the opinion that the Company is engaged in a single segment business, being the investment in commercial property in the United Kingdom.

**Investment property**
Investment property comprises property that is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs and is included in the accounts upon unconditional exchange. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Statement of Comprehensive Income in the period in which they arise.

Investment property is no longer recognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The investment property is no longer recognised upon unconditional exchange. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Statement of Comprehensive Income in the period of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous period's financial information.

**Rent and other receivables**
Rental income arising on investment properties is recognised as revenue in the Statement of Comprehensive Income on an accruals basis.
Specifically:

- any rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the shorter of the term to lease expiry or to the first tenant break option;

- lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Where income is recognised in advance of the related cash flows, an adjustment is made to the capital reserve to ensure that the carrying value of the relevant property including accrued rent does not exceed the external valuation.

A provision is made when there is objective evidence that the Company will not be able to recover balances in full.

**Taxation**
Taxation on any profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Company will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity enacted or substantively enacted at the balance sheet date.

**Entry to UK-REIT Regime**
The Company's conversion to UK-REIT status was effective from 20 August 2015. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's rental business, comprising both income and capital gains, being exempt from UK taxation.

**Cash and Cash Equivalents**
Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

**Reserves**

**Capital Reserve**
The following are accounted for in the capital reserve:
– gains and losses on the disposal of investment properties;
– increases and decreases in the fair value of investment properties held at the period end; and
- rent adjustments which represent the effect of spreading uplifts and incentives.

**Revenue Reserve**
The net profit / (loss) arising in the revenue column of the condensed statement of comprehensive income is added to or deducted from this reserve which is available for paying dividends.

## 2. Asset Manager's Fee

| | **Six months to 30 September 2015 £'000** |
|---|---|
| Asset manager's fee | 48 |
| **Total** | **48** |

The Company's Alternative Investment Fund Manager ("AIFM") and Investment Manager, R&H Fund Services (Jersey) Limited was appointed on 28 April 2015. The property management arrangements of the Company were delegated by R&H Fund Services (Jersey) Limited, with the approval of the Company, to Drum Real Estate Investment Management Limited ("the Asset Manager") on 28 April 2015. The Asset Manager is responsible for the day to day management of the portfolio.

## 3. Earnings per Share

The Company's basic and diluted revenue loss per ordinary share of (0.59) pence per share is based on the net revenue loss for the period of £128,000 and 21,691,407 ordinary shares, being the weighted average number of shares in issue during the period.

The Company's basic and diluted capital loss per ordinary share of (1.76) pence per share is based on the capital loss for the period of £382,000 and on 21,691,407 ordinary shares, being the weighted average number of shares in issue during the period.

The Company's basic and diluted total loss per ordinary share of (2.35) pence per share is based on the loss for the period of £510,000 and on 21,691,407 ordinary shares, being the weighted average number of shares in issue during the period.

Earnings for the period to 30 September 2015 should not be taken as a guide to the results for the period to 30 September 2016.

## 4. Investment properties

| | As at 30 September 2015 £'000 | As at 31 March 2015 £'000 |
|---|---|---|
| **Opening market value at beginning of the period** | **-** | **-** |
| Purchases | 6,924 | - |
| Acquisition costs | 382 | - |
| Revaluation movement | (382) | - |
| **Closing market value** | **6,924** | **-** |

The revaluation movement in the period reflects that the cost proxy for fair value excludes initial acquisition costs.

**Changes in the valuation of investment properties**

| | As at 30 September 2015 £'000 | As at 31 March 2015 £'000 |
|---|---|---|
| Revaluation movement | (382) | - |
| **Loss on revaluation of investment properties** | **(382)** | **-** |

Due to the proximity of the purchase dates of the properties (19 August 2015 and 7 September 2015) to the period end date of 30 September 2015, the Board have determined it is appropriate to value the properties at cost, excluding acquisition costs, as a proxy for fair value. Subsequent valuations will be completed by Savills in their capacity as external valuers.

## 5. Net Asset Value

The Company's net asset value per ordinary share of 96.37 pence (31 March 2015: 100.00 pence) is based on equity shareholders' funds of £30,708,000 (31 March 2015: £50,000) and on 31,864,000 (31 March 2015: 50,000) ordinary shares, being the number of shares in issue at the period end.

## 6. Share Capital

| | Six months to 30 September 2015 | Period to 31 March 2015 | Six months to 30 September 2015 | Period to 31 March 2015 |
|---|---|---|---|---|
| | Shares | Shares | £'000 | £'000 |
| **Issued and fully paid** | | | | |
| Opening total issued ordinary shares of 10p each | 50,000 | - | 1 | - |
| Issued during the period | 31,814,000 | 50,000 | 3,185 | 1 |
| **Closing total issued ordinary shares** | **31,864,000*** | **50,000*** | **3,186** | **1** |

*Share capital as at 31 March 2015 was unpaid; share capital as at 30 September 2015 was fully paid

On 29 May 2015 31,814,000 ordinary 10p shares were issued for a consideration of £1 per share. There is one class of share.

## 7. Reserves

| | Share premium £'000 | Capital reserve £'000 | Revenue reserve £'000 |
|---|---|---|---|
| **As at 31 March 2015** | 49 | - | - |
| Shares issued in the period | 28,629 | - | - |
| Issue costs | (646) | - | - |
| Revaluation movement | - | (382) | - |
| Net revenue loss | - | - | (128) |
| **As at 30 September 2015** | **28,032** | **(382)** | **(128)** |

## 8. Unaudited Financial Statements

The results for the six month period to 30 September 2015 are unaudited and constitute non-statutory accounts within the meaning of Section 435 of the Companies Act 2006. The figures and financial information for the period to 31 March 2015 are extracted from the latest published Financial Statements, on which the Independent Auditor gave an unqualified report, and they have been delivered to the Registrar of Companies.

### 9. Related Party Transactions and fees paid to Drum Real Estate Investment Managers

The Directors are considered to be related parties. No Director had an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Company.

The Directors of the Company received fees for their services. Total fees for the period were £25,000 of which £5,000 (for the period from incorporation to 31 March 2015: £nil) remained payable at the period end.

Drum Real Estate Investment Management Limited, as Asset Manager, earned £48,000 during the period (for the period from incorporation to 31 March 2015: £nil). £48,000 was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

Turcan Connell Asset Management Limited, as Investment Advisor, earned £47,000 during the period (for the period from incorporation to 31 March 2015: £nil). £47,000 was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

R&H Fund Services (Jersey) Limited, as AIFM and Investment Manager, earned £5,000 during the period (for the period from incorporation to 31 March 2015: £nil). £5,000 was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

As per the Prospectus published in April 2015 issue costs were capped at 2% of the gross issue proceeds. Issue costs above this amount were incurred by Drum Real Estate Investment Management Limited.

### 10. Post Balance Sheet Events

On 8 October 2015, the Company acquired Gosforth Shopping Centre, a retail centre in Newcastle upon Tyne, for a consideration of £12.3 million.

On 16 November 2015, the Company acquired Monteith House, a multi-let office building in Glasgow for a consideration of £5.8 million.

On 18 November 2015, an application to the Court was successfully made for the cancellation of the share premium account which allowed the transfer of monies of £28.0 million to the special distributable reserve.

On 25 November 2015 Hugh Little was appointed to the Board of Turcan Connell Asset Management Limited, the Company's investment adviser.

**Directors' Statement of Principal Risks and Uncertainties**

The Prospectus issued in April 2015 (available on the Company's website) included details of what the Directors consider to be the key principal risks faced by the business. As the Company has a limited operating history, some risks are not yet known and some, that are currently not deemed material, could later turn out to be material. A summarised list of the principal risks is set out below:-

**Risks relating to the REIT status of the Company**
The Company cannot guarantee that it will maintain continued compliance with all of the REIT conditions. There is a risk that the REIT regime may cease to apply in some circumstances.

**Risks relating to the taxation of the Company**
The levels of, and reliefs from, taxation may change. Any change in the Company's tax status or in taxation legislation in the United Kingdom or any other tax jurisdiction affecting Shareholders or investors could affect the value of the investments held by the Company, or affect the Company's ability to achieve its investment objective for the Ordinary Shares or alter the post tax returns to Shareholders.

Any change (including a change in interpretation) in tax legislation in the United Kingdom, could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares. Changes to tax legislation could include the imposition of new taxes or increases in tax rates in the United Kingdom. In particular, an increase in the rates of Stamp Duty Land Tax could have a material impact on the price at which UK land and property can be sold, and therefore on asset values.

**Risks relating to laws and regulation which may affect the Company**
The Company and the Asset Manager are both subject to laws and regulations enacted by national, regional and local governments and institutions. In particular, the Company is required to comply with certain statutory requirements under English law applicable to a company incorporated in England and Wales, the Listing Rules and the Disclosure and Transparency Rules. Compliance with and the monitoring of applicable regulations may be difficult, time consuming and costly. Any changes to such regulation could affect the market value of the Company's portfolio and/or the rental income of the portfolio.

**Risks relating to gearing**
It is intended that the Company will incur gearing to fund the acquisition of further, as yet unidentified, UK commercial property assets in addition to the Initial Property Portfolio. There is no certainty that appropriate borrowings will be available to the Company either at all or on acceptable terms, which may adversely affect the ability of the Company to grow in the future and acquire further properties which could, as a consequence, have a material adverse impact on the level of dividends paid to Shareholders.

Shareholders should be aware that, whilst the use of borrowings should enhance the Net Asset Value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the rental income of the Company's portfolio falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Company and accordingly will have an adverse effect on the Company's ability to pay dividends to Shareholders.

**Risks relating to the economic environment**
Global market uncertainty and the weakened economic conditions in the United Kingdom and elsewhere and, in particular, the restricted availability of credit, may reduce the value of the Company's portfolio once it has been acquired, and may reduce liquidity in the real estate market. The performance of the Company would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields.

**Risks relating to property and property related assets**
The Company cannot be sure that it will be successful in obtaining suitable investments in UK commercial property assets on financially attractive terms.

The Company will incur certain fixed costs on the acquisition of properties, including Stamp Duty Land Tax which reduces the Net Asset Value per Share immediately following the acquisition. There is no guarantee that the value of the properties will increase to an amount in excess of these costs.

The Company will once fully invested have a diversified portfolio, but may be more concentrated in terms of number of individual properties than other property investment companies. The Company will not be managed with any direct correlation to any property index and consequently may have returns, favourable or unfavourable, that differ from the performance of UK commercial property markets as a whole.

While the Board will seek to spread risk relating to tenant concentration, there is the risk, from time to time and in particular in respect of the early stages of the Company after launch, that the Company has a concentrated number of tenants and material exposure to the financial strength and the operational performance of those tenants.

In the event of default by a tenant or during any other void period, the Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs in re-letting, maintenance costs, insurances, rates and marketing costs. Investments in property are relatively illiquid. Such illiquidity may affect the Company's ability to vary its portfolio or dispose of or liquidate part of its portfolio in a timely fashion and at satisfactory prices in response to changes in economic, real estate market or other conditions. This could have an adverse effect on the Company's financial condition and results of operations.

Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value.

The Company's ability to pay dividends will be dependent principally upon its rental income. Rental income and the market value of properties are generally affected by overall conditions in the relevant local economy, such as growth in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises. Both rental income and market values may also be affected by other factors specific to the commercial property market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. In addition, certain significant expenditures, including operating expenses, must be met by the owner even when the property is vacant.

Properties owned by the Company in the future may have significant levels of vacancy. Certain of the Company's properties may be specifically suited to the particular needs of a certain type of tenant. The Company may have difficulty in obtaining a new tenant for any vacant space it has in its properties, particularly if prospective tenants have negative perceptions of the attractiveness or other features of any property. The Company may need to incur additional capital expenditure on a property to attract tenants. If a vacancy continues for a longer period of time, the Company may suffer reduced revenues resulting in less income available to be distributed to Shareholders. In addition, the market value of a property could be diminished because the value of a particular property will depend principally upon the value of the leases of such property.

The company may undertake development (including redevelopment) of property or invest in property that requires refurbishment prior to renting the property. The risks of development or refurbishment include, but are not limited to, delays in timely completion of the project, cost overruns, poor quality workmanship, and inability to rent or inability to rent at a rental level sufficient to generate profits. Any change to the laws and regulations relating to the UK commercial property market may have an adverse effect on the market value and/or the rental income of the Property Portfolio.

As the owner of real property, the Company is subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Company acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Company is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and/or the price of the Ordinary Shares.

**Risks relating to valuations**

The value of property and property related assets is inherently subjective due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the valuations of any properties will reflect the actual realisable sale price even where such sales occur shortly after the relevant valuation date.

The financial markets have seen significant turbulence over recent years resulting in severe liquidity shortages. The turmoil in the credit markets had an immediate effect on the real estate investment market, resulting in some transactions failing and/or prices being renegotiated downwards. This has caused a marked reduction in the volume of transactions. The negotiation of price reductions prior to the completion of transactions remains common for certain properties. Generally, there is greater volatility of pricing in the evidence generated by limited comparable transactions and in these circumstances there is a greater degree of uncertainty than that which exists in a more active and stronger market in forming an opinion of the realisation prices of property assets.

**Risks relating to the reliance on key individuals**

The underperformance or the departure of key skilled professionals from the Asset Manager could have a material adverse effect on the Company's business, financial condition and results of operations.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise commercial property. Property and property-related assets in which the Company invests are not traded in an organised public market and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Company's liquidity risk is managed on an ongoing basis by the Asset Managers and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Company aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a stronger market in forming an opinion of the realisation prices of property assets.

**Directors' Responsibilities Statement in respect of the Interim Report**

We confirm that to the best of our knowledge:

• the condensed set of interim financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit of the Company;

• the Chairman's Statement includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the period and their impact on the financial statements;

• the Statement of Principal Risks and Uncertainties referred to above is a fair review of the information required by DTR 4.2.7R;

• the condensed set of interim financial statements includes a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the period and that have materially affected the financial position or performance of the Company during the period; and

• the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

On behalf of the Board

**John Evans**
**Chairman**
**27 November 2015**

## INDEPENDENT REVIEW REPORT TO DRUM INCOME PLUS REIT PLC

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2015 which comprises the condensed statement of comprehensive income, the condensed statement of financial position, the condensed statement of changes in equity, the condensed cash flow statement and related notes 1 to 10. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### Directors’ responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

**Deloitte LLP**

Chartered Accountants and Statutory Auditor

Aberdeen

United Kingdom

27 November 2015

**Corporate Information**

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|---|---|
| **Directors** | John Evans (Chairman)<br>Hugh Little (Chairman of the audit committee)<br>Alan Robertson |
| **Registered office** | Broadgate Tower<br>20 Primrose Street<br>London EC2A 2EW |
| **Registered number** | 9511797 |
| **AIFM and Manager** | R&H Fund Services (Jersey) Limited<br>Ordnance House<br>31 Pier Road<br>St. Helier<br>Jersey JE4 8PW |
| **Asset Manager** | Drum Real Estate Investment Management Limited<br>115 George Street<br>Edinburgh EH2 4JN |
| **Investment Advisor** | Turcan Connell Asset Management Limited<br>Princes Exchange<br>1 Earl Grey Street<br>Edinburgh EH3 9EE |
| **Administrator and Company Secretary** | R&H Fund Services Limited<br>20 Forth Street<br>Edinburgh EH1 3LH |
| **Legal Adviser** | Dickson Minto W.S.<br>Broadgate Tower<br>20 Primrose Street<br>London EC2A 2EW |
| **Property Valuers** | Savills<br>163 West George Street<br>Glasgow G2 2JJ |
| **Independent Auditor** | Deloitte LLP<br>Union Plaza<br>Aberdeen AB10 1SL |
| **Registrars** | Computershare Investor Services PLC<br>The Pavilions<br>Bridgewater Road<br>Bristol BS13 8AE |
| **Website** | www.drumpropertyCompany.com/drip-access |