

**Regional REIT Limited**

**Strong regional property market driving our opportunity  
Conservative financial position underpins growth prospects**

Regional REIT Limited (LSE: RGL) ("Regional REIT" or the "Group"), today announces its maiden results for the period ended 31 December 2015.

**Highlights to end December 2015 (Audited)**

- The Group's shares were successfully admitted to the premium segment of the Official List and to trading on the London Stock Exchange on 6 November 2015.
- At 31 December 2015:
  - Gross property assets £403.7m; net initial yield 7.6%.
  - Over 120 properties, in excess of 710 units and over 530 tenants; occupancy 83.9%.
  - Debt outstanding £128.6m; average cost 4.5% pa; net loan-to-value ratio 25.4%.
  - Net asset value 107.7p per share; EPRA NAV 107.8p per share.
- For the financial reporting period 6 November to 31 December 2015:
  - Operating profit (before gains/losses on property assets/other investments and exceptional item Launch costs) £3.3m;
  - Profit attributable to equity shareholders £21.1m.
  - Earnings per Share 7.7p; EPRA EpS loss (1.1)p.
  - Dividend of 1p per share (including 0.6572 pps PID).

**Summary of Key Developments to end March 2016 (Unaudited)**

- Entry to the FTSE All Share Index on 21 March 2016.
- Acquisitions of £120.5m since listing, including two regional office and industrial portfolios.
- Non-core property disposals since listing of £27.4m, generating profits of £5.1m.
- As at 31 March 2016 c. 130 properties, around 970 units and approximately 700 tenants, amounting to c. £500m; contracted rent roll c. £43.5m.
- As at 31 March 2016 offices (by value) were 59.1% of the portfolio (IPO 58.4%) and industrial 29.0% (25.3%).
- Net loan-to-value ratio of c. 40%; cost of debt reduced to c. 3.7% pa.

**Kevin McGrath, Chairman, commented:** *"We aim to provide our Shareholders with an attractive return on a sustained and consistent basis from investing in, predominantly, office and industrial property in the main regional centres of the UK. In a business environment which increasingly bears out our belief in this opportunity, we are delivering on the strategy and commitments we made at the time of our recent listing. For the year ahead our outlook is focused on the continued strong growth of the business."*

**Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited, commented:** *"Active and close management of the property portfolio, significant acquisition opportunities that we continue to find in the UK's regions and a recycling of capital through profitable disposals, are delivering a strong operational performance and underpin our results and outlook. We continue to be positive on the opportunity for commercial property in the regions and for the future development of our business where we are increasingly focusing on a core of offices and light industrial sites and a broader geographical mix."*

A meeting for investors and analysts will be held at 09.30 (London time, BST) today at the offices of Headland. If you would like to attend the meeting please contact Jamie Perriam, +44 (0) 20 3805 4855 or [jperriam@headlandconsultancy.com](mailto:jperriam@headlandconsultancy.com). The presentation slides from the meeting will shortly be available to download from the investors section of the Group's website at [www.regionalreit.com](http://www.regionalreit.com).

Note: Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

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#### **About Regional REIT (Unaudited)**

Regional REIT Limited (LSE: RGL) is a London Stock Exchange Main Market listed specialist real estate investment company focused on office and industrial property interests in the principal regional locations of the United Kingdom outside of the Greater London area.

Regional REIT is managed by London & Scottish Investments, the Asset Manager, and Toscafund Asset Management, the Investment Manager, and was formed by the combination of two existing funds created by the Managers as a differentiated play on the expected recovery in UK regional property, to deliver an attractive total return to shareholders and with a strong focus on income.

The Group's investment portfolio, as at 31 December 2015, is spread across more than 120 regional properties, in excess of 710 units and over 530 tenants. As at 31 December 2015, the investment portfolio had a value of £403.7m and a net initial yield of 7.6%. The weighted average unexpired lease term was just under six years.

The Group's shares joined the Official List of the UK's Financial Conduct Authority ("FCA") and admitted to trading on the London Stock Exchange ("LSE") on 6 November 2015 as LSE: RGL. For more information, please visit the Group's website at [www.regionalreit.com](http://www.regionalreit.com).

#### **Cautionary Statement**

These Results have been prepared solely to provide additional information to shareholders to assess the Group's performance in relation to its operations and growth potential. These Results should not be relied upon by any other party or for any other reason. Any forward looking statements made in this document are done so by the Directors in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information."

## Chairman's Statement

It gives me great pleasure to report the Group's first results since its Admission to the London Stock Exchange (LSE) on 6 November 2015. Regional REIT's Shares have performed relatively strongly, despite turbulence in the wider stockmarket, its proposition underpinned by the strength and experience of its Managers and its central thesis; the investment opportunity for commercial property in the regional centres of the United Kingdom outside of the M25 motorway. Into 2016 we have delivered on our strategy and the commitments we made at the time of the listing, of significant acquisitions, asset management initiatives including disposals and reducing the cost of our debt financing.

### Admission and Listing

The decision to combine the underlying Toscafund property funds and create the Company, convert to REIT status and to seek a stockmarket listing reflects a number of factors, as well as the widespread support of the property funds' investors. The Managers' view was that there was a far greater and a longer-term opportunity to invest in regional property and that a listing would offer liquidity, access to a wider pool of investors and additional funding flexibility. In addition, opting for REIT status provides a more tax efficient corporate structure.

In early-November 2015 Regional REIT's Initial Public Offering (IPO) of 274.2m Shares at 100p per share provided it with Admission to the premium segment of the Official List of the Financial Conduct Authority and to trading on the main market of the LSE. The offering included the Placing of 80m Shares, sold by existing Shareholders, but with no new monies raised, resulting in a free float (as defined by the FTSE) of approximately 76% with the remainder being held by the Managers. The Managers' shareholdings are subject to lock-in periods of between 6 months and 1 year.

The initial highly-diversified portfolio was seeded with £386.1m of properties (128 properties; 713 units), with a net initial yield of 8.25%, and an extensive (517) tenant base.

### Business Environment

The Group believes that the UK regional commercial property market is in the midst of an upturn. Early in 2016, the evidence is that, although growth in the property market as a whole may have paused, the market's weakness is in London and funds have continued to flow towards the UK's regions with rising interest from institutional and international investors.

Management concur with the many property market forecasts that expect regional commercial property to achieve better than high single-digit total returns growth in 2016. Although competition for property assets is increasing, the Group's established presence, strong reputation and expertise will ensure that it maintains a strong market position.

### Strategy

The overriding objective of the Board is to deliver an attractive total return to Shareholders. The Group's aim is to invest in high-quality secondary commercial properties in the main regional centres of the UK with an emphasis on offices – 59% (by value) of the portfolio at 31 December 2015 – and industrial units (25%), and on strong income and value-add characteristics. The focus on the Group's core business areas of office and industrial properties continued, along with sales of retail properties and non-core assets and including a reduction in the value and number of assets in Scotland. This sale process is highly structured and assets will only be sold where an adequate price can be secured and the asset's business project having achieved the planned result, so maximising returns for our Shareholders. A most recent example of this is the sale of Blythswood House, Glasgow, announced in early-April 2016.

The Group believes that this is "the right time for the regions", as they gather an increasing share of investment flows, with secondary commercial property set to outperform London and prime regional property as a strong UK economy underpins occupational demand in regional towns and cities with very limited supply. The Asset Manager's view is that valuation differentials between the regions and London have only recently started to narrow and remain well above the long-term average.

To support the organic growth of the business and enhance the asset base, the Asset Manager is actively involved in a granular approach to the property portfolio and maintains a close engagement with tenants and prospective clients. All of this is underpinned by the proven experience and competency of the Asset Manager's team. In addition, the Group will pursue an opportunistic approach to acquisitions – and to holding and selling assets – where it believes assets are mispriced and/or where there are good capital and rental income growth prospects. Although the market is tightening the Asset Manager still sees a number of good deal opportunities.

Into 2016 the Group has executed on its strategy, acquiring a number of strong growth opportunities in the regional commercial property market that we had already identified at the time of listing, amounting to some £120.5m. At the very end of 2015 we announced the £37.5m acquisition of 4 office buildings and an industrial business park. In February we announced the £80m purchase of a portfolio of 5 offices and 7 industrial sites. Including acquisitions in the first quarter of 2016, the portfolio now amounts to c.130 properties, around 970 units and approximately 700 tenants as at 31 March 2016.

### Portfolio Valuation and Net Asset Value

As at 31 December 2015 the value of the Group's property portfolio was £403.7m, compared to a valuation at 30 June 2015 of £386.1m. This increase included property disposals of £8.8m for a profit of £2.4m, demonstrating management's ability to secure good gains on the investment. Into the second-half of 2015 the management team was focused on the listing and new investment activity was reduced, although deal opportunities continued to be identified. As mentioned previously, we have announced several significant portfolio acquisitions early in 2016.

On Admission the Group had an EPRA net asset value (as at 30 June 2015) of £274.2m and 100p per share. By 31 December 2015 the EPRA net asset value had grown to £295.7m, an increase of 7.8%, after charging £5.3m of listing expenses.

## **Financial Position**

At 31 December 2015 the Group had a number of drawn loan facilities amounting to £128.6m, at an average interest cost of 4.5% and with a weighted average maturity of just over 3 years. At the year end the net loan-to-value ("LTV") ratio was 25.4%. The Group has a good relationship with its main banks, which supports asset acquisition and management activities, and aims to manage its average loan maturity broadly in line with the average lease term on the portfolio. The Group currently maintains a 90% minimum hedging strategy on its loan book. Accounting for activity since the year end the net LTV ratio as at 31 March 2016 was approximately 40% and the cost of debt had declined to around 3.7%. The Group has a conservative approach to its balance sheet, targeting a 35% net LTV ratio, with a limit of 50%.

## **Share Price, Dividends and Target Returns**

At Admission the Group's Ordinary Shares were listed at 100p and as at 31 December 2015 the price had risen to 104.75p per Share; over the same period the FTSE EPRA/NAREIT UK Index fell 4.3%. In the first-quarter of 2016 (to 31 March) the share price declined 1.0% versus the FTSE EPRA/NAREIT UK Index falling 7.8%.

At Admission it was the Group's intention to target a dividend yield of 7-8% per annum, on the IPO price of 100p per share covered by recurring earnings, and to pay dividends on a bi-annual basis. The Board reconsidered the frequency of dividend payments in the light of market practice in the sector, the Board's perception of Shareholders' preferences and following discussions with its advisors. In February 2016, we announced we would change to paying dividends quarterly. More recently we declared our first dividend of 1 pence per share, for the period between Admission and 31 December 2015. Going forward our dividend policy will reflect the high income potential of the business. The Group has a total returns target – dividends and capital appreciation - of 10-15% per annum.

## **Board and Management Team**

The Board are working together very effectively and have established a good relationship with the Managers. We are committed to the success of the Group and to ensuring that the best standards of corporate governance are in place. The people at our Asset Manager, in offices around the UK, and at our Investment Manager successfully delivered us as a listed company and will remain key to our success in managing and growing our asset base. The competencies and experience the Managers offer are critical assets of the business. In addition, thanks should be extended to all of our advisors who worked hard to deliver the Group to the Market.

The Board is in the process of considering what would be an appropriate set of key performance indicators ("KPIs") for the business to adopt and will update Shareholders in due course.

## **Outlook**

The UK economy is still expected to continue to perform well, although uncertainties have increased and growth forecasts have been reduced, with the Office for Budget Responsibility (March 2016) projecting GDP growth of 2.0% for 2016 and 2.2% for 2017, from the 2.3% estimated for 2015. The continuing looseness of monetary policy also helps with the prospect of 'lower-for-longer' interest rates as do reduced energy prices. It is also apparent that the service sector, and office employment, have continued to grow. Government policy towards the regions also remains supportive. There are global and Eurozone macroeconomic uncertainties but, whilst growth continues and confidence remains high in the UK, their impact is likely to be limited in the near term.

Prospects for the UK regional commercial property market are strong and there is a continuing investment inflow in a search for yield; regional office investment in particular is rising well above its average of the last 5-years. Occupancy demand, office and industrial, is also good and with a constrained supply. In contrast, London commercial property saw a marked downturn in the second-half of 2015, being the most beset by the retrenchment of international investment and heightened economic and geo-political uncertainties as well as the already low level of yields.

We remain positive on the prospects for the Group in 2016, with sustained growth in rental income and tight control of costs, accompanied by some further growth in assets and an active management of the portfolio mix. We see a strong underpinning for longer-term NAV growth and returns to Shareholders.

**Kevin McGrath**  
**Chairman**

18 April 2016

## **Asset and Investment Managers' Report**

### **Market Overview**

The Asset Manager's view is that the UK regional commercial property market continues to perform strongly. There is continuing interest and heightened activity from an increasing number of investors, both from the UK and overseas, seeking 'value' and yield. The shift in investors' focus away from London started with prime regional assets but is now firmly focused on good secondary commercial property, and the Asset Manager expects this shift to continue.

This weight of capital is reflected in a yield shift and as an increasing amount of capital invests in the regions inevitably yields will continue their decline. However, with most market sectors now witnessing real rental growth - which looks set to continue with strong occupancy demand and limited supply and very little new build - we anticipate further rent increases. We believe that this will be particularly evident in the secondary commercial property market, with the differential between prime and secondary yields set to narrow to be more in line with the long-term average.

It is noteworthy that much of the capital chasing regional property assets is for 'stabilised-income' rather than the intensive asset management opportunities sought by the Group. Investors are proceeding mainly on a macro basis; that these markets offer good value, that yields will continue to close to long-term averages and rental growth will further bolster performance. All of this is likely, but the strategy of Regional REIT is at a more micro level; it acquires property assets, from distressed vendors or less asset management intensive organisations, which require significant time and resources to manage, and produces a stable income stream. Investors benefit from this but it is also consistent with the goals of the macro player, as is being recognised by ongoing capital inflows.

Yields continue to fall for the 'stabilised-income' property assets, driven by the weight of money from investors now seeking opportunities in the UK's regions. However, the intensive asset management opportunities sought by the Group are not witnessing the same levels of interest. This gives the Group a significant arbitrage opportunity as we continue to identify good opportunities for our Shareholders.

### **Investment Activity in UK Commercial Property**

In 2015, investment in UK commercial property reached a record level of £61.5bn. There is evidence of a continued rise in investment in the UK's regional markets, as the Asset Manager predicted in 2012, with investors beginning to recognise the opportunity for better returns outside of London. Regional commercial property markets are now in the driving seat, reaching a record investment volume of £39.5bn in 2015. This is set to continue, which will drive further outperformance in the regional markets. CoStar estimates that Central London received 31% of all UK investment in 2015, down from a high of 46% in 2012, its lowest share since the financial crisis.

Global capital targeting the UK continued to rise, with more investors now investing in UK regions. According to CoStar, 2015 was a record year for foreign investment with £27.8bn flowing into UK commercial real estate, a 6% increase on 2014. For the Asset Manager, a key metric is that yield spreads between prime and secondary properties have fallen in the last 12-18 months from the historic highs of 2013 and 2014. The yield spread remains well above its long-term average levels, which indicates that there remain significant opportunities for high quality secondary properties to outperform in the short to medium term.

### **Offices – Occupational Demand**

A record UK employment rate in 2015, and an increase in office employment, has had a direct impact on take-up in the office market. Take-up of office space reached 5.6 million sq. ft. in 2015 within the main regional markets (40% of this was in Manchester and Birmingham as a result of inward movers drawn to their city centres), the second highest volume on record after 2014.

Professional services firms continued to dominate the take-up of office space in 2015 within the core regional markets, accounting for 29%. Demand for office space remains robust: there is 9.7m sq. ft. of active demand within the core 8 UK regional markets, dominated by the professional and public administration sectors.

Office supply remained constrained in the main regional markets, with a shortfall in developments. There was a decline in availability and vacancy rates across all grades as high levels of take-up have continued.

### **Rental Growth Accelerating in the UK Regional Office Market**

Against a backdrop of rising demand and limited supply and availability, all regional office markets are showing nascent signs of rental growth. According to JLL, prime rental growth across the core 8 regional office markets increased by an average of 5.3% in 2015.

JLL's research expects headline rental growth across UK cities to average 2.8% per annum for the period 2016 to 2020. With the very low vacancy rates within prime properties, the Asset Manager anticipates the demand for high quality secondary properties to increase, which will put upward pressure on rents and downward pressure on rent incentives.

## **Industrial – Occupational Demand**

Take up in 2015 totalled 29.7 million sq. ft., a 15% decrease from 2014. The reduced take-up was seen across most UK regions as occupiers became more cautious due to global economic concerns, weaker export numbers and the upcoming EU referendum.

The growth of online spending means that e-tailing is now the most influential sector in the industrial market, accounting for 38% of overall take up in 2015.

With development focussed on Grade A space and pre-let situations for large distribution units close to the main North-South trunk roads, namely the M1, M6 and around the M25, there is very little additional supply to the multi-sized, multi-let industrial estates. The Asset Manager predicts that this will continue to be the case, which will result in a demand-supply imbalance in this market driving rental growth.

According to Cushman & Wakefield, the stronger UK regional markets experienced the greatest yield compression in 2015.

## **Industrial Rental Growth**

Industrial rents are now in a sustained period of growth due to the demand-supply imbalance in the market, with the rest of UK industrial showing a c. 4% increase in 2015 according to IPD. The Investment Property Forum UK Consensus Forecasts, February 2016, show average 3.5% and 2.9% rental growth for 2016 and 2017 respectively. The Asset Manager predicts that rental growth in Grade B space in a number of good locations will outperform these averages.

## **Bank Lending to UK Property**

The recovery in the lending market and increased lending appetite is also supporting property investment. From research published by De Montfort University in December 2015, £24.7bn of new lending was recorded in the first half of 2015, a 26% increase year-on-year. In the first half of 2015, half of all new loans were issued by just six banks.

According to Cushman & Wakefield, in a survey of lenders in December 2015, 91% of lenders expect lending activity to increase or remain static compared with 2015 levels, with the balance evenly split, therefore loan books are set to expand further. The Asset Manager believes that increased market diversification and competition within the lending market bodes well for the property market, and has helped to drive down the cost of borrowing.

The aforementioned factors can be seen in the investment market where yields have continued to fall in the year to December 2015 from their historic highs in 2013. This has been supported by a more favourable economic environment for property investment, in particular persistent low interest rates.

## **Economic Overview**

UK GDP grew 2.3% in 2015, down from 2.9% in 2014. The slowdown was largely due to weaker net trade and a moderation in construction and public spending. Despite worries about the slowdown in China, the fall in oil prices due to oversupply and the uncertainty created by the forthcoming EU referendum, the consensus published by HM Treasury in March 2016 shows GDP growing 2.0% in 2016 and 2.1% in 2017.

Inflation ("CPI") forecasts remain below the Bank of England's 2% target, with the fall in commodity prices, the continued slack in the economy and a moderate increase in core inflation. Consensus estimates now indicate that it will probably be 2017 at the earliest before we see an increase in interest rates.

Employment levels have continued to rise. The unemployment rate (December 2015) was 5.1% (5.7% in December 2014) and the employment rate was 74.1% which, according to the Office for National Statistics ("ONS"), is the highest since comparable records began in 1971.

The service sector, which accounts for more than three-quarters of the UK economy, continues to expand according to the Markit/CIPS UK Services Purchasing Managers' Index (February 2016). This expansion, which has increased employment growth, has had a knock-on effect on the level of take-up in the office market and prospects for future rental growth.

In the retail sector, the ONS estimates that sales volumes grew for the 34<sup>th</sup> consecutive month in February 2016, increasing by 3.8% compared with February 2015.

According to the ONS, business investment also continued to grow in 2015.

## **Asset Manager Summary**

- Weight of capital continues with record levels of investment in UK regional commercial property assets in 2015
- Focus of capital moving towards the UK regions from London
- Expect to see continued growth in 2016 in regional office and light industrial assets
- Secondary to continue to outperform prime property as yield spread narrows towards long-term average

The Investment Property Forum UK Consensus Forecasts published in February 2016 are in Tables 1 and 2 below.

Sector	Total Return 2016	Total Return 2017
Office	9.2%	5.1%
Industrial	9.3%	6.4%

Table 1: Investment Property Forum UK Consensus Forecasts, Feb 2016

These are market averages and the Asset Manager expects the secondary regional markets to perform in excess of these levels.

#### Summary average by sector

	Retail value growth (%)				Capital value growth (%)				Total return (%)			
	2016	2017	2018	2016/20	2016	2017	2018	2016/20	2016	2017	2018	2016/20
Office	5.2	3.1	1.8	2.1	4.9	0.8	-0.5	0.5	9.2	5.1	3.9	4.9
Industrial	3.5	2.9	2.3	2.3	3.9	1.1	1.0	1.2	9.3	6.4	6.3	6.6
Standard Retail	2.5	2.4	2.2	2.1	2.7	0.6	0.8	0.9	7.4	5.2	5.5	5.7
Shopping Centre	1.2	1.8	1.8	1.7	1.6	-0.2	0.3	0.3	6.7	4.9	5.3	5.4
Retail Warehouse	1.5	1.8	1.8	1.8	1.2	-0.1	0.2	0.3	6.7	5.4	5.8	5.9
<b>All Property</b>	<b>3.2</b>	<b>2.6</b>	<b>2.0</b>	<b>2.1</b>	<b>3.0</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>7.9</b>	<b>5.4</b>	<b>5.2</b>	<b>5.6</b>

Table 2: Investment Property Forum UK Consensus Forecasts, Feb 2016

#### Net Asset Value

In the period since listing, 6 November 2015 to 31 December 2015, the EPRA ("European Public Real Estate Association") Net Asset Value ("NAV") of the Group rose to £295.7m, from £274.2m, an increase of 7.8 pence per share ("pps").

The Net Asset Value increased to 107.7pps, from 100.0pps, over the same period. The Launch costs of the listing amounted to 1.9pps.

	Pence per share
EPRA NAV as at Admission 6 November 2015	100.0
Net rental income	1.7
Administration and other expenses	(0.5)
Gain on the disposal of investment properties	0.0
Change in the fair value of investment properties	8.7
<b>Operating profit before exceptional items</b>	<b>109.9</b>
Exceptional Items (Launch costs)	(1.9)
<b>Operating profit after exceptional items</b>	<b>108.0</b>
Finance expenses	(0.3)
<b>Operating profit after finance item</b>	<b>107.7</b>
Taxation	0.0
<b>NAV per share as at 31 December 2015</b>	<b>107.7</b>
Gain on derivative financial instruments	0.1
<b>EPRA NAV per share as at 31 December 2015</b>	<b>107.8</b>

#### Income Statement

There was an operating profit before gains and losses on property assets and other investments for the period 6 November 2015 to 31 December 2015 of £3.3m. Certain costs incurred in the 56 day operating period would normally be charged for a full accounting period, including auditors fees and legal and professional fees. Profit after the finance items and before taxation was £21.1m. This included an exceptional item for the launch costs, of £5.3m, which were incurred as a result of the Group's Admission to the London Stock Exchange ("LSE").

## Dividend

The Group announced a dividend for the period 6 November 2015 to 31 December 2015 of 1pps on 7 March 2016, which was paid on 15 April 2016.

The dividend consisted of 0.6572pps designated as a property income distribution ("PID") and 0.3428pps as a non-PID.

## Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2 to 4 years, with a weighted average maturity of 3.4 years. The Group's borrowing facilities were with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and were largely drawn down at the year end. Total bank borrowing at 31 December 2015 amounted to £128.6m (including unamortised debt issuance costs).

At 31 December 2015 the Group's cash and cash equivalent balances amounted to £24.0m.

The Group's net loan-to-value ratio stands at 25.4%. The Board targets a Group net loan-to-value ratio of 35% with a maximum of 50%. The table below sets out the borrowings the Group had in place as at 31 December 2015:

Lender	Original Facility	Outstanding Debt*	Maturity Date	LTV	Interest Cost per annum	Amortisation	Hedging and Swaps: Notional Amounts/Rates**
Santander UK	£35,000,000	£31,605,902	Dec-18	29.2%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£11m/1.867%
Santander UK	£13,500,000	£9,587,485	Dec-18	17.7%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£4.65m/2.246%
Royal Bank of Scotland	£15,600,000	£15,600,000	Jun-19	29.7%	2.75% over 3mth LIBOR	None	£14.04m/1.79%
ICG Longbow Ltd	£65,000,000	£65,000,000	Aug-19	48.9%	5% pa for term	None	n/a
Santander UK	£7,000,000	£6,850,000	Feb-18	46.2%	2% over 3mth LIBOR	£50,000 per qtr	£5.48m/1.444%
	£136,100,000	£128,643,387					

\*Including unamortised debt issue costs and fair valuation adjustment at period end.

\*\*Hedging arrangements: As at 31 December 2015, the swap notional amount was £35.2m. Under the swap agreements, the notional amount reduces on a quarterly basis.

The net gearing ratio, net debt to equity, of the Group was 34.8% as at 31 December 2015.

## Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. Borrowings are currently 90% hedged against interest rate risk: of all borrowings 51% are at a fixed rate; 27% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 12% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The Weighted Average Effective Interest Rate on the borrowings at 31 December 2015, including the hedging cost, was 4.5%.

## Tax

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK rental operations became exempt from UK corporation tax from that date. The exemption remains subject to the Group's continuing compliance with the UK REIT rules.

## Events After the Reporting Period

In the first quarter of 2016 the Group completed a number of significant acquisitions and a refinancing.

As at 31 March 2016 the Group's property assets amounted to approximately c. £500m. As at 31 March 2016 Group borrowings amounted to c. £226m with a weighted average effective interest rate on the borrowings, including the hedging cost, of 3.7%.



## Property Portfolio

As at 31 December 2015, the Group's property portfolio was valued at £403.7 million, with contracted rental income of £35.9m, and a vacancy rate of 16.1%. There were 123 properties in the portfolio:

- By segment:
  - 52 office (£239.8m), 29 industrial (£99.6m), 37 retail (£45.0m), 1 student accommodation (£17.4m), and 4 other (including residential)
- By region:
  - 49 Scotland (£144.9m), 22 Midlands (£66.6m), 15 South East (£66.1m), 15 North East (£57.0m), 12 North West (£37.1m), 2 Wales (£16.6m), and 8 South West (£15.5m)

If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the gross rental income would be £40.4 million per annum as at 31 December 2015.

As at 31 December 2015 the net initial yield on the portfolio was 7.6%, the equivalent yield was 8.3% and the reversionary yield was 9.0%.

### Regional REIT Property Portfolio by Segment and Region

#### Segment

	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT <sup>1</sup> to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV <sup>2</sup> £m	Capital rate £psf
Office	52	239.85	59.4%	1.98	84.4%	2.9	22.2	21.5	13.3	24.9	121.14
Industrial	29	99.62	24.7%	3.15	83.9%	5.5	8.9	8.0	3.3	10.2	31.63
Retail	37	45.03	11.2%	0.42	88.4%	5.4	3.8	3.3	10.5	4.3	107.21
Student Accomm.	1	17.40	4.3%	0.03	100.0%	24.7	0.9	0.9	28.9	0.9	n/a
Other	4	1.80	0.4%	0.04	7.4%	4.4	0.1	0.1	18.6	0.1	n/a
<b>Total</b>	<b>123</b>	<b>403.7</b>	<b>100.0%</b>	<b>5.62</b>	<b>83.9%</b>	<b>4.4</b>	<b>35.9</b>	<b>33.8</b>	<b>7.6</b>	<b>40.4</b>	<b>71.83</b>

#### Region

	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf
Scotland	49	144.91	35.9%	2.31	83.7%	5.0	12.8	12.5	6.6	15.1	62.73
Midlands	22	66.59	16.5%	0.90	76.4%	3.2	6.3	6.1	9.1	6.4	73.99
South East	15	66.05	16.4%	0.61	93.5%	2.1	6.5	6.1	11.3	6.9	108.28
North East	15	57.01	14.1%	0.83	83.2%	4.6	4.9	4.8	7.1	5.6	68.69
North West	12	37.13	9.2%	0.63	89.9%	8.3	3.0	2.4	5.3	3.1	58.94
Wales	2	16.55	4.1%	0.19	94.5%	6.6	1.3	1.0	7.7	1.4	87.11
South West	8	15.46	3.8%	0.15	60.2%	2.3	1.1	0.9	12.3	1.9	103.07
<b>Total</b>	<b>123</b>	<b>403.7</b>	<b>100.0%</b>	<b>5.62</b>	<b>83.9%</b>	<b>4.4</b>	<b>35.9</b>	<b>33.8</b>	<b>7.6</b>	<b>40.4</b>	<b>71.83</b>

<sup>1</sup>WAULT – weighted average unexpired lease term

<sup>2</sup>ERV – estimated rental value

**Top 15 Investments (market value) as at 31 December 2015**

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (ft <sup>2</sup> )	Let by area (%)	Annualised gross rent (£m)	WAULT (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	30.5	7.6%	156,933	69.1%	2.2	9.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Balfour Beatty Utility Solutions Limited, Cummins Limited	19.1	4.7%	709,816	88.1%	2.3	3.9
Blythswood House, Glasgow <sup>1</sup>	Student Accom.	The Glasgow School of Art	17.4	4.3%	32,000	100.0%	0.9	24.7
Hampshire Corporate Park, Chandler's Ford, Eastleigh	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	14.8	3.7%	85,422	100.0%	1.4	3.1
One and Two Newstead Court, Nottingham	Office	E.On UK plc	14.7	3.6%	146,063	100.0%	1.5	6.2
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.7	3.6%	53,253	100.0%	1.1	8.0
Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.1	3.2%	246,209	100.0%	0.9	18.8
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.5	3.1%	71,615	85.7%	1.0	9.8
Churchill Plaza, Basingstoke <sup>2</sup>	Office	Barclays Bank Plc	11.0	2.7%	135,362	100.0%	1.4	1.0
The Point, Glasgow	Mixed use	Howden Joinery Properties Limited, Euro Car Parts Limited	10.5	2.6%	183,861	93.9%	0.8	11.4
Templeton on the Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Limited	10.2	2.5%	142,758	87.4%	1.0	10.4
CGU House, Leeds	Office	Aviva Insurance Limited	9.9	2.5%	50,763	100.0%	1.0	1.7
9 Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	9.2	2.3%	54,959	89.8%	0.7	6.7
Chancellor Court, Leeds	Office	St James Place Wealth Management Group plc, The Legal Aid Agency	9.0	2.2%	41,818	100.0%	0.8	3.6
Marston Business Park, Tockwith, Wetherby	Industrial	Stage One Creative Services Limited, AJ Marshall (Specialist Steels) Limited	6.6	1.6%	223,043	76.7%	0.6	15.0
<b>Total</b>			<b>203.2</b>	<b>50.2%</b>	<b>2,333,875</b>		<b>17.6</b>	

<sup>1</sup> Sold April 2016

<sup>2</sup> Sold February 2016

**Top 15 Tenants (share of rental income) as at 31 December 2015**

Tenant	Property	Sector	WAULT (break if applicable) years	Sq Ft	% of Gross rental income
Barclays Bank Plc	Churchill Plaza, Basingstoke <sup>1</sup> & Tay House, Glasgow	Banking	5.8	213,406	8.2%
E.ON UK Plc	One & Two Newstead Court, Annesley	Energy	6.2 (3.1)	146,063	4.3%
TUI Northern Europe Ltd	Columbus House, Coventry	Travel and tourism	8.0	53,253	3.1%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Insurance	2.3	64,486	2.9%
Aviva Insurance Ltd	CGU House, Leeds	Insurance	1.7	50,763	2.8%
The Glasgow School of Art	Blythwood House, Glasgow <sup>2</sup>	Education	24.7	32,000	2.6%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturer of PE/PP foam	18.8	246,209	2.5%
The Secretary of State for Communities	Bennett House, Hanley & Sheldon Court, Solihull	Government	3.1 (1.6)	69,436	2.3%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Banking	2.4	48,372	1.9%
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Government	1.8	51,914	1.7%
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Retailer of office supplies	3.1	34,262	1.6%
Severn Trent Water Limited	2800 The Crescent, Solihull	Utilities (water)	0.2	29,935	1.5%
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Consultancy (engineering)	2.6	32,647	1.4%
South Lanarkshire Council	Royal Burgh House, 380 King Street, Glasgow	Government	2.4	24,600	1.4%
Level 3 Communications Limited	Minton Place, Swindon & Rosalind House, Basingstoke	Telecommunications	4.5 (1.7)	28,120	1.3%

<sup>1</sup> Sold February 2016

<sup>2</sup> Sold April 2016

## Property Portfolio Segment and Region by Valuation and Income

### By Valuation

As at 31 December 2015 59.4% of the portfolio by market value was offices and 24.7% was industrial. The balance was made up of retail (11.2%), student accommodation (4.3%) and other. With the acquisitions and disposals in the first quarter of 2016 the proportion of offices and industrial amounted to c. 88% as at 31 March 2016. By UK region, as at 31 December 2015, Scotland represented 35.9% of the portfolio and England 60.0%; the balance of 4.1% was in Wales. In England the largest regions were the Midlands, the South East and the North East. With the acquisitions and disposals in the first quarter of 2016 the proportion in England amounted to c. 67% as at 31 March 2016.

### By Income

As at 31 December 2015 61.8% of the portfolio by income was offices and 24.7% was industrial. The balance was made up of retail (10.7%), student accommodation (2.6%) and other. With the acquisitions and disposals in the first quarter of 2016 the proportion of offices and industrial amounted to c. 90% as at 31 March 2016. By UK region, as at 31 December 2015, Scotland represented 35.7% of the portfolio and England 60.6%; the balance of 3.7% was in Wales. In England, the largest regions were the South East, the Midlands and the North East. With the acquisitions and disposals in the first quarter of 2016 the proportion in England amounted to c. 66% as at 31 March 2016.

### Lease Expiry Profile

The weighted average unexpired lease term ("WAULT") on the portfolio is 6.1 years (5.6 years excluding Blythswood House); WAULT to first break is 4.4 years (3.8 years excluding Blythswood House). As at 31 December 2015, 12.8% of income was leases which will expire within 1 year, 31.1% between 1 and 3 years, 15.6% between 3 and 5 years, and 40.5% after 5 years.

### Events after the Reporting Period – Acquisitions and Disposals

On 30 December 2015, the Group announced it had exchanged contracts on the Wing portfolio of four multi-let office buildings and a multi-let industrial estate for a purchase price of £37.5m. The portfolio is located in Basingstoke, Leeds, Leicester and Manchester and an industrial business park in Beverley and totals c. 703,000 sq. ft., providing a net income of £3.38 million per annum. This equates to a net initial yield of 8.5%. The deal completed on a phased basis, stage 1 being 22 January 2016 for the freehold assets with stage 2, the leasehold assets of Basingstoke and Beverley, completing on 22 March 2016.

On 6 January 2016, the Group announced it had completed the acquisition of Rosalind House in Basingstoke for an acquisition price of £3m. The office building, 26,448 sq. ft. let until 2020, provides a net annual income of £396,000, equating to a net initial yield of 12.48%. Subsequently the Group agreed a lease surrender for a reverse premium of £888,000 and back-to-back letting following refurbishment to New Voice Media on a new 10 year lease at £394,755 per annum.

On 9 February 2016, the Group announced that it had exchanged contracts to buy the Rainbow Portfolio for £80.0m. The portfolio comprises 12 assets, five offices and seven industrial sites, totalling 1.15m sq. ft., which are geographically spread throughout the UK in major regional urban areas, including Bristol, Manchester, Cardiff, Sheffield and the West Midlands. Income from offices amounts to 55% of the portfolio; 86% of the income is from England. The portfolio produces a net yield of 8.2% at a capital rate of £70 per sq. ft. The deal completed on 9 March 2016.

These acquisitions were funded by a combination of capital resources and additional bank borrowing.

The Group also announced, on 9 February 2016, a number of disposals:

- Churchill Plaza, Basingstoke sold for £12m, the property having been acquired in August 2014 for £7.5m. The sale price represented a 52% increase on the June 2015 value and a 9% increase on the December 2015 valuation.
- Five retail assets sold for a total consideration of £4.8m, marginally ahead of the December 2015 valuation.
- An office building in Kirkcaldy has also been sold for £0.9m, 50% ahead of the June 2015 valuation and in line with the December 2015 valuation. An office building in Glasgow, 21 Blythswood Square, sold just before the December 2015 valuation for £1.5m, in line with valuation.

These disposals are consistent with the Group's policy of selling where real value has been created and to reduce risk, specifically development and retail properties where good value can be achieved.

In a number of other deals, the Group has continued to demonstrate its focus on its existing portfolio and has completed several active asset management projects in recent weeks, generating additional income through new lettings and maintaining and improving income through lease renewals and re-gears.

- Glasgow: At Tay House, the Grade A office building in Glasgow, the Group completed a deal with Barclays Bank plc, the major tenant of the building, occupying 78,044 sq. ft., to provide guaranteed income until October 2021. In addition, refurbishment works have commenced on the first and second floors, amounting to 48,533 sq. ft..
- Leeds: At Chancellor Court, The Calls, the Group has negotiated a five-year extension from September 2016 with the current tenant St James Place Wealth Management Limited. The lease consists of 17,896 sq. ft. of office space over two floors, providing a rent of £268,440 per annum.
- Bristol: The Group completed an agreement to let the ground and second floors of Building A at St James Court, Bristol. The deal will see South West Ambulance Service Trust (NHS) occupying 20,071 sq. ft. for a term of 15 years at £301,065 per annum. The Group is also in advanced negotiations on three quarters of the 17,641 sq. ft. Building B. This accommodation only ceased to be income-producing when vacated by EE on 24 December 2015 and demonstrates the Group's active asset management and strength of the Bristol market.
- Bath: the Group agreed with the BBC the surrender of the lease of St James Court for the sum of £1.1 million, and has completed refurbishment and partial remodelling of the ground and first floors. Agents have been appointed to find new tenants and a rental income of around £20 per sq. ft. is expected for the building. The Group has completed the extension of the letting of the second floor, extending occupation from 2017 to 2022.
- Nottingham: At Sherwood Park the Group agreed a new 10-year lease with E.ON UK plc on 2 Newstead Court, comprising 99,142 sq. ft., at a rent of £946,425 per annum. E.ON has occupied the property since 2004. E.ON also occupy the adjacent Regional REIT asset at 1 Newstead Court where they have recently completed a c. £1.2m refurbishment of the top floor.

On 6 April 2016, the Group announced the sale of Blythswood House, Glasgow for £17.4m in line with the valuation at 30 June 2015. Also Unit A, Spectrum Business Park, Wrexham was sold for £4.1m, 22% higher than the valuation at 30 June 2015. The Group also confirmed it had a new 10-year agreement with Regus for 30,000 sq. ft of floor space at Tay House, Glasgow.

## Principal Risks and Uncertainties

The Board has carried out a robust assessment of the current and future principal risks and uncertainties facing the Group and identified a number of risks which could have a material impact on the Group's performance if not monitored and controlled. The list below sets out the current identified principal risks which the Board is monitoring, but this does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate.

### Investment Risk

#### Cause

Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders

#### Risk Mitigation

- The Board will acquire portfolio interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and a large number of assets.
- The Board will only invest in office and industrial properties that are situated in the United Kingdom and outside the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway.
- No single property, in the ordinary course, is expected to exceed 10% of the Group's Gross Asset Value. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Gross Asset Value at the time of investment.
- No more than 20% of the Group's Gross Asset Value shall be exposed to any single tenant or group undertaking of that tenant.
- Speculative development (ie, properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.
- Development, other than such speculative development, is restricted to an aggregate maximum of 15% of the Group's Gross Asset Value at the time of investment or commencement of the development.
- The value of the assets is protected by active property management and this is regularly reviewed against the initial business plan for the acquisition.

### Tenant Risk

#### Cause

Type and concentration of tenant could result in lower income

#### Risk Mitigation

- The income risk has been diversified by letting properties, where possible, to a large number of low risk tenants across a number of different business sectors throughout the United Kingdom.

### Economic and Political Risk

#### Cause

The macro health of the UK economy will impact on borrowing costs, demand by tenants for suitable property and the quality of the tenants

#### Risk Mitigation

- The Board has instigated a policy of hedging any variable interest rate borrowings.
- The anticipated requirement for suitable tenants and the quality of the tenant is managed by the experienced asset management team who maintain close relationships with our current tenants and with prospective tenants.
- The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.

### Financial and Tax Change Risk

#### Cause

Changes to the UK tax regime and financial legislation

#### Risk Mitigation

- The REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.

### Operational Risk

#### Cause

Business disruption

#### Risk Mitigation

- The Asset Manager and Investment Manager have contingency plans in place to ensure there are no disruptions to its core infrastructure which would impinge on the normal operations of the Group.
- An annual due diligence exercise is carried out on all principal vendors.

### Accounting, Legal and Regulatory Risk

#### Cause

Changes to the accounting, legal and regulatory legislation

#### Risk Mitigation

- The Group has robust processes in place to ensure adherence to accounting, tax, legal and regulatory requirements.
- All contracts are reviewed by the Group's legal advisors.
- The Group has processes in place to ensure compliance with the applicable Listing Rules for a Premium Listed company. The Administrator, in its capacity as Group Accountant, and the Company Secretary attends all Board meetings to be aware of all announcements that need to be made.

## Statement of Directors' Responsibilities

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

Guernsey company law requires the Directors to prepare group and company 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 group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under Guernsey company law to prepare the Company's financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the Group's and the Company's affairs at the end of the financial period and of the profit or loss of the Group and the company for that period and are required by IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company.

In preparing the Group and the Company financial statements, the Directors should:

- 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 IFRSs 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 accounting records which are sufficient to show and explain the Group's and the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the financial statements comply with the requirements of The Companies (Guernsey) Law 2008 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 are responsible for the maintenance and integrity of the corporate and financial information included on the Regional REIT Limited website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility Statement of the Directors in respect of the Consolidated Annual Report

Each of the Directors, whose names and functions are listed in the Annual Report confirm that to the best of each person's knowledge:

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

For and on behalf of the Board

**Kevin McGrath**

Chairman

18 April 2016

## Statement of Comprehensive Income

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

		Group	Company
		22 June 2015 to 31 December 2015 £	22 June 2015 to 31 December 2015 £
<b>Continuing operations</b>	<b>Notes</b>		
<b>Revenue</b>			
Rental income	5	5,361,420	-
Non recoverable property costs	6	(753,607)	-
<b>Net rental income</b>		<b>4,607,813</b>	<b>-</b>
Administrative and other expenses	7	(1,353,183)	(699,866)
<b>Operating profit/(loss) before gains and losses on property assets &amp; other investments</b>		<b>3,254,630</b>	<b>(699,866)</b>
Gain on the disposal of investment properties	15	86,865	-
Change in fair value of investment properties	15	23,784,070	-
<b>Operating profit/(loss) before exceptional items</b>		<b>27,125,565</b>	<b>(699,866)</b>
<b>Exceptional items</b>	9	(5,296,368)	(5,296,368)
<b>Operating profit/(loss) after exceptional items</b>		<b>21,829,197</b>	<b>(5,996,234)</b>
Finance income	10	176,648	5,150,000
Finance expense	11	(996,710)	-
Net movement in fair value of derivative financial instruments	25	114,888	-
<b>Profit/(loss) before tax</b>		<b>21,124,023</b>	<b>(846,234)</b>
Income tax expense	12	-	-
<b>Profit/(loss) for the period after tax (attributable to equity shareholders)</b>		<b>21,124,023</b>	<b>(846,234)</b>
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the period</b>		<b>21,124,023</b>	<b>(846,234)</b>
<b>Attributable to:</b>			
-Owners of the parent		21,124,023	(846,234)
-Non-controlling interests		-	-
		<b>21,124,023</b>	<b>(846,234)</b>
<b>The total comprehensive income arises from continuing operations</b>			
<b>Earnings/(losses) per share (pps) to owners of the parent - basic and diluted</b>	13	<b>7.7p</b>	<b>(0.3)p</b>
<b>EPRA earnings/(losses) per share (pps) to owners of the parent- basic and diluted</b>	13	<b>(1.1)p</b>	<b>(0.3)p</b>

The notes below are an integral part of these consolidated financial statements.



**Statement of Financial Position**  
**As at 31 December 2015**

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

		<b>Group</b>	<b>Company</b>
		<b>31 December</b>	<b>31 December</b>
		<b>2015</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
<b>Assets</b>	<b>Notes</b>		
<b>Non-current assets</b>			
Investment properties	15	403,702,500	-
Investment in subsidiaries	16	-	274,217,264
Goodwill	17	2,785,758	-
Non current receivable	18	1,004,000	-
		<hr/>	<hr/>
		407,492,258	274,217,264
<b>Current assets</b>			
Trade and other receivables	19	11,848,352	3,333
Cash and cash equivalents	20	23,954,492	18,362
		<hr/>	<hr/>
		35,802,844	21,695
<b>Total assets</b>		<hr/> <b>443,295,102</b> <hr/>	<hr/> <b>274,238,959</b> <hr/>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	21	(12,575,818)	(867,929)
Deferred income	22	(5,906,387)	-
Taxation	23	(2,387,388)	-
Bank and loan borrowings - current	24	(200,000)	-
Derivative financial instruments	25	(415,527)	-
		<hr/>	<hr/>
		(21,485,120)	(867,929)
<b>Non-current liabilities</b>			
Bank and loan borrowings - non current	24	(126,468,695)	-
		<hr/>	<hr/>
		(126,468,695)	-
<b>Total liabilities</b>		<hr/> <b>(147,953,815)</b> <hr/>	<hr/> <b>(867,929)</b> <hr/>
<b>Net assets</b>		<hr/> <b>295,341,287</b> <hr/>	<hr/> <b>273,371,030</b> <hr/>
<b>Equity</b>			
Share capital	28	-	-
Share premium	28	274,217,264	274,217,264
Retained earnings/(accumulated losses)		21,124,023	(846,234)
		<hr/>	<hr/>
<b>Total equity</b>		<hr/> <b>295,341,287</b> <hr/>	<hr/> <b>273,371,030</b> <hr/>
<b>Net assets per share (pps)</b>	29	<b>107.7p</b>	<b>99.7p</b>
<b>EPRA net assets per share (pps)</b>	29	<b>107.8p</b>	<b>99.7p</b>

The financial statements were authorised for issue by the Board of Directors on 18 April 2016 and were signed on its behalf by:

**Kevin McGrath**  
Chairman  
18 April 2016

The notes below are an integral part of these consolidated financial statements.

## Statement of Changes in Equity

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Attributable to owners of the parent			
	Share capital	Share premium	Retained Earnings	Total
	£	£	£	£
<b><u>Group</u></b>				
Balance at 22 June 2015	-	-	-	-
Issue of Shares at no par value	-	274,217,264	-	274,217,264
Total transactions with owners , recognised directly in equity	-	274,217,264	-	274,217,264
Total comprehensive income	-	-	21,124,023	21,124,023
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>274,217,264</b>	<b>21,124,023</b>	<b>295,341,287</b>
	Share capital	Share premium	Accumulated Losses	Total
	£	£	£	£
<b><u>Company</u></b>				
Issue of Shares at no par value	-	274,217,264	-	274,217,264
Total transactions with owners recognised directly in equity	-	274,217,264	-	274,217,264
Total comprehensive income	-	-	(846,234)	(846,234)
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>274,217,264</b>	<b>(846,234)</b>	<b>273,371,030</b>

The issued share capital consists of 274,217,264 Ordinary shares issued at a premium of 100 pence each. These shares have no par value.

The notes below are an integral part of these consolidated financial statement

## Statement of Cash Flows

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
<b>Cash flows from operating activities</b>		
Profit/(loss) for the period before taxation	21,124,023	(846,234)
– Change in fair value of investment properties	(23,784,070)	-
– Change in fair value of financial derivative instruments	(114,888)	-
– profit on disposal of investment properties	(86,865)	-
Finance income	(176,648)	-
Finance expense	996,710	-
Increase in trade and other receivables	(5,358,066)	(3,333)
Increase in VAT and other taxes payable	359,679	-
Increase in trade, other payables & deferred income	4,807,715	867,929
<b>Cash (used in) / generated from operations</b>	<b>(2,232,410)</b>	<b>18,362</b>
Financial income	246,875	-
Finance costs	(670,746)	-
<b>Net cash flow (used in) / generated from operating activities</b>	<b>(2,656,281)</b>	<b>18,362</b>
<b>Investing activities</b>		
Purchase of investment properties	(4,190,680)	-
Sale of investment properties	5,347,520	-
Interest received	12,530	-
Acquisition of subsidiaries, net of cash acquired - <b>Note 16</b>	26,658,785	-
<b>Net cash flow from investing activities</b>	<b>27,828,155</b>	<b>-</b>
<b>Financing activities</b>		
Bank borrowings repaid	(1,217,382)	-
<b>Net cash flow (used in) financing activities</b>	<b>(1,217,382)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents for the period</b>	<b>23,954,492</b>	<b>18,362</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>23,954,492</b>	<b>18,362</b>

The notes below are an integral part of these consolidated financial statements.

## **Notes to the Financial Statements**

### **For the period from 22 June 2015 to 31 December 2015**

**Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.**

#### **1. Corporate information**

The consolidated financial statements of the Group for the period from 22 June 2015 to 31 December 2015 comprise the results of the Company and its subsidiaries (together constituting "the Group") and were approved by the Board and authorised for issue on 18 April 2016. Regional REIT Limited ("the Company") is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority ("UKLA"), a division of the Financial Conduct Authority ("FCA"), and traded on the London Stock Exchange ("LSE").

Regional REIT Limited was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the RCIS Rules.

Regional REIT Limited did not begin trading until 6 November 2015 when the shares were admitted to trading on the London Stock Exchange.

The nature of the Group's operations and its principal activities are set out in the Chairman's Statement above.

The address of the registered office is: Mont Crevelt House Bulwer Avenue St. Sampson Guernsey, GY2 4LH.

#### **Accounting policies**

##### **2. Basis of preparation**

In accordance with Section 244 of The Companies (Guernsey) Law 2008, the Group confirms that the financial information for the period ended 31 December 2015 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The statutory accounts for the period ended 31 December 2015 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the period ended 31 December 2015 received an unqualified audit opinion and the auditor's report contained no statement under section 263(2) or 263(3) of The Companies (Guernsey) Law 2008

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 18 April 2016.

These are the Group's first financial statement since incorporation. Consequently, there are no comparatives for a previous period.

##### **2.1 Functional and presentation currency**

The consolidated financial statements are presented in Pounds Sterling, which is also the Group's functional currency, and all values are rounded to the nearest pound, except where otherwise indicated.

##### **2.2 Going concern**

The Directors have carefully reviewed areas of potential financial risk and have reviewed cash flow forecasts. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for a period of not less than 12 months. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Group and Company financial statements on a going concern basis.

##### **2.3 Business combinations**

The Group acquires subsidiaries that own investment properties. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

## 2.4 New standards and interpretations

These are the first financial statements presented by the Group and, therefore, all relevant standards have been adopted with immediate effect.

## 2.5 New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted by the Group

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. These are:

*IFRS 9, 'Financial Instruments'*, effective for annual periods beginning on or after 1 January 2018 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

*IFRS 15, 'Revenue from contracts with customers'*, is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has yet to assess IFRS 15's full impact and intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

## 3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's 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.

### 3.1. Critical accounting estimates and assumptions

The principal estimates that may be material to the carrying amount of assets and liabilities are as follows:

#### 3.1.1 Valuation of investment property

The fair value of investment property, which has a carrying value of £403,702,500 at the reporting date, is determined, by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 15.

#### 3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the loan counterparty with revaluation occurring on a quarterly basis. The counter parties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £415,527.

#### 3.1.3 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4.5. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £2,785,758

### 3.2. Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

### **3.2.1 Operating lease contracts – the Group as lessor**

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group 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 of the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

### **3.2.2 Application of acquisition accounting to the transaction which took place on 6 November 2015.**

The Directors have considered the accounting treatment of the acquisition on 6 November 2015 by Regional REIT Limited, and its subsidiary Regional Commercial MidCo Limited ("MidCo") of the issued share capital of 75 special purpose vehicles ("SPVs") and the application of IFRS 3, 'Business Combinations', and IFRS 10, 'Consolidated Financial Statements'.

Taking these reporting standards into consideration the Directors have concluded that the consolidated financial statements should be prepared on the acquisition accounting basis. In the consolidated accounts, all the assets and liabilities of the Group are shown as analysed on a line by line basis with the activities of the subsidiaries being consolidated from the acquisition date of 6 November 2015. A description of the transaction is outlined below:

- The general partners of the four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) transferred their assets to MidCo, a Jersey incorporated and tax resident company, (see note 16 for a breakdown of assets transferred). In consideration for the transfer, MidCo issued 274,217,260 ordinary shares at a price of 100 pence each to the general partners of the Funds, in proportion to their respective interests in the assets (the "First Issue") per share. The General Partners of the Funds already held one share each in the capital of MidCo which, together with the shares issued pursuant to the First Issue, comprise the "MidCo Shares".
- After completion of the First Issue, the General Partners of the Funds transferred the MidCo Shares to the Company. In consideration for such transfer, the Company issued 274,217,260 Ordinary Shares ("the Consideration Shares") to the general partners of the Funds, in proportion to their respective interests in the MidCo Shares (the "Second Issue").
- Upon completion of the Second Issue, each of the Funds was terminated in accordance with the terms of their respective limited partnership agreements. Upon such termination, the General Partners of the Funds (as liquidating trustees) distributed the Consideration Shares to the investors in the Funds, in proportion to such investors' respective interests in the assets of those Funds.
- Immediately after and conditional upon completion of the Second Issue, the Asset Management Agreement and the Investment Management Agreement took effect in accordance with their terms.

The reason for the adoption of acquisition accounting was that the four Limited Partnership funds referred to above were previously under the control of Toscafund Asset Management LLP ("Toscafund") but control was relinquished on the listing of the Company's shares when the roles previously undertaken by Toscafund came to an end. Toscafund's control arose by virtue of its equity holdings, its role as general partner, and its contractual rights and obligations.

### **3.3 Consolidation of entities in which the Group holds less than 50%**

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries (the 'Credential Sub Group') by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest.

## **4. Summary of significant accounting policies**

### **4.1. Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as at the date of the Statement of Financial Position.

## **4.2 Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those 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.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets and liabilities acquired 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 acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to Other Comprehensive Income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Groups accounting policies.

The excess of the consideration transferred, and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill.

At Company level, the investments in subsidiary companies are included in the Statement of Financial Position at cost less impairment.

### **4.2.1. Disposal of subsidiaries**

When the Group ceases to have control over an entity any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## **4.3. Segmental information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Asset Manager, London & Scottish Investments Limited.

## **4.4. Investment property**

Investment property comprises freehold or leasehold 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 recognised, usually on legal completion, when the risks and rewards of ownership have been transferred and is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of being utilised in the manner intended. 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 Group Statement of Comprehensive Income in the period in which they arise under IAS 40, 'Investment Property'.

Additions to investment property include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits, which are expected to accrue to the Group. All other property expenditure is charged in the Group Statement of Comprehensive Income as incurred.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected. 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 Group's Statement of Comprehensive Income in the period of retirement or disposal.

#### **4.5. Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the subsidiaries, or groups of subsidiaries, that is expected to benefit from the synergies of the combination. Each subsidiary or group of subsidiaries, to which the goodwill is allocated, represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### **4.6. Derivative financial instruments**

Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at fair value at acquisition and are subsequently measured at fair value being the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the lender and its counterparties. The gain or loss at each fair value remeasurement date is recognised in the Group's Statement of Comprehensive Income. Premiums payable under such arrangements are initially capitalised into the Group's Statement of Financial Position, subsequently they are remeasured and held at their fair values.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

#### **4.7 Financial assets**

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables. The Group has no available for sale financial assets or assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for maturities of greater than twelve months from the end of the reporting period.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

#### **4.8. Trade and other receivables**

Trade and other receivables are recognised initially at fair value, being carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written-off when identified. Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

#### **4.9. Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at banks with original maturities of three months or less. Cash also includes amounts held in restricted accounts that are unavailable for everyday use.

#### **4.10. Trade payables**

Trade payables are initially recognised at their fair value; being at their invoiced value inclusive of any VAT that may be applicable. Payables are subsequently measured at amortised cost using the effective interest method.

#### **4.11. Bank and other borrowings**

All bank and other borrowings are initially recognised at cost net of attributable transaction costs. Any attributable transaction costs relating to the issue of the bank borrowings are amortised through the Group Statement of Comprehensive Income over the life of the debt instrument on a straight-line basis. After initial recognition, all bank and other borrowings are measured at amortised cost, using the effective interest method.

#### **4.12. Dividends payable to Shareholders**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the Shareholders at an annual general meeting.



#### **4.13 Rental income**

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental income in the Group's Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. 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.

Surrender premiums received from tenants to terminate leases or surrender premises are recognised in the Group's Statement of Comprehensive Income when the right to receive them arises.

When the Group is acting as an agent, the commission, rather than gross income, is recorded as revenue.

#### **4.14 Non recoverable property costs - service and management charges**

Service and management charges are recognised in the accounting period in which the services are rendered.

#### **4.15 Exceptional items**

Exceptional items are those items of an income or expense of a non-recurring nature which are shown separately in the Consolidated Statement of Comprehensive Income by virtue of their nature, size or incidence.

#### **4.16. Interest income**

Interest income is recognised as interest accrues on cash balances held by the Group. Interest charged to a tenant on any overdue rental income is also recognised within interest income.

#### **4.17. Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### **4.18. Finance costs**

Any finance costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that takes a period of time to complete are capitalised as part of the cost of the asset. All other finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs that an entity incurs in connection with bank and other borrowings.

#### **4.19. Taxation**

As Regional REIT Limited is managed and controlled in the UK, it is considered to be tax resident in the UK.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement 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 and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date.

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on UK properties are also exempt from tax, provided that they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to UK Corporation Tax.

#### **4.20. 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

Reductions in UK Corporation tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has further been announced, but not yet enacted, that the rate will be reduced to 17% from 1 April 2020.

#### **4.21. Share capital**

Ordinary shares are classed as equity.

#### 4.22. Share based payments

The Group has entered into performance fee arrangements with the Asset Manager and the Investment Manager which depend on the growth in the net asset value of the Group exceeding a hurdle rate of return over a period of time. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a cash settled share-based payment arrangement. The fair value of the obligation is measured at each reporting, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to equity.

#### 5. Rental income

	<b>Group</b> <b>22 June 2015</b> <b>to</b> <b>31 December</b> <b>2015</b> <b>£</b>	<b>Company</b> <b>22 June 2015</b> <b>to</b> <b>31 December</b> <b>2015</b> <b>£</b>
Rental Income-freehold property	4,500,266	-
Rental Income-long term leasehold property	861,154	-
Gross rental income	5,361,420	-

#### 6. Non-recoverable property costs

	<b>Group</b> <b>22 June 2015</b> <b>to</b> <b>31 December</b> <b>2015</b> <b>£</b>	<b>Company</b> <b>22 June 2015</b> <b>to</b> <b>31 December</b> <b>2015</b> <b>£</b>
Property insurance expense	37,599	-
Other property expenses and irrecoverable costs	716,008	-
<b>Non recoverable property costs</b>	<b>753,607</b>	<b>-</b>

#### 7. Administrative and other expenses

	<b>Group</b> <b>22 June 2015 to</b> <b>31 December</b> <b>2015</b> <b>£</b>	<b>Company</b> <b>22 June 2015 to</b> <b>31 December</b> <b>2015</b> <b>£</b>
Investment management fees	263,542	218,104
Property management fees	202,979	-
Asset management fees	231,727	-
Directors' remuneration (see below)	48,365	48,365
Administration fees	118,341	33,726
Legal & professional fees	389,641	288,372
Marketing & promotion	14,940	14,940
Other administrative costs	82,164	96,299
Bank charges	1,484	60
<b>Total</b>	<b>1,353,183</b>	<b>699,866</b>

The number of persons employed by the Group and Company in the period was 5, being the Directors, whose remuneration is set out in note 8.

**Services provided by the Company's auditor and its associates**

The Group has obtained the following services from the Company's auditor and its associates:

	Group
	22 June 2015 to 31 December 2015
	£
Fee for the audit of the consolidated and parent company financial statements	86,500
Fees payable to the Company's auditor and its associates for other services	
Fee for the audit of the subsidiaries for their respective periods of account ended 31 December 2015	105,000
Corporate finance services in connection with the flotation	250,255
Tax compliance services provided to subsidiaries	69,000
<b>Total</b>	<b>511,255</b>

**8. Key management compensation**

	Group	Company
	22 June 2015 to 31 December 2015	22 June 2015 to 31 December 2015
	£	£
Directors' fees	42,500	42,500
Employers National Insurance	5,865	5,865
	<b>48,365</b>	<b>48,365</b>

Key management comprises the Directors of the Company. The Directors were paid a full quarter's fee, from 1 October 2015, because they were involved in the listing process of the Company.

A summary of the Directors' emoluments, is set out in the Directors' Remuneration Report in the Annual Report and Accounts.

**9. Exceptional items**

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence.

Exceptional items comprise the professional fees and regulatory costs associated with the acquisition and the listing of the shares on the London Stock Exchange.

**10. Finance income**

	Group	Company
	22 June 2015 to 31 December 2015	22 June 2015 to 31 December 2015
	£	£
Group dividend income	-	5,150,000
Interest income	12,530	-
Other finance income	99,243	-
Unwinding of discount on financial asset	64,875	-
<b>Total finance income</b>	<b>176,648</b>	<b>5,150,000</b>

## 11. Finance expense

	<b>Group</b>	<b>Company</b>
	<b>22 June 2015 to 31 December 2015</b>	<b>22 June 2015 to 31 December 2015</b>
	<b>£</b>	<b>£</b>
Interest payable on bank borrowings	910,039	-
Amortisation of loan arrangement fees	86,671	-
	<b>996,710</b>	<b>-</b>

## 12. Income tax expense

Income tax expense in the Statement of Comprehensive Income

	<b>Group</b>	<b>Company</b>
	<b>22 June 2015 to 31 December 2015</b>	<b>22 June 2015 to 31 December 2015</b>
	<b>£</b>	<b>£</b>
Income tax expense	-	-

The current tax is reduced by the Real Estate Investment Trust (REIT) exemptions.

The tax charge for the period can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

Profit/(loss) before taxation	21,124,023	(846,234)
UK Corporation tax rate for the period	20%	20%
Theoretical tax at UK Corporation tax rate	4,224,804	(169,247)
Effects of:		
Revaluation gain on investment properties, not taxable	(4,756,814)	-
Profits from the tax exempt business	(359,049)	-
Permanent differences	1,023,273	169,247
Utilisation of losses brought forward	(132,214)	-
Tax charge	-	-

Reductions in the rate of UK Corporation Tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has been further announced, but not yet enacted, that the rate will be reduced to 17% from 1 April 2020. Deferred tax has been measured in accordance with the enacted rates expected to apply to the period of reversal of temporary differences.

### 13. Earnings/(losses) per share

Earnings/(losses) per share (EPS) amounts are calculated by dividing profit/(losses) for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings/(losses) per share are identical.

The calculation of basic and diluted earnings per share is based on the following:

	Net profit attributable to Ordinary Shareholders before exceptional items £	Net profit attributable to Ordinary Shareholders after exceptional items £	Weighted average number of Ordinary Shares' Number	Earnings/(losses) per share before exceptional item	Earnings/(losses) per share after exceptional item
<b>Group</b>					
<b>For the period from 22 June 2015 to 31 December 2015</b>					
Net profit attributable to Ordinary Shareholders	21,124,023	21,124,023			
add back Exceptional items	5,296,368	-			
Basic and diluted earnings per share	26,420,391	21,124,023	274,217,264	9.6p	7.7p
<b>Adjustment to remove</b>					
Changes in value of investment properties	(23,784,070)	(23,784,070)	-	-	-
Changes in fair value of interest rate derivatives and financial asset	(179,763)	(179,763)	-	-	-
Profit on disposal of investment property	(86,865)	(86,865)	-	-	-
<b>EPRA basic and diluted earnings/(losses) per share</b>	<b>2,369,693</b>	<b>(2,926,675)</b>	<b>274,217,264</b>	<b>0.9p</b>	<b>(1.1)p</b>

### Company

#### **For the period from 22 June 2015 to 31 December 2015**

Net loss attributable to Ordinary Shareholders	(846,234)	(846,234)			
add back Exceptional items	5,296,368	-			
Profit before Exceptional items	4,450,134	(846,234)			
Basic and diluted losses per share	4,450,134	(846,234)	274,217,264	1.6p	(0.3)p

As described in note 9, there was an exceptional item for £5,296,368 during the period.

The earnings per share figures before the exceptional items are as follows:

	<u>Group</u>	<u>Company</u>
<b>Earnings/(losses) per share (pps) attributable to owners of the parent- basic and diluted before exceptional item</b>	<b>9.6p</b>	<b>1.6p</b>
<b>EPRA earnings/(losses) per share (pps) to owners of the parent- basic and diluted before exceptional item</b>	<b>0.9p</b>	<b>1.6p</b>

As described in note 9, there was an exceptional item for £5,296,368 during the period.

#### 14. Dividends paid after the reporting date

	<b>Group</b> <b>31 December</b> <b>2015</b> <b>£</b>	<b>Company</b> <b>31 December</b> <b>2015</b> <b>£</b>
Dividend of 1 pence per 274,217,264 Ordinary shares		
Total dividends	2,742,173	2,742,173
Total dividends per share	<b>1.0p</b>	<b>1.0p</b>

The dividend was declared on 7 March 2016 and was paid on 15 April 2016. These financial statements do not reflect this dividend.

#### 15. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, Chartered Surveyors, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

All corporate acquisitions during the period have been treated as business combinations because they are considered to be acquisitions of businesses, rather than properties purchased.

#### Group only

	<b>Freehold</b> <b>Property</b> <b>£</b>	<b>Long</b> <b>Leasehold</b> <b>Property</b> <b>£</b>	<b>Total</b> <b>£</b>
On acquisition of subsidiaries	319,540,681	61,447,724	380,988,405
Property additions	1,020,242	3,170,438	4,190,680
Property disposals	(5,347,520)	-	(5,347,520)
Gain on the disposal of investment properties	86,865	-	86,865
Change in fair value during the period	16,752,232	7,031,838	23,784,070
<b>As at 31 December 2015</b>	<b>332,052,500</b>	<b>71,650,000</b>	<b>403,702,500</b>

The valuation summary is set out above in the Asset and Investment Manager's Report.

The historic cost of the properties was £349,535,000.

## Fair value hierarchy

The following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £	Quoted active prices (level 1) £	Significant observable inputs (level 2) £	Significant unobservable inputs (level 3) £
Assets measured at fair value:					
Investment properties	31 December 2015	403,702,500	-	403,702,500	-

There have been no transfers between levels during the period.

The determination of the fair value of the investment properties held by each consolidated subsidiary requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. Future revenue streams comprise contracted rent (passing rent) and estimated rental value ("ERV") after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2015, valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

### *Techniques used for valuing investment properties*

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining the fair values:-

#### *Valuation technique: market comparable method*

Under the market comparable method (or market approach), a property fair value is estimated based on comparable transactions in the market.

#### *Observable Input: Passing rent*

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £1 - £1,350,000 per annum)

#### *Observable Input: Rental growth*

The estimated average increase in rent is based on both market estimations and contractual agreements.

#### *Observable Input: net initial yield*

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 1.84% - 23.05%)

### *Sensitivities of measurement if significant observable inputs*

As set out within significant accounting estimates and judgement above, the Group's property portfolio valuation is open to judgement and is inherently subjective by nature, and actual values can only be determined in a sales transaction.

As a result, the following sensitivity analysis has been prepared:

Variation in input measures	Net rent		Nominal equivalent yield	
	-5%	+5%	-5%	+5%
	£	£	£	£
Effect on income statement	(1,663,929)	1,663,929	(13,739,000)	14,056,000

A reconciliation of the valuation carried out by the external valuers to the carrying amount in the Statement of Financial Position is as follows:

	<b>Group</b>	<b>Company</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2015</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
As set out in Cushman & Wakefield's valuation report	405,422,500	-
Adjustment in respect of Blythwood House disposal post year end	(1,720,000)	-
As shown in the Statement of Financial Position	403,702,500	-

The adjustment reflects a value determined in a sales transaction shortly after the period end.

#### **16. Investment in subsidiaries**

##### **Company only**

	<b>31 December</b>
	<b>2015</b>
	<b>£</b>
As at 22 June 2015	-
Acquisition of subsidiaries during the period	274,217,264
<b>As at 31 December 2015</b>	<b>274,217,264</b>

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.



## 16.1 Subsidiary companies

### List of subsidiaries that are 100% owned and controlled by the Group

	Country of incorporation	Ownership %
Tosca Rosalind Ltd	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%
Tosca Faraday Close Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Scotland Limited	Jersey	100%
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Blythswood Ltd	Jersey	100%
Toscafund Chancellor Court Ltd	Jersey	100%
Toscafund Milburn House Ltd	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%
Toscafund Portland Street Ltd	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund South Gyle Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Tay Properties Ltd	Jersey	100%
Blythswood House LLP	United Kingdom	100%
Toscafund Hareness Road Ltd	Jersey	100%
TCP Channel Limited	Jersey	100%

### List of subsidiaries that are 100% owned and controlled by the Group (continued)

	Country of incorporation	Ownership %
TCP Arbos Limited	Jersey	100%
TCPF FinCo Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca UKCP II FinCo Limited	Jersey	100%
Regional Commercial MIDCO Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%

All the above subsidiaries were acquired on 6 November 2015.

All the above entities have been included in the Group financial statements from 6 November 2015.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

By virtue of the Amended and restated Call Option Agreement, dated 3 November 2015, the Directors consider that the

Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries.

Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control.

The list of these subsidiaries is as per below:

	Country of incorporation	De facto control %
Squeeze Newco 2 Limited	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%
Dumbarton Road Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Credential (Peterborough) Limited	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Douglas Shelf Seven Limited	United Kingdom	100%
Credential Charing Cross Limited	United Kingdom	100%
Credential Bath Street Limited	United Kingdom	100%
Credential Muirhouse Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Credential SHOP Limited	United Kingdom	100%
Credential (Greenock) Limited	United Kingdom	100%
Credential (Baillieston) Limited	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Caststop Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
London & Scottish Property Management Limited	United Kingdom	100%
Castlestream Limited	United Kingdom	100%

All the above subsidiaries were deemed to have been acquired on 6 November 2015.

All the above entities have been included in the Group financial statements from 6 November 2015.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

The above subsidiaries have been consolidated at 100% by the Group.

## 16.2 Business combination

On 6 November 2015 the company acquired Regional Commercial MidCo Limited for £274,217,264, which included 100% of the issued share capital of 47 special purpose vehicles. On the same day, one of the subsidiaries, Toscafund Glasgow Limited, acquired control of Credential Investment Holdings Limited and its 26 subsidiaries, by virtue of a Call Option Agreement dated 3 November 2015.

The reason for the acquisition was to obtain a listing which will offer shareholders a public market for the shares and increase the strategic flexibility of the Group. The goodwill of £2,785,758 arising from the acquisition is attributable to the cost saving synergies available to the enlarged group, particularly access to lower borrowing rates. The fair value of trade and other receivables is £2,991,486, including £1,195,959 for trade receivables. The gross contractual amount of trade receivables as at 31 December 2015 is £1,423,731 of which £227,772 is expected to be uncollectable.

The following table summarises the consideration paid for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

### Consideration at 6 November 2015

	£
Ordinary shares issued	274,217,264
<b>Total consideration transferred</b>	<b>274,217,264</b>

### Recognised amounts of identifiable assets acquired and liabilities assumed

Investment property	380,988,405
Trade receivables	1,195,959
Other receivables	1,795,527
Financial asset - within one year	745,000
Financial asset - after one year	1,197,000
Prepayments & accrued income	2,742,801
Cash at bank	26,658,785
Unamortised debt issue costs	1,962,120
Trade payables	( 2,473,976)
Other payables	( 4,073,815)
Taxation	( 2,387,388)
VAT, PAYE & NI	( 817,599)
Accruals & deferred income	( 5,710,129)
Borrowings	( 129,860,769)
Interest rate derivatives	( 530,415)
	<b>271,431,506</b>
Goodwill on acquisition	2,785,758
Non-controlling interest	-
<b>Total</b>	<b>274,217,264</b>

The contributions made by the subsidiaries were £27,190,214 in the profit after tax and net assets of the Group since acquisition. It is not practicable to provide a theoretical result as though the acquisition had been made on 22 June 2015. Any costs related to the acquisitions have been charged to exceptional items in the Statement of Comprehensive Income above. The fair value of the 274,217,264 shares issued as consideration was 100 pence each, being the placing price of the initial public offering.

### 16.3 Credential subgroup

The fair value of the non-controlling interest in Credential Investment Holdings Limited is nil because of the net liabilities as shown below.

Summarised financial information of Credential subgroup:

#### Credential Statement of Comprehensive income for the period from 6 November 2015 to 31 December 2015

	£
<b>Revenue</b>	
Rental income	1,122,384
Non recoverable property costs	(136,326)
<b>Net rental income</b>	<b>986,058</b>
Administrative and other expenses	21,407
<b>Operating profit before gains and losses on property assets &amp; other investments</b>	<b>1,007,465</b>
Loss on the disposal of investment properties	(3,700)
Change in fair value of investment properties	7,893,065
<b>Operating profit</b>	<b>8,896,830</b>
Finance income	4,198
Finance expense	(877,805)
<b>Profit after finance item</b>	<b>8,023,223</b>
Taxation	-
<b>Profit for the period after taxation</b>	<b>8,023,223</b>
Other comprehensive income	-
Attributable to Regional REIT Ltd Group	(8,023,223)
<b>Total comprehensive income/(loss) (attributable to equity shareholders)</b>	<b>-</b>

The Statement of Financial Position of the Credential subgroup was as follows:

	<b>31 December 2015</b>
	<b>£</b>
<b>Non current asset</b>	
Investment properties	78,532,500
	<u>78,532,500</u>
<b>Current assets</b>	
Trade receivables	1,269,768
Other receivables	319,171
Prepayments	876,757
Bank	1,148,406
	<u>3,614,102</u>
<b>Total assets</b>	<u>82,146,602</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Trade payables	( 369,271)
Other payables	( 978,094)
Value Added Tax	( 443,686)
Accruals & deferred income	(16,232,148)
Loans from Regional REIT Ltd group	(109,872,758)
Taxation	(611,749)
<b>Total liabilities</b>	<u>(128,507,706)</u>
<b>Net liabilities</b>	<u>(46,361,104)</u>
<b>Equity</b>	
Called up share capital	5,724,036
Capital redemption reserve	4,301,029
Goodwill	140,916
Other reserves	6,167,614
Accumulated losses	(62,694,699)
<b>Net liabilities</b>	<u>(46,361,104)</u>

#### 17. Goodwill

	<b>Group</b>	<b>Company</b>
	<b>31 December</b>	<b>31</b>
	<b>2015</b>	<b>December</b>
	<b>£</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>At 6 November 2015 and 31 December 2015</b>	<u>2,785,758</u>	<u>-</u>

Goodwill arises on the acquisition of subsidiaries and represents 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 at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on pretax-tax cash flow projections of cost savings to the Group as a whole as a single cash generating unit, using a discount rate of 3%.

**18. Non-current receivable**  
**Group only**

	<b>Group</b>
	<b>31</b>
	<b>December</b>
	<b>2015</b>
	<b>£</b>
On acquisition	1,942,000
Movement in period	(246,875)
Unwinding of discount	64,875
<b>Balance at 31 December 2015</b>	<b><u>1,760,000</u></b>
Asset due within 1 year	756,000
Asset due after 1 year	1,004,000
	<b><u>1,760,000</u></b>

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 4 years. The amount due was recognised initially at fair value and subsequently recorded at amortised cost using the effective interest method. The unwinding of the discount is included in finance income.

**19. Trade and other receivables**

	<b>Group</b>	<b>Company</b>
	<b>31 December</b>	<b>31</b>
	<b>2015</b>	<b>December</b>
	<b>£</b>	<b>2015</b>
Gross amount receivable from tenants	3,246,121	-
Less provision for impairment	<u>(227,772)</u>	<u>-</u>
Net amount receivable from tenants	3,018,349	-
Current portion of receivables (note 18)	756,000	-
Other receivables	5,257,441	-
Prepayments and accrued income	<u>2,816,562</u>	<u>3,333</u>
	<b><u>11,848,352</u></b>	<b><u>3,333</u></b>

At 31 December 2015, the aged analysis of tenant invoice receivables was as follows:

	<b>Group</b>
	<b>31 December</b>
	<b>2015</b>
	<b>£</b>
Current	1,484,732
< 30 days	570,502
30 - 60 days	550,418
> 60 days	<u>640,469</u>
	3,246,121
Provision for impairment	<u>(227,772)</u>
	<b><u>3,018,349</u></b>

The Directors consider the fair value of receivables equals their carrying amount. As at 31 December 2015, trade receivables of £3,018,349 were past due but not impaired. These relate to tenants for whom there is no recent history of default. The age analysis of these trade receivables is as follows:

<b>Period</b>	<b>Group £</b>
3-6 months	222,772
Over 6 months	-

Movements on the Group's provision for impairment of trade receivables are as follows:

	<b>Group 22 June 2015 to 31 December 2015 £</b>
Acquired with subsidiaries	227,772
Provision for impairment in the period	-
Receivables written off as uncollectable	-
Unused provision reversed	-
As at 31 December 2015	<u>227,772</u>

The other categories within trade and other receivables do not include impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

## 20. Cash and cash equivalents

	<b>Group 31 December 2015 £</b>	<b>Company 31 December 2015 £</b>
Cash held at bank	15,154,445	18,362
Restricted cash	8,800,047	-
	<u>23,954,492</u>	<u>18,362</u>

Restricted cash balances of the Group comprise:

- £6,348,568 of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end, before 31 March 2016.
- £2,171,439 of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £280,040 of funds which represent tenants' rental deposits.

## 21. Trade and other payables

	<b>Group 31 December 2015 £</b>	<b>Company 31 December 2015 £</b>
Trade payables	2,513,046	-
Other payables	5,095,340	-
Value added tax	1,091,798	-
Accruals	3,875,634	867,929
	<u>12,575,818</u>	<u>867,929</u>

## 22. Deferred income

Deferred rental income is rent received in advance from tenants.

## 23. Taxation liabilities

	<b>Group 31 December 2015 £</b>
<b>Income tax</b>	
Balance at acquisition and at 31 December 2015	<u>2,387,388</u>

The taxation liabilities of £2,387,388 represent payables at the date of the acquisitions by the Group on 6 November 2015.

## 24. Bank and loan borrowings

The Group acquired bank debt of £130m when it entered into the business combination described in note 16. All available debt facilities are fully drawn at the reporting date and there are no committed but undrawn facilities. The weighted average term to maturity of the Group's debt as at the period end was 3.4 years.

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. Any associated fees in arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

<b>Group only</b>	<b>31 December 2015 £</b>
Bank borrowings drawn	128,643,387
Less: unamortised costs	(1,875,449)
Less: adjustment through finance income	(99,243)
	<u><b>126,668,695</b></u>
Maturity of bank borrowings	
Repayable within 1 year	<u>200,000</u>
Repayable between 1 and 2 years	200,000
Repayable between 2 and 5 years	<u>126,268,695</u>
	<u>126,468,695</u>
	<u><b>126,668,695</b></u>

All of the Group's five borrowing facilities contain options for extension. There were four facilities with an extension option of one year and the fifth facility has extension option of two years (split into two, one year extensions). The extension options require the agreement of both the Group and counterparty bank in order to be exercised. Details of the individual facilities can be found in the Asset and Investment Managers' Report.

Four of the Group's facilities have an interest charge which is payable quarterly based on a margin above 3 month LIBOR. The fifth facility carries a fixed rate of interest. The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 4.1%.

The Group has been in compliance with all of the financial covenants of the above facilities as applicable throughout the period covered by these financial statements.

As shown in note 25, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. Its exposure to volatility is virtually nil.



## 25. Derivative financial instruments

To mitigate the interest rate risk that arises as a result of entering into variable rate borrowings, the Group entered into a number of interest rate caps, swaps and swaptions during the period. The weighted average cap, swap and swaption rate for the Group as at the period end was 4.4%, with a Group weighted average effective interest rate of 4.5% inclusive of hedging costs.

	Group 31 December 2015 £
On acquisition	(530,415)
Revaluation in period	114,888
<b>Total</b>	<b>(415,527)</b>

Further, the Group has entered into the following interest rate caps, swaps and swaptions.

Lender	Original Facility	Outstanding Debt	Maturity Date	LTV	Interest Cost per annum	Amortisation	Hedging and Swaps: Notional Amounts/Rates
	£	£					
Santander UK	35,000,000	31,605,902	01/12/2018	0.292	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£11m/1.867%
Santander UK	13,500,000	9,587,485	01/12/2018	0.177	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£4.65m/2.246%
Royal Bank of Scotland	15,600,000	15,600,000	01/06/2019	0.297	2.75% over 3mth LIBOR	None	£14.04m/1.79%
ICG Longbow Ltd	65,000,000	65,000,000	01/08/2019	0.489	5% pa for term	None	n/a
Santander UK	7,000,000	6,850,000	01/02/2018	0.462	2% over 3mth LIBOR	£50,000 per qtr	£5.48m/1.444%
	<u>136,100,000</u>	<u>128,643,387</u>					

The interest rate derivatives were acquired from the subsidiaries at acquisition and are marked to market by the relevant counterparty banks on a quarterly basis in accordance with IAS 39, 'Financial Instruments; Recognition and Measurement'. Any movement in the mark to market values of the derivatives are taken to the Group's Statement of Comprehensive Income.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liabilities.

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives. As at the period end date the total proportion of hedged debt equated to 90%, as shown below.

	<b>Group 31 December 2015 £</b>
<b>Total bank borrowings</b>	128,643,387
Notional value of Interest rate derivatives (for variable rate loans)	50,825,000
Value of fixed rate debts	65,000,000
	<u>115,825,000</u>
Proportion of hedged debt	90.1%

## 25.1 Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

The different levels are defined as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

### Group only

<b>Date of valuation</b>	<b>Total £</b>	Quoted prices in active markets (level1) £	Significant observable input (level2) £	Significant unobservable input (level3) £
<b>Assets measured at fair value:</b>				
Interest rate derivatives at 31 December 2015	<b>(415,527)</b>	-	(415,527)	-

The fair value of these contracts are recorded in the Group Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the period end.

There have been no transfers between levels during the period.

There were no interest rate risk derivative instruments at Company level.

The Group has not adopted hedge accounting.

## 26. Financial risk management

### 26.1 Financial instruments

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents. The Group's other principal financial liabilities are bank and other loan borrowings, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	<b>Group</b>		<b>Company</b>	
	<b>31 December 2015</b>		<b>31 December 2015</b>	
	Book value	Fair Value	Book value	Fair Value
	£	£	£	£
<b><u>Financial assets</u></b>				
Trade and other receivables	10,035,790	10,035,790	-	-
Cash and short-term deposits	23,954,492	23,954,492	18,362	18,362
<b><u>Financial liabilities</u></b>				
Trade and other payables	(18,897,732)	(18,897,732)	(867,929)	(867,929)
Bank and loan borrowings	(126,668,695)	(126,668,695)	-	-

All financial assets and liabilities are classified as 'loans and receivables' except for interest rate derivatives which are described as 'at fair value through profit or loss'.

## 26.2 Risk management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The Board of Directors oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks that are summarised below.

## 26.3 Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with a number of interest rate swaps entered into to mitigate interest rate risk.

The Group's interest rate risk arises from long term borrowings issued at variable rates, which 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 manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

## 26.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from both its leasing activities and financing activities, including deposits with banks and financial institutions. Credit risk is mitigated by tenants being required to pay rentals in advance under their lease obligations. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

Outstanding trade receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

## 26.5 Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the balance sheet net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. Any trade receivables past due as at the period end were received shortly after the period end.

## 26.6 Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances are limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

The list of bankers for the Group, with their Fitch credit ratings, was as follows:

<b><u>Bankers</u></b>	<b><u>Fitch Ratings</u></b>
Barclays	Baa3
Royal Bank of Scotland	Ba1
Santander UK	A

## 26.7 Liquidity risk

Liquidity risk arises from the Group's management of working capital and, going forward, the finance charges and principal repayments on its borrowings. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are investment properties and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

<b>Group</b>	<b>Within 1 year £</b>	<b>Between 2 to 5 years £</b>	<b>After 5 years £</b>	<b>Total £</b>
<b>31 December 2015</b>				
Bank borrowings	(200,000)	(126,468,695)	-	(126,668,695)
Trade and other payables	(18,897,732)	-	-	(18,897,732)
	(19,097,732)	(126,468,695)	-	(145,566,427)

<b>Company</b>	<b>Within 1 year £</b>	<b>Before 5 years £</b>	<b>After 5 years £</b>	<b>Total £</b>
<b>31 December 2015</b>				
Trade and other payables	(867,929)	-	-	(867,929)

Derivative instrument interest rate swaps and caps with a negative fair value are included within the less than one year category.

## 27. Capital management

The primary objective of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Board, with the assistance of the Investment Manager, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for Shareholders.

The Group's policy on borrowings is as follows:

-the level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, while maintaining flexibility in the underlying security requirements, and the structure of both the portfolio and of Regional REIT.

Based on current market conditions, the Board will target Group net borrowings of 35 per cent. of Gross Asset Value at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent of the Gross Asset Value at any time.

Debt will be secured at the asset level subject to the assessment of the optimal financing structure for the Group and having consideration to key metrics including lender diversity, debt type and maturity profile.

## 28. Share capital and Share premium

<u>Company</u>	<b>Company 31 December 2015 Number</b>
<b>Issued and fully paid at £1 each-no par value</b>	<b><u>274,217,264</u></b>
At 22 June 2015	1
Shares issued	274,217,263
<b>At 31 December 2015</b>	<b><u>274,217,264</u></b>

The Company was incorporated on 22 June 2015 and issued one ordinary share of no par value at a price of 100 pence to the sole subscriber.

On 16 October 2015 a further 3 ordinary shares of no par value were issued at a price of 100 pence each. The shares issued have the same rights as the subscriber share.

On 6 November 2016 the Company issued 274,217,260 ordinary shares of no par value to the general partners of four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) in consideration for their shares in Regional Commercial Midco Limited thereby acquiring a number of property owning special purpose vehicles as described more fully in note 16.

The fair value of the shares issued amounted to £274,217,260 and the shares issued have the same rights as the other shares in issue.

On 6 November 2015, the Group announced that its entire share capital of 274,217,264 Ordinary Shares had been admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange.

## 29. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing net assets in the Group's Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments issued, basic and diluted NAV per share are identical.

Net asset values have been calculated as follows:

	<b>Group 31 December 2015 £</b>	<b>Company 31 December 2015 £</b>
<b>Net asset value per Statement of Financial Position</b>	295,341,287	273,371,030
Adjustment for calculating EPRA net assets		
Derivative financial instruments	415,527	-
EPRA net assets	<u>295,756,814</u>	<u>273,371,030</u>
 Issued share capital - number of ordinary shares	 <u>274,217,264</u>	 <u>274,217,264</u>
 Basic and diluted net asset value per share	 107.7p	 99.7p
EPRA net asset per share	107.8p	99.7p

### 30. Operating leases

The future minimum lease payments under non-cancellable operating leases receivable by the Group in respect of its property portfolio for a range of terms from less than one year to 10 years are as follows:

	<b>Within 1 year £</b>	<b>Between 2 to 5 years £</b>	<b>After 5 years £</b>	<b>Total £</b>
Amount receivable	3,842,453	55,957,973	87,373,542	147,173,968
Total	3,842,453	55,957,973	87,373,542	147,173,968

### 31. Segment information

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

- Industrial
- Office
- Retail
- Residential

All revenues are earned in the United Kingdom with property and administrative expenses also incurred in the United Kingdom.

All of the Group's revenues are derived from external customers and there are no inter-segment revenues.

There were no tenants providing more than 10% of revenues.

	Industrial £	Office £	Retail £	Residential/ Student accommodation £	Unallocated assets & liabilities £	Total £
Investment properties	99,620,000	239,850,000	45,030,000	19,202,500	-	403,702,500
Goodwill					2,785,758	2,785,758
Other assets					35,046,845	35,046,845
Financial asset					1,760,000	1,760,000
Liabilities					(145,566,428)	(145,566,428)
Tax liabilities					(2,387,388)	(2,387,388)
Net assets/(liabilities)	99,620,000	239,850,000	45,030,000	19,202,500	(108,361,213)	295,341,287

	Industrial £	Office £	Retail £	Residential/ Student accommodation £	Unallocated costs £	Total £
Rental income	1,354,133	3,227,687	621,826	157,774		5,361,420
Property expenses	(168,368)	(439,952)	(128,202)	(17,085)		(753,607)
Profit on disposal of investment properties	4,300	74,207	7,208	1,150		86,865
Investment property revaluations	4,208,427	18,724,818	796,790	54,035		23,784,070
Exceptional items					(5,296,368)	(5,296,368)
Other expenses					(1,353,183)	(1,353,183)
Profit before interest and taxation	5,398,492	21,586,760	1,297,622	195,874	(6,649,551)	21,829,197
Financial income						176,648
Net financial costs						(996,710)
Net movement in fair value of derivatives						114,888
Taxation						-
Total comprehensive income for the period						21,124,023

The measure of segment result is considered to be profit before interest and taxation.

Assets which have not been allocated to segments include cash, receivables and financial assets which are centrally managed.

Liabilities are only reviewed at group level and are not allocated to segments.

### 32. Transactions with related parties

*Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited.*

Stephen Inglis is a non-executive Director of Regional REIT Limited, Stephen is also the Property Director and Chief Investment Officer of London & Scottish Investments Limited and a director of London and Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

In consideration for the provision of services provided, the Asset Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of EPRA net asset value (NAV), reducing to 0.9% on assets over £500,000,000. The fee shall be payable in cash quarterly in arrears. On any date upon which payment of the management fee is due.

In respect of each portfolio property, the Asset Manager has procured and shall, with the Company in future procure that London & Scottish Property Asset Management Limited is appointed as the property manager. A property management fee of 4 per cent. per annum is charged by the Property Manager on a quarterly basis, 31 March, 30 June, 30 September, and 31 December, based upon the gross rental yield. Gross rental yield means the rents due under the property's lease for the peaceful enjoyment of the property, including any value paid in respect of rental renunciations but excluding any sums paid in connection with service charges or insurance costs.

For the period ended 31 December 2015, the asset management fee charged in the Group's Statement of Comprehensive Income was £231,727 for the Group and £nil for the Company.

The property management fees charged at 31 December 2015 was £165,446 for the Group and £nil for the Company.

The asset management and property fees payable at 31 December 2015 were £231,727 and £165,446 respectively for the Group.

*Transactions with the Investment Manager, Toscafund Asset Management LLP.*

Martin McKay is a non-executive Director of Regional REIT Limited and is the Chief Financial Officer of Toscafund Asset Management LLP. The LLP is also the discretionary Investment Manager of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited which own shares in Regional REIT Limited. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

In consideration for the provision of services provided, the Investment Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of EPRA net asset value (NAV), reducing to 0.9% on assets over £500,000,000. The fee is payable in cash quarterly in arrears. On any date upon which payment of the management fee is due.

For the period ended 31 December 2015, the investment management fee charged in the Group's Statement of Comprehensive Income was £263,542 for the Group and £218,104 for the Company.

The investment management fees payable at 31 December 2015 was £263,542 for the Group and £218,104 for the Company.

In addition the Investment Manager and the Asset Manager are entitled to 50% of each of a performance fee at a rate of 15% of the amount by which the EPRA Net Asset Value exceeds a hurdle annual rate of return to shareholders of 8%, the fee to be calculated initially on 31 December 2018, and annually thereafter.

The fee for the first period to 31 December 2018 is payable as to 50% in cash, and 50% in Ordinary Shares, the shares to be issued at the prevailing price per ordinary share at the date of issue.

The fee for subsequent periods is payable as to 34% in cash and 66% in ordinary shares, again at the prevailing price per share.

Based on the EPRA net asset value of the group as at 31 December 2015 and assuming the hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the performance fee has estimated at £95,000.

### 33. Operating lease commitments

	Within 1 year £	Between 1- 2 years £	Between 2- 5 years £	After 5 years £
Operating lease commitments in respect of land & buildings at 31 December 2015 are:				
Annual commitments – leases expiring after more than 5 years	261,106	261,106	783,318	18,240,190

### 34. Capital commitments

On 30 December 2015, the Group announced it had exchanged contracts on a portfolio of four multi-let office buildings for a purchase price of £37.5m. The portfolio of multi-let offices is located in Basingstoke, Leeds, Leicester and Manchester with an industrial business park in Beverley. The portfolio totals c.703, 000 sq. ft., providing a net income of £3.4 million per annum, which equates to a yield of 8.25%.



### 35. Subsequent events

On 30 December 2015, the Group announced it had exchanged contracts on the Wing portfolio of four multi-let office buildings and a multi-let industrial estate for a purchase price of £37.5m. The portfolio is located in Basingstoke, Leeds, Leicester and Manchester and an industrial business park in Beverley and totals c. 703,000 sq. ft., providing a net income of £3.38 million per annum. This equates to a net initial yield of 8.5%. The deal completed on a phased basis, stage 1 being 22 January for the freehold assets with stage 2, the leasehold assets of Basingstoke and Beverley, completing on 22 March.

On 6 January 2016, the Group announced it had completed the acquisition of Rosalind House in Basingstoke for an acquisition price of £3m. The office building, 26,448 sq. ft. let until 2020, provides a net annual income of £396,000, equating to a net initial yield of 12.48%. Subsequently the Group agreed a lease surrender for a reverse premium of £888,000 and back-to-back letting following refurbishment to New Voice Media on a new 10 year lease at £394,755 per annum.

On 9 February 2016, the Group announced that it had exchanged contracts to buy the Rainbow Portfolio for £80.0m. The portfolio comprises 12 assets, five offices and seven industrial sites, totalling 1.15m sq. ft., which are geographically spread throughout the UK in major regional urban areas, including Bristol, Manchester, Cardiff, Sheffield and the West Midlands. Income from offices amounts to 55% of the portfolio; 86% of the income is from England. The portfolio produces a net yield of 8.2% at a capital rate of £70 per sq. ft. The deal completed on 9 March.

The acquisitions were financed by additional bank debt of £99.8m, secured on the assets of the Group, and at margins between 2% and 2.15%.

The Group also announced, on 9 February 2016, a number of disposals:

- Churchill Plaza, Basingstoke sold for £12m, the property having been acquired in August 2014 for £7.5m. The sale price represented a 52% increase on the June 2015 value and a 9% increase on the December 2015 valuation.
- Five retail assets sold for a total consideration of £4.8m, marginally ahead of the December 2015 valuation.
- An office building in Kirkcaldy has also been sold for £0.9m, 50% ahead of the June 2015 valuation and in line with the December 2015 valuation. An office building in Glasgow, 21 Blythswood Square, sold just before the December 2015 valuation for £1.5m, in line with valuation.

These disposals are consistent with the Group's policy of selling where real value has been created and to reduce risk, specifically realising development and retail properties where good value can be achieved.

On 6 April 2016, the Group announced the disposal of Blythswood House, Glasgow for £17.4 m, and of a standalone industrial unit at Spectrum Business Park, Wrexham for £4.1m.

## Glossary

**AIF** - Alternative Investment Fund.

**AIFM** - Alternative Investment Fund Manager.

**Break Option** – A clause in a Lease which provides the landlord or tenant with an ability to terminate the Lease before its contractual expiry date.

**Cost of Debt** – Total cost of debt including the interest cost, arrangement fees and unamortised hedging cost.

**EPRA** - European Public Real Estate Association, the industry body for European REITs.

**EPRA earnings** - Profit after tax excluding revaluations and gains and losses on disposals and associated taxation (if any).

**EPRA NAV per share** - EPRA NAV divided by the diluted number of Shares in issue at the period end.

**EPRA net assets (EPRA NAV)** - IFRS assets excluding the mark to market on effective cash flow hedges and related debt instruments and deferred taxation revaluations.

**Equivalent yield** - Weighted average of the initial yield and reversionary yield, representing the return that a property will produce based on the occupancy data of the tenant leases.

**Estimated Rental Value (ERV)** – External valuers' opinion as to what is the open market rental value of the property is on the valuation date, and what could reasonably be expected to be the rent obtainable on a new letting on that property on the valuation date.

**External Valuer** – Independent external valuer of a property. The Group's External Valuer is Cushman & Wakefield.

**Gross property assets/Gross asset value** - Investment Properties encompasses the entire property portfolio of freehold and leasehold properties.

**Gross rental income** - Accounting based rental income under IFRS. When the Group provides incentives to its tenants the incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is therefore the cash passing rent as adjusted for the spreading of these incentives.

**Initial Yield** - Annualised rents of a property expressed as a percentage of the property's value.

**IPO** - Initial Public Offering.

**Lease** – A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the Lease length.

**Lease Incentive** – A payment used to encourage a tenant to take on a new Lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.

**Lease Re-gear** – Renegotiation of a Lease during the term and often linked to another Lease event, for example a Break Option or Rent Review.

**Lease Renewal** – Renegotiation of a Lease with the existing Tenant at its contractual expiry.

**Lease Surrender** – An agreement whereby the landlord and tenant bring a Lease to an end other than by contractual expiry or the exercise of a Break Option. This will frequently involve the negotiation of a surrender premium by one party to the other.

**Loan to Value** – Gross Borrowings / Value of Investment Properties.

**Manager** - The Group's Asset (property) Manager is London & Scottish Investments Limited ("LSI") and its Investment Manager is Toscafund Asset Management LLP ("Toscafund").

**Net Assets (or Shareholders' Funds)** - Calculated as the value of the investments and other assets of an investment company, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Company at a point in time.

**Net Asset Value ('NAV') per Ordinary Share** – Calculated as the net assets of a company divided by the number of Shares in issue, excluding those Shares held in treasury.

**Net Gearing** - Borrowings less cash and cash equivalents divided by the total value of issued share capital plus retained earnings

**Net Initial Yield** – Initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the cost of purchase.

**Passing Rent** - Rent payable on a property at any particular time.

**Occupancy percentage** - Percentage of the total area of all properties and units currently let to tenants.

**Over rented** - When the contracted rent is higher than the ERV.

**Property Income Distributions (PIDs)** - Dividends distributed by a REIT that are subject to taxation in the hands of the Shareholders. Normal withholding tax still applies in most cases.

**REIT** – Real Estate Investment Trust as set out under section 705 (e) of the Finance Act 2013.

**Rent Review** – Periodic review of rent during the term of a Lease, as provided for within a Lease agreement.

**Reversion** – Increase in rent estimated by a company's External Valuer, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

**Reversionary yield** - Anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.

**Voids** – Vacant unlet space.

**The Company's Annual Report and Accounts for the period to 31 December 2015 will be available to view shortly on the Company's website [www.regionalreit.com](http://www.regionalreit.com)**