

Annual Report and Accounts

for the year ended 31 December 2017

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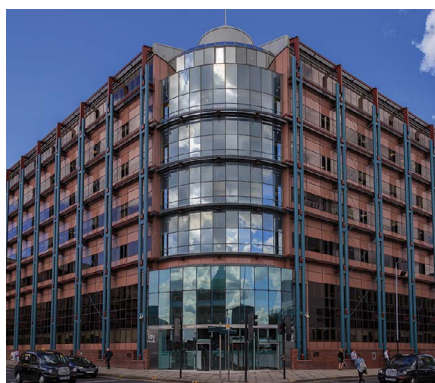
Who we are

Regional REIT Limited (“Regional REIT”, or the “Company”) and its subsidiaries¹ (the “Group”) is a United Kingdom based real estate investment trust. Regional REIT is managed by London & Scottish Investments Limited (“LSI”), the Asset Manager, and Toscafund Asset Management LLP (“Tosca”), the Investment Manager, and was formed from the combination of property funds previously created by the Managers.

Regional REIT’s commercial property portfolio is wholly in the UK and comprises, predominantly, offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The portfolio is highly diversified, with 164 properties, 1,368 units and 1,026 tenants as at 31 December 2017, with a valuation of £737.3m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional property assets. The Group offers investors a differentiated play on the recovery prospects of UK regional property. Regional REIT aims to deliver an attractive total return to its Shareholders, targeting 10-15% per annum, with a strong focus on income and good capital growth prospects.

Office



*Tay House,
Glasgow*

Industrial



*Winsford Industrial Estate,
Winsford*

Retail/Other



*1-4 Llansamlet Retail Park,
Swansea*

For more information visit the Group’s website at www.regionalreit.com.

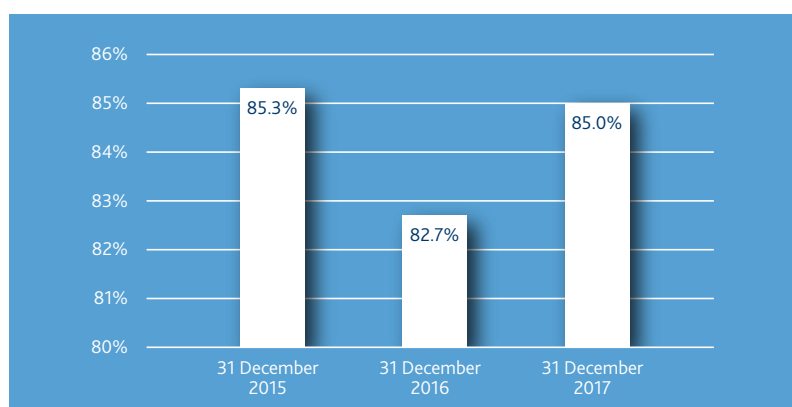
¹ Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law 2008, as amended and the International Financial Reporting Standard (“IFRS”) 10, ‘Consolidated Financial Statements’, as issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union (“EU”). Unless otherwise stated, the text of this Annual Report does not distinguish between the activities of the Company and those of its subsidiaries.

Performance Highlights 2017

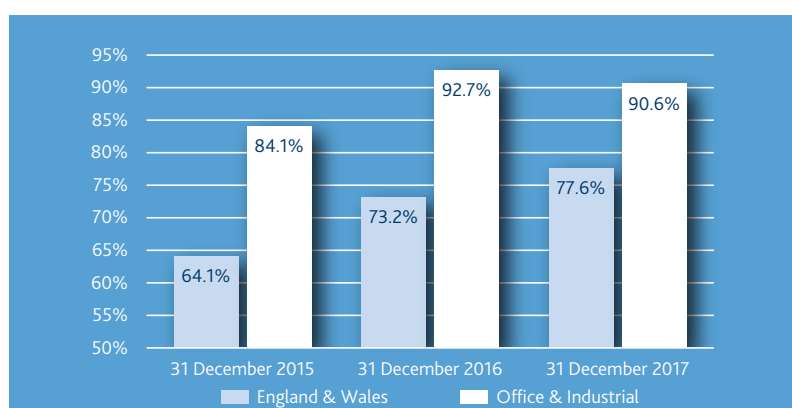
Continued targeted and opportunistic acquisition of commercial property coupled with intensive asset management

Property acquisitions	£228.1m (before costs) including 3 major acquisitions amounting to £216.9m
Profitable property disposals	£16.9m (net of costs)
Active management portfolio occupancy (by value)	85.0% as at 31 December 2017
Diversified portfolio (by value)	77.6% England & Wales 90.6% Office & Industrial
Member of FTSE All Share Index since March 2016	
Member FTSE EPRA NAREIT UK Index since June 2016	

Portfolio Occupancy (by value)



Share of Gross Property Portfolio (by value)



Performance Highlights 2017

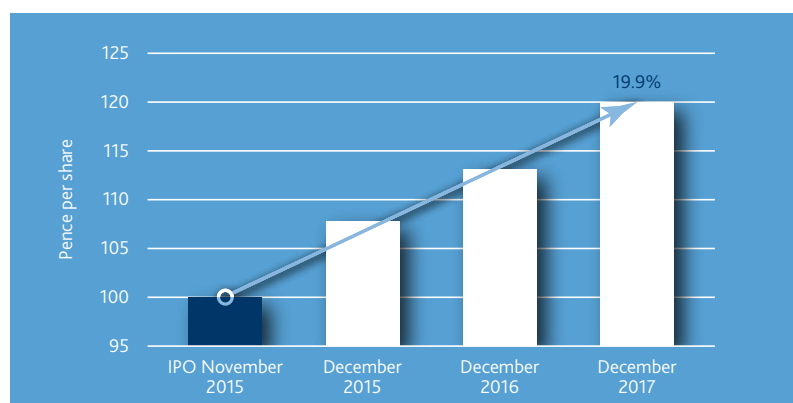
Continued geographical spread of properties growing the number and diversity of tenants, securing income

Dividends declared per share:

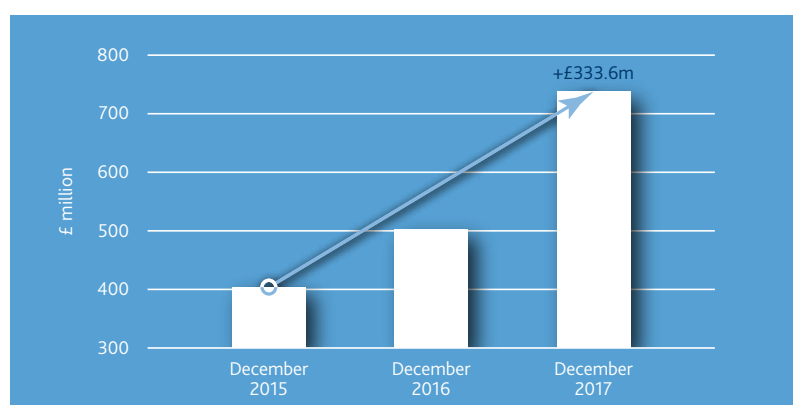
2017	7.85p
2016	7.65p
2015	1.00p
EPRA Net Asset Value since Admission* (Admission: 100p)	+5.9%
EPRA Total Return attributable to Shareholders since Admission	+19.9%
Operating profit before gains and losses on property assets & other investments	£36.4m
Profit before tax	£28.7m
EPRA Cost Ratio for the year ended 31 December 2017	29.7%
Investment Properties Valuation as at 31 December 2017	£737.3m
Net Loan To Value	45.0%

* Admission: 6 November 2015

Total Shareholder Return (from IPO) (EPRA NAV & dividends declared)



Investment Properties Valuation



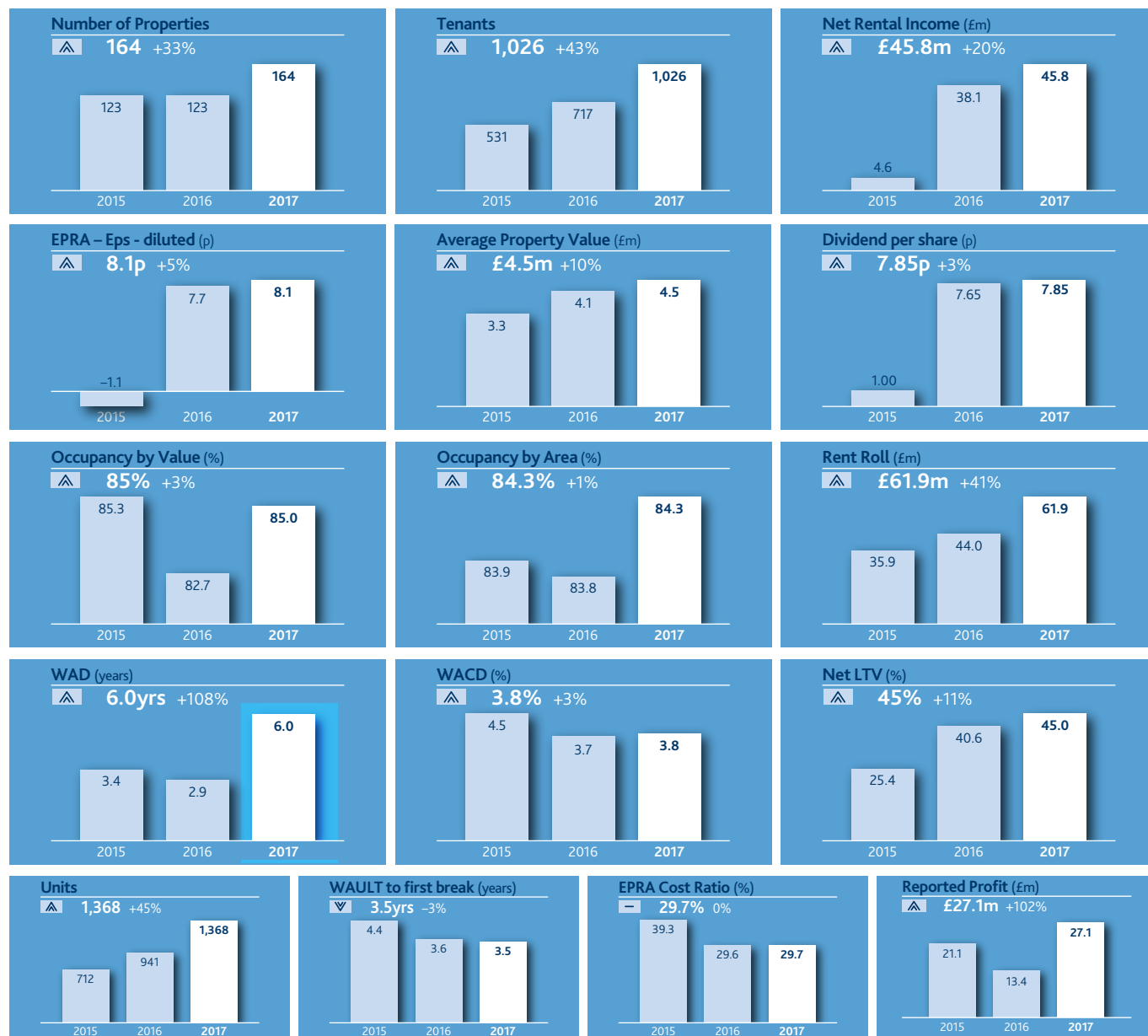
Columbus House, Coventry

Market value (£m)	14.6
Sector	Office
Let by value (%)	100.0%



At a Glance

Key facts



Terms are defined in the glossary of terms on page 136.

Group Milestones and History



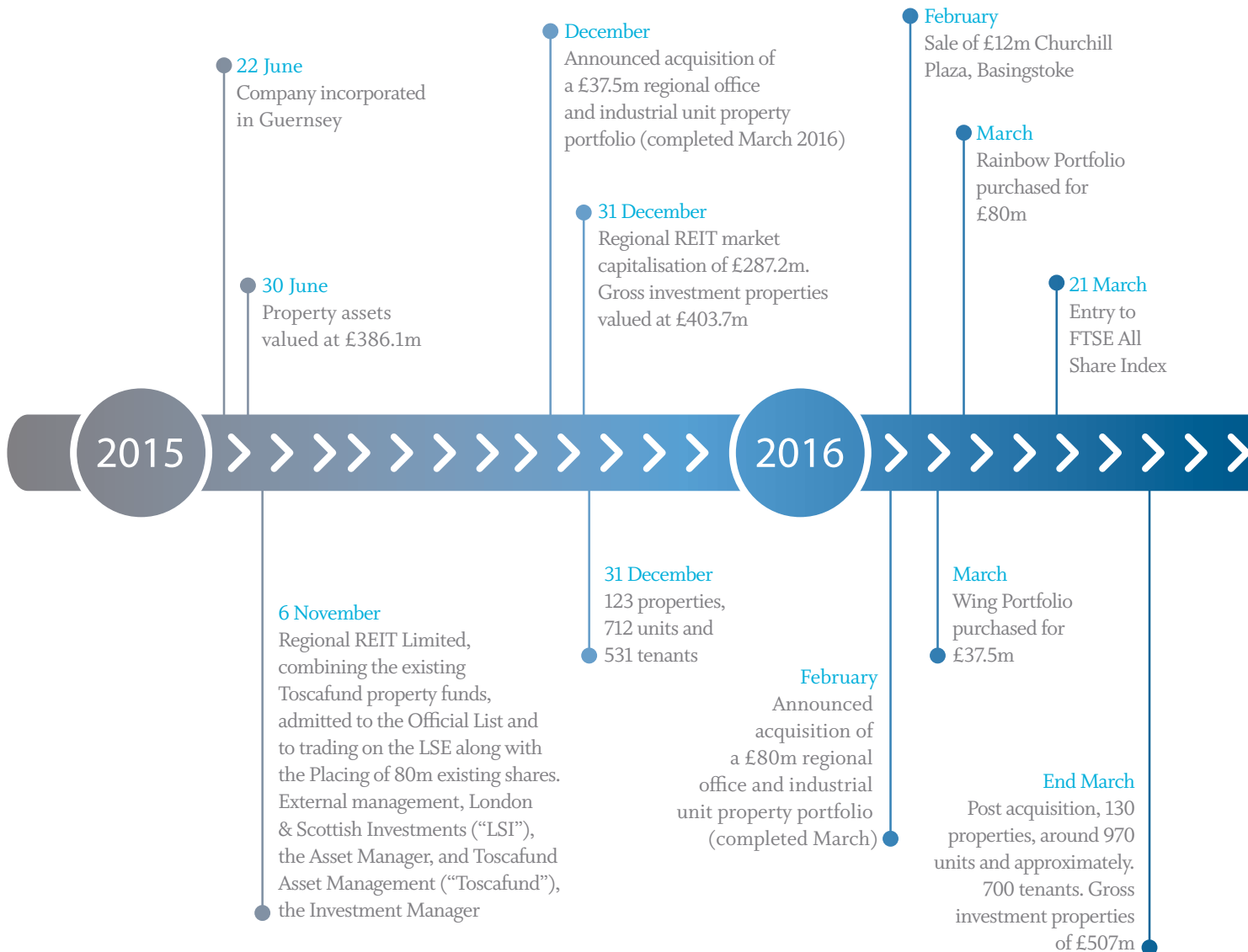
*Tay House,
Glasgow*



*Building 2 & 3 HBOs Campus,
Aylesbury*

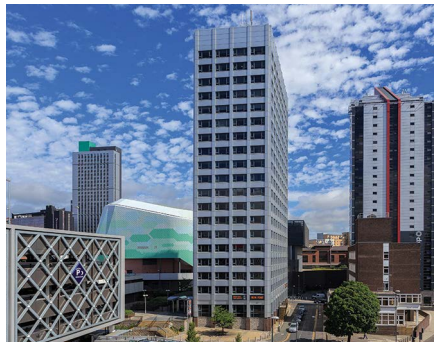


*Juniper Park,
Basildon*





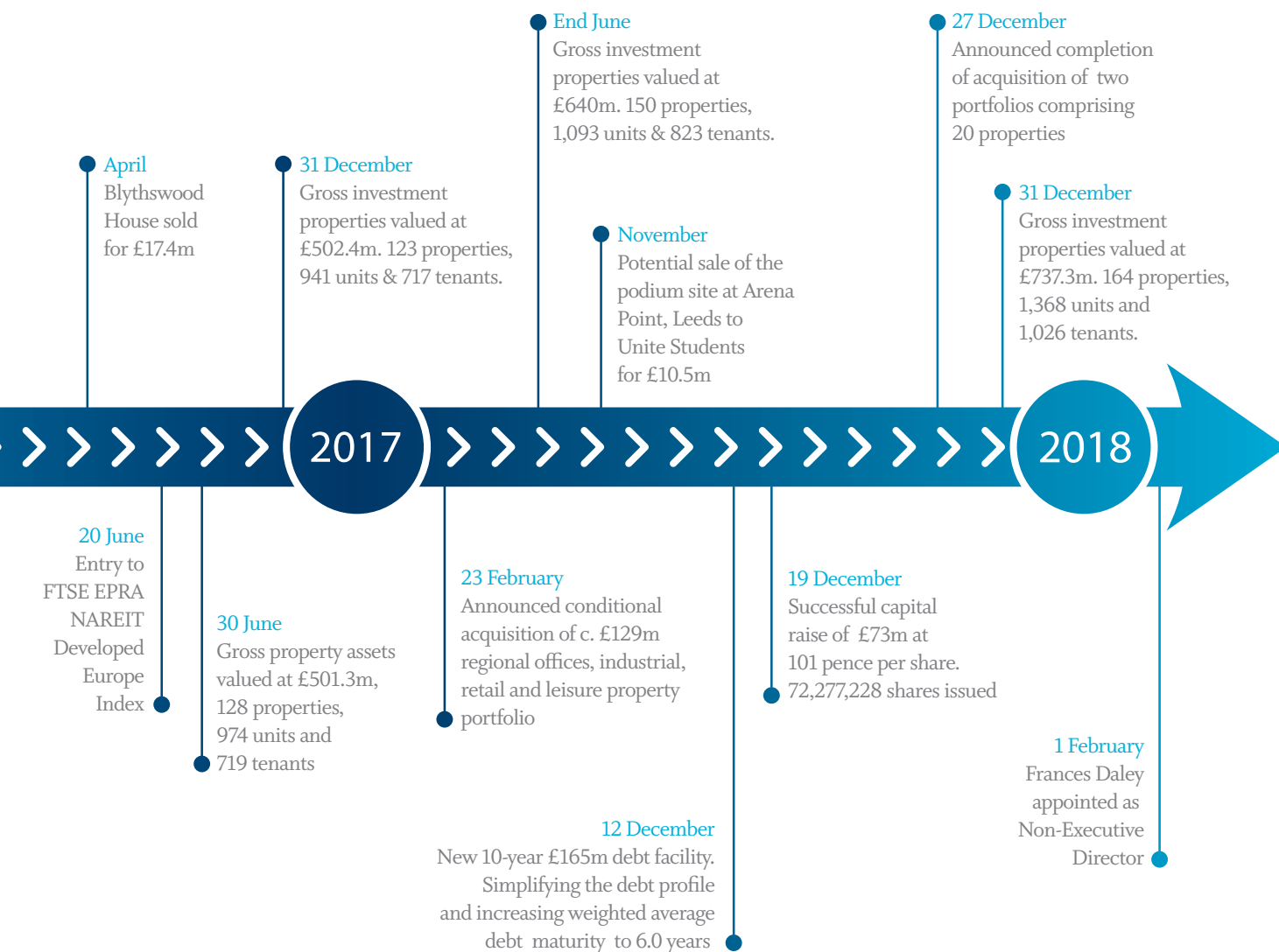
*Oakland House,
Manchester*



*Arena Point,
Leeds*



*Turnford Place,
Cheshunt*



9 Portland Street, Manchester

Market value (£m) 12.5
Sector Office
Let by value (%) 96.9%





9
PORTLAND STREET
AIR
CONDITIONED
REFURBISHED
OFFICES
TO LET
2,886 -
54,941
SQ FT
(268 - 5,104
SQ M)
WHR
whrproperty.co.uk
0161 228 1001

PORTLAND STREET

ATKINSON STREET

WHR

WHR

WHR

Chairman's Statement

The Chairman's Statement forms part of the Strategic Report.



“Regional REIT is in a strong position and we have again delivered to our Shareholders a significant dividend, with an attractive total return. In line with our business strategy we have increased our property portfolio, managed the occupancy and contracted rent roll upwards, extended the weighted average lease term to expiry and weighted average debt duration. In an uncertain economic and geopolitical environment, we are well poised for the year ahead.”

Kevin McGrath,
Chairman and Independent
Non-Executive Director.

I am pleased to present the third annual report for Regional REIT for the financial year from 1 January 2017 to 31 December 2017. After an active transactional year, the Group generated profit after tax of £27.1m (up 102% on 2016), EPRA earnings per share (“pps”) diluted, rose by 5% to 8.1pps, and we have declared a total dividend for the year of 7.85pps.

We have continued to implement our strategy of acquiring assets to which our asset management initiatives can be best employed. We also continued to dispose of properties which had met their individual asset plans to realise returns, recycling capital promptly and thereby ensuring minimal cash drag.

During the year, the Group acquired properties for an aggregate value of £228.1m (before costs), disposed of properties for an aggregate value of £16.9m (net of costs), and undertook £13.4m of capital expenditure. This clearly illustrates that it has been a year of growth for the Group with major acquisitions in both halves of the year. In the first half, in March, the Group acquired a c. £129m multi-asset portfolio, in exchange for the issuance of 26,326,644 shares, and £105m of borrowings. This was followed in the second half, in December, by a successful share capital raise of £73m, with the funds being immediately deployed for the purchase of two portfolios for c. £88.3m, before costs and £35.7m of borrowings. In addition, the Company simplified its borrowings by reducing nine facilities to six and increasing the term of the debts. We continue to target net borrowings of 40% of gross investment properties and though we finished the year above this level at 45% we are focused on reducing this ratio back towards 40% in the coming year.

Despite the uncertainty in the current economic climate, we believe Regional REIT's distinctive portfolio of regional offices and light industrial sites, supported by the depth of experience of our Asset Manager puts us in a good position for the year ahead.

Market Environment

The regional property markets have remained in good health, and whilst letting decisions are taking longer to execute in some instances, we have nonetheless experienced increased tenant demand.

There was firm occupational demand for offices and industrial sites in the UK's regions throughout the year. This was evidenced by a steady stream of new lettings and re-gears, which was particularly pronounced in the second half of the year.

Market optimism continues to focus on the industrial property sector, and we believe this sector provides a broad range of asset management and capital enhancement opportunities in the UK's regions. We also continue to hold the view that the office sector offers good opportunities. This underpins our enduring strategy and income growth prospects.

Going forward the Board remains supportive of the Asset Manager's strategy to target both acquisition and disposal opportunities, to further our aim to grow the asset base in tandem with recycling our capital in pursuit of dividend growth, whilst ensuring the Asset Manager remains focused on enhancing the portfolio and responding to the needs of our tenants.

Dividends

The dividend is the major component of the total return. The Company declared total dividends of 7.85p for 2017, comprising of three quarterly dividends of 1.80pps and a fourth quarterly dividend of 2.45pps.

In the absence of unforeseen circumstances, it remains the Board's intention to pursue a progressive dividend policy and continue to pay quarterly dividends.

Chairman's Statement *(continued)*

Shareholder Engagement

The Company has continued to develop its relations with investors, engaging closely with Shareholders.

The website continues to evolve with the aim of improving the dissemination of information to all our stakeholders. We look forward to welcoming Shareholders to our Annual General Meeting on Thursday 17 May 2018.

Strong Relationships

Ultimately, the experience of our tenants, suppliers, and the communities we operate in, will determine our performance, which is why we endeavour to ensure we maintain strong relationships with all parties, with particular emphasis on our tenants. We continue to monitor the Group's impact on the environment.

Board and the Asset and Investment Managers

I am once again grateful to my fellow Directors, who have contributed their skills and experience to the rigorous discussions during this transformational year of growth. As previously announced Martin McKay stepped down as a Non-Independent Director on 6 July 2017 and was replaced by Tim Bee on the same date.

Following an internal review of the Board's effectiveness to ensure we evolve appropriately with the development of the Group, Frances Daley was appointed as an Independent Director on 1 February 2018. Frances brings extensive financial experience to the Board. No other significant issues were raised and the view of the Board is that the governance structure of the Group operates effectively with a positive and open culture.

The Board has been pleased with the progress and performance of the Asset and Investment Managers, particularly the raising and timely deployment of new monies for asset acquisitions, which meet the business strategy, and secure the earnings required to pursue a progressive dividend policy.

Performance

The total return performance since listing on 6 November 2015 has amounted to 19.9%, with an annualised total return of 8.8% for 2017. The 2017 total return was impacted by one off charges for the 10 year £165m refinancing package, the costs associated with the capital raise in December 2017, and the capital expenditure programme, the benefits of which are expected to be realised in the coming year. Excluding these costs, the total return for 2017 was 9.4%. Though below our 10+% target return we credit the Asset and Investment Managers for a strong performance in a very active and fee heavy period of growth, and we are confident the significantly enlarged portfolio will generate improved returns in the coming year.

Subsequent Events

On 1 February 2018, the Company announced the appointment of Frances Daley as an Independent Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

Outlook

The outlook for the Group remains positive. We have achieved our plans of acquiring portfolios, simplifying and broadening our borrowing structure and increasing the make-up of the Shareholder base, whilst ensuring our asset management initiatives, benefitting both our tenants and Shareholders, remain on track.

For 2018, the Group is confident of delivering good returns for Shareholders through a diversified, high-yielding property portfolio, as well as continuing to pursue the asset management initiatives of growing the income stream and providing further opportunities for capital value enhancement.

The Board looks forward to building upon the successes of 2017.

Kevin McGrath

*Chairman and Independent
Non-Executive Director*

21 March 2018



Juniper Park, Basildon

Market value (£m)	23.8
Sector	Industrial
Let by value (%)	97.4%



DB SCHENKER

MAERSK SEALAND

DB SCHENKER

DB S

Investment Strategy and Business Model

The Group will invest in, actively manage and dispose of offices and industrial properties – or debt portfolios secured on such properties – located predominantly in the regional centres of the UK.



Investment Strategy	<ul style="list-style-type: none"> The Group aims to acquire a portfolio of interests that, together, offers Shareholders a diversification of investment risk, by investing in a range of geographical areas and sectors across a number of assets and tenants and through letting properties, where possible, to low-risk tenants. The Group will use gearing, borrowings and other sources of leverage, to implement its investment strategy and enhance equity returns.
Investment Policy	<ul style="list-style-type: none"> The Group will invest in office and light industrial properties that are situated in the UK and outside of the M25 motorway. The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway. In the ordinary course of business no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally the Board may consider taking this up to 20%. The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum. No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant. Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.
Investment Objective	<ul style="list-style-type: none"> The Investment Objective of the Company is to deliver an attractive total return to Shareholders – the Board targets 10-15% per annum – with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway.
Borrowings	<ul style="list-style-type: none"> The Group targets a ratio of net borrowings to Gross Investment Properties Value of 40% over the longer term, with a maximum limit of 50%.

Regions Remain Strong

OUR APPROACH

■ That the “regions remain strong” in UK commercial real estate, believing that: growing capital inflows into the regions; the UK domestic economy will continue to grow; tenant demand for offices and industrial sites will outweigh available supply.

■ The yield spread between London and the regions continued to narrow in 2017.

HOW WE ADD VALUE

■ The investment policy focuses on a balanced portfolio of offices and light industrial sites located outside of the M25 motorway, broadly based on the regions’ economic worth and population mix.

■ The Group seeks to enhance income growth and capital values through the services of the Asset Manager.

■ The Asset Manager operates through a number of regional offices, implementing a targeted investment policy and each property’s asset management plan.

■ Total Shareholder Return of 19.9% since IPO and 8.8% annualised in 2017 (11.5% in 2016).

Opportunistic Approach to the Property Market

OUR APPROACH

■ A focus on exploiting pricing inefficiencies and mismatches between regional secondary and primary property yields.

■ From such opportunities the Group will acquire, hold and sell commercial real estate that it believes to be mispriced and have good income and capital growth prospects.

■ Utilising leverage to build the acquisitions capability of the business.

HOW WE ADD VALUE

■ An opportunistic approach to UK commercial property and the recycling of capital from the legacy portfolio, aiming to acquire properties where the Group can add value through the expertise of the Asset Manager.

■ Seeking to build the income growth and capital values of properties; taking undermanaged and underinvested properties to being attractive investments to be retained for yield or for disposal.

■ An established borrower with long-term relationships in place with a number of UK banks. The Group will exploit opportunities to improve total returns utilising leverage.

■ With debt maturing and opportunities to renegotiate existing facilities, the Group aims to reduce its funding costs.

■ Completed acquisitions in 2017 totalling £228.1m (before costs) and disposals (net of costs) of £16.9m, with average net initial yields of c. 7.9% and c. 6.3% respectively.

■ During 2017 refinancing totalled £213m, new borrowings were £51m, and assumed financing of £105m, resulting in total borrowings of £376.5m. The average funding costs (including hedging) increased from 3.7% to 3.8% over the year.

Investing in Income Producing Assets

OUR APPROACH

■ The Group has a strict set of investment criteria to invest, predominantly, in income producing assets capable of delivering an attractive total return to our Shareholders.

HOW WE ADD VALUE

■ Investment decisions will be based on identifying strong underlying fundamentals, inter alia, prospects for future income growth, sector and geographic prospects, lease length, initial and equivalent yields and the potential for active asset management.

■ Speculative development strictly limited to refurbishment programmes.

■ Contracted rental income of £61.9m as at end 2017 (31 December 2016: £44.0m).

■ Average rents have increased to £8.18 per sq. ft. (31 December 2016: £7.36 per sq. ft.)

■ Declared dividends per share of 7.85p for 2017 (7.65p in 2016).

BUSINESS MODEL

Active Management of the Properties

OUR APPROACH

■ The Group prides itself on maintaining a close relationship with its tenants and in the intensive granular management of its properties, a very hands-on approach.

■ Our aim is to provide a consistent approach to improving returns, thereby enhancing the quality of the underlying portfolio.

HOW WE ADD VALUE

■ The Asset Manager undertakes all of the principal property management activities in-house by regular contact and remains close to its tenants, with an immediate understanding of their requirements and a better decision-making capability.

■ The Managers can respond in the best interests of the Group and its Shareholders

■ The Asset Manager utilises a range of approaches to each asset, tailoring the project programme for each property.

■ Net capital expenditure of £13.4m in 2017 (£9.1m in 2016); much capital expenditure is recovered through dilapidations, service charges or improved property rental income.

■ Active and intense asset management to improve occupancy: from 82.7% (by value) (31 December 2016) to 85.0% (31 December 2017).

Diversified Portfolio

OUR APPROACH

■ A distinctive large and diverse commercial property portfolio.

■ An approach that diversifies the investment risk of the portfolio and enables better management of the timing of lease re-gears and new lettings.

HOW WE ADD VALUE

■ The portfolio consists of offices and light industrial units, geographically well spread across the regions of the UK outside of the M25 motorway and with a broad mix of tenants.

■ 164 properties, 1,368 units and 1,026 tenants, as at 31 December 2017.

■ The largest single property is only 4.4% of the Gross Investment Properties value and the largest tenant only 2.6% of gross rental income.

■ England & Wales represent 77.6% of the Gross Investment Properties value (31 December 2016: 73.2%); offices and industrial sites are 90.6% (31 December 2016: 92.7%).

Highly Experienced Asset Manager

OUR APPROACH

■ The Asset Manager has the heritage of a long established property investment management company.

HOW WE ADD VALUE

■ The capabilities and track record of the management team, including knowledge, expertise and established relationships provide an important competitive advantage for operating in the fragmented UK regional secondary property market.

■ The senior management team of the Asset Manager collectively have over 150 years of property experience, with a proven record of creating value.

■ Management grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 recession.

■ LSI is based in Glasgow and has a number of offices around the UK, with the vast majority of the 57 staff employed as at 31 December 2017 working on Regional REIT.



One and Two Newstead Court, Annesley

Market value (£m)	15.9
Sector	Office
Let by value (%)	100.0%



Asset and Investment Managers' Report

"It has been a very active year for Regional REIT with significant acquisitions, continuing our strategy of non-core disposals, increasing our geographic spread of properties and growing the number and diversity of our tenants. We continue to implement our successful approach to intensive asset management with our initiatives achieving increased occupancy. We remain confident that our strategy and the strength of our core regional office and light industrial property markets will continue to deliver for our investors."

Stephen Inglis,
Chief Executive Officer of London & Scottish Investments, the
Asset Manager of Regional REIT Limited.



Market Overview

The view of the Asset Manager is that regional commercial real estate performed strongly in 2017 from both an occupational and investment perspective. Overall investment volumes in the UK commercial property market in 2017 were 27% higher than 2016 levels, with clear evidence of rising investment in the regional markets, proving that they continue to remain attractive to both domestic and overseas investors who are "searching for value".

The average yield spread between London and the regions continued to narrow in 2017 as a result of investor demand, a trend which the Asset Manager expects to continue. There has also been evidence that the yield gap between prime and secondary property narrowed over the last 12 months. Much of the capital chasing property assets was for "stabilised-income", reflecting investor's aversion to risk. This in turn has led to prices increasing accordingly. The Asset Manager believes that this presents an opportunity to capitalise on strong occupier fundamentals in the secondary market and produce stable income from active and intensive asset management of high quality secondary properties in key locations.

The attraction of the regional cities and towns has continued and regional commercial property occupancy remains robust. We expect this to continue with the unprecedented levels of Government lettings having already taken place under the Government Property Unit's "Hubs" initiative in the office sector and continued competition for space in the industrial and logistics sectors. Our core markets continue to experience beneficial supply-demand dynamics with elements of our portfolio already witnessing headline rental growth across a number of properties.

Regional REIT has been active and opportunistic throughout 2017. The Group undertook property acquisitions of £228.1m (before costs), with a weighted average net initial yield of c.7.9%; disposals (net of costs) amounted to £16.9m at an average net initial yield of c. 6.3%. Occupancy by value increased to 85.0%, from a low of 82.7% (31 December 2016), mainly as a result of completing 81 new leases in 2017, totalling 564,463 sq. ft.; when fully occupied these will provide approximately c. £4m pa of contracted rental income. In addition, 117 leases came up for renewal over the period, totalling 1,029,079 sq. ft.. Including tenants that are currently holding over, lease renewals, and the acquisition of new replacement tenants, c. 64% (by value) has been retained and c. 76% of the units with lease renewals remain occupied.

Investment Activity in UK Commercial property

In 2017, total investment in UK commercial property reached £62.1 billion, 27% higher than 2016 volumes, with over 5,000 deals taking place throughout 2017, according to research from CoStar. In the final quarter of 2017, investment volumes reached £18.9 billion, indicating an increase of 18% when compared to Q4 2016. There has been evidence of a considerable increase in regional investment, which was particularly heightened in Q4 2017 reaching a 10 year high. Despite investment in London rising by 19% year-on-year to £24.2 billion in 2017, there was evidence of a decrease in the frequency with which deals took place, as the number of deals fell to their lowest level in the last 10 years.

Asset and Investment Managers' Report *(continued)*

Quarterly Investment Volume by Region

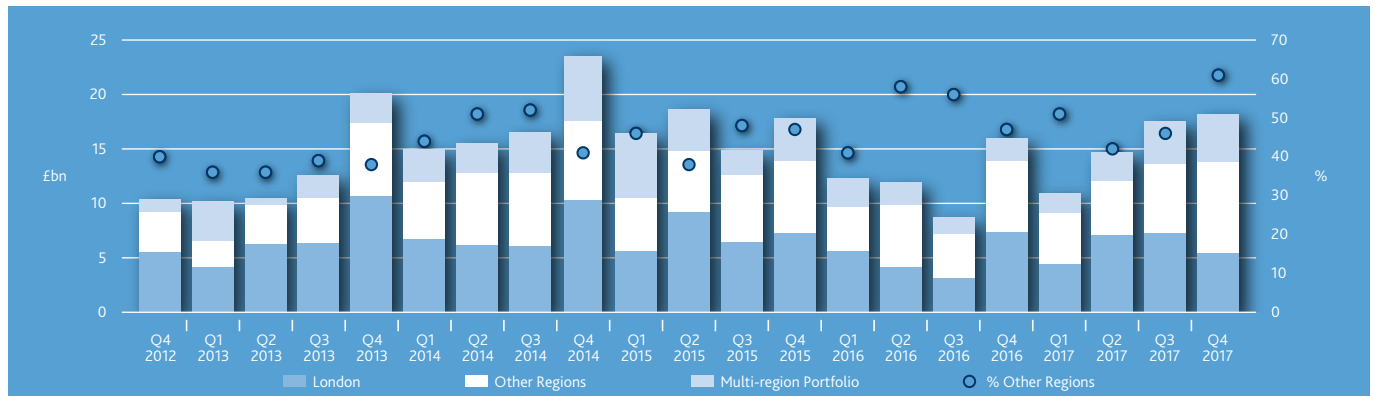


Figure 1: CoStar Research (February 2018)

Overseas investment in UK commercial property accounted for 39% (£24.2 billion) of the total volume in 2017, marking a year-on-year increase of 26%. However, this was 14% below the level experienced in 2015. Although the majority of overseas investment in 2017 was in London, research suggests that foreign investment in the regions is increasing, with 21% of foreign spend in Q4 being outside of London, increasing from 13% in Q3. UK investors increased spending in the regions in 2017, with investment in the big six office markets 59% above the 2016 level.

CBRE research indicates that average yields in regional markets fell to 6.60% in January 2018, the lowest figure since before their records began in April 2009, causing the yield spread between London and the regions to narrow when compared to January 2017. The yield spread between prime and secondary properties continued to narrow over the last 12 months from historic highs of 2013-14. Research from CoStar suggests that investors were increasingly risk averse throughout 2017, as a result, investors' preference for prime properties has resulted in pricing increasing accordingly. Against this backdrop and given strong occupier demand, CoStar estimates that the secondary property market may become increasingly attractive to investors throughout 2018.

London vs. UK Regions Prime/Secondary Yield Spread (to January 2018)

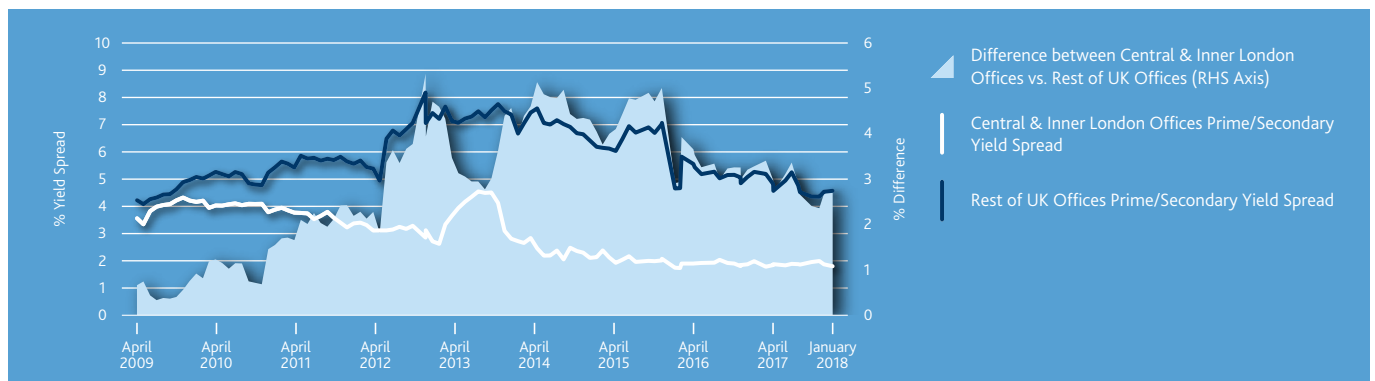


Figure 2: CBRE (February 2018)

Offices vs UK Regions Prime/ Secondary Yield Spread (to January 2018)

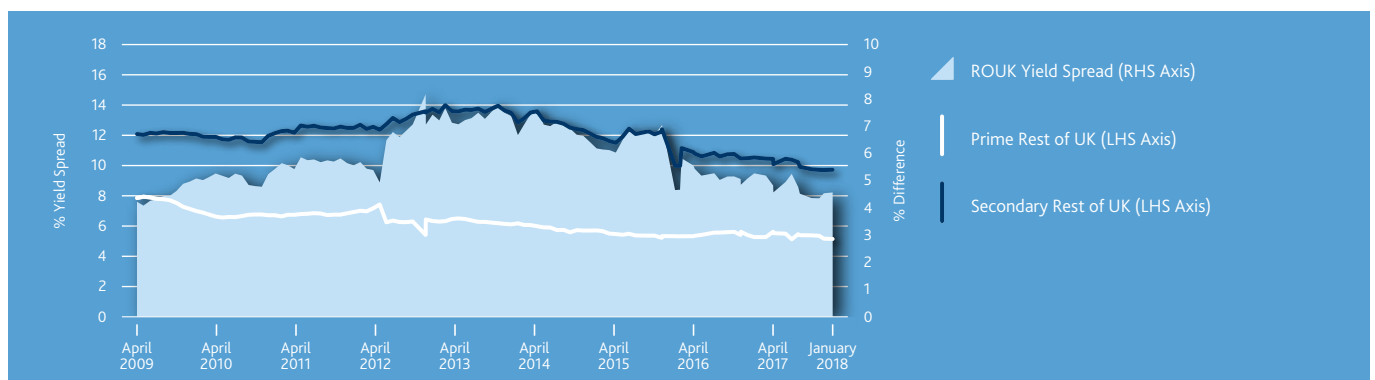


Figure 3: CBRE (February 2018)

Asset and Investment Managers' Report *(continued)*

Occupational Demand in the UK Regional Office Market

Savills estimates that take-up of office space across ten regional office markets² reached 10 million sq. ft. in 2017, higher than the 9.6 million sq. ft. recorded in 2016, and 12% above the 10-year average. Occupational demand was driven by the public sector with large Government Property Unit (GPU) deals resulting in the public sector accounting for the highest proportion of total take-up at 22%. Following the public sector, the technology, media & telecoms sector and the business & consumers services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 19% and 9% respectively. Demand for regional office space also grew within the flexible workspace sector, Cushman & Wakefield expect this trend to continue with flexibility becoming a key driver of leasing activity³. A recent forecast by Savills⁴ predicts that total office take-up in ten regional office markets will reach 9.5 million sq. ft. in 2018.

According to Cushman & Wakefield, vacancy levels should not see any significant uplift in 2018, particularly within regional cities. The supply of offices in the core regional markets remains low, with Savills research indicating that occupier demand continues to reduce availability, with total availability falling by 2% in 2017 to 30 million sq. ft..

The most recent Deloitte Crane Survey (January 2018), suggests heightened construction activity in certain regional cities (Birmingham, Manchester, Leeds and Belfast); with a total of approximately 4.2m sq. ft. of office space currently under construction. However, although the supply of office stock is likely to increase, a considerable proportion of office buildings currently under construction are already pre-let, therefore, there is likely to remain a shortage of office stock. Despite a rise in the number of developments currently under construction, JLL⁵ estimates that only 1.6m sq. ft. of speculative development space that is currently under construction will be delivered across 2018 and 2019 in the big six regional office markets, noting that the lack of development is increasing demand for refurbished office space in regional cities.

Annual Office Take-Up by Region

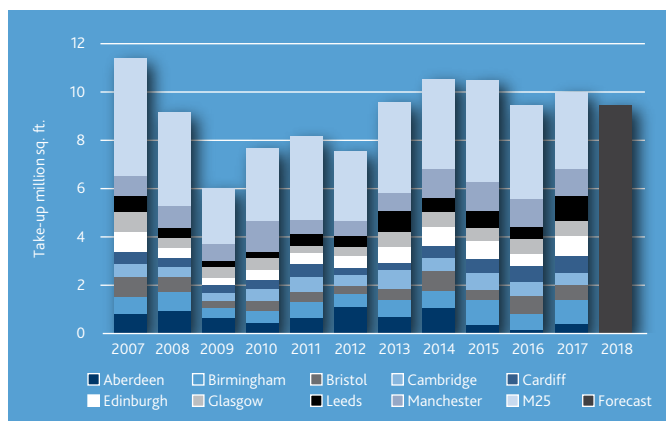


Figure 4: Savills (February 2018)

Annual Office Availability by Region

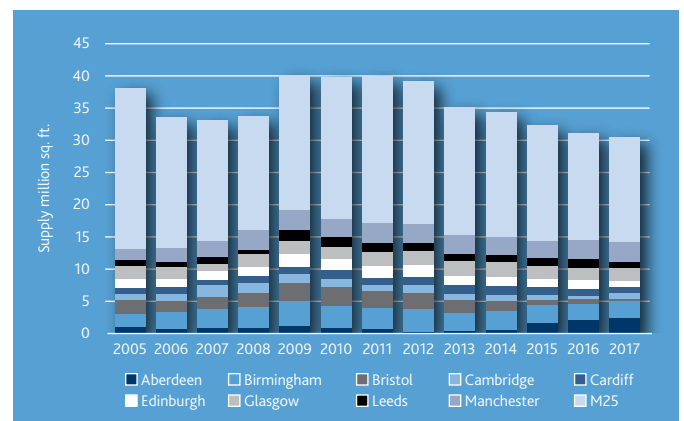


Figure 5: Savills (February 2018)

Availability and Vacancy Rates of Offices
in Regional Markets (All Grades)

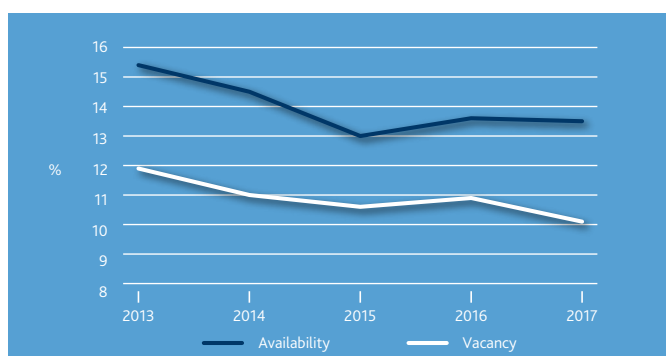


Figure 6: CoStar (office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (February 2018)

Rental Levels and Vacancy Rates in Secondary Office
Properties (Grade B) in UK Regional Markets

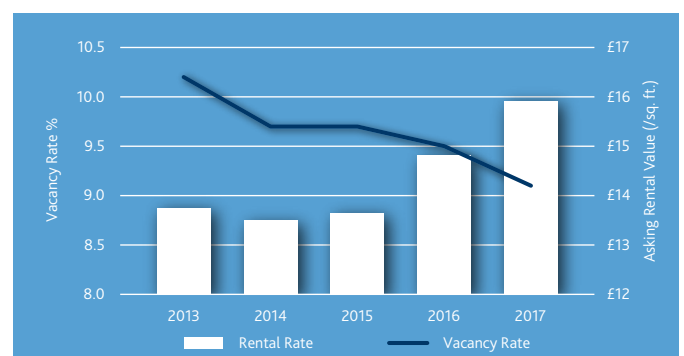


Figure 7: CoStar (office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (February 2018)

² Ten regional markets monitored by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, M25

³ <http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-office-snapshot/>

⁴ <http://pdf.euro.savills.co.uk/uk/office-reports/market-watch-uk-regional-office-report---spring-2018.pdf>

⁵ http://www.jll.co.uk/united-kingdom/en-gb/Research/JLL_Arrested%20Development%20report.pdf?aad08d41-2741-480d-b036-9bb789b435fe

Asset and Investment Managers' Report *(continued)*

Rental Growth in the UK Regional Office Market

Robust leasing activity in 2017 combined with a demand supply imbalance for high quality office stock has placed upward pressure on rents in regional office markets. Research from Savills indicates that prime rental growth in regional markets averaged 3.3% in 2017. Rental growth in regional office markets is set to continue, with Savills forecasting further rental growth of approximately 1.8% in 2018.

According to JLL, prime headline rents in the big six markets has increased by an average of 5% over the last two years. JLL estimates that the development shortfall will drive rental growth with average annual growth over 2017-2021 of 2.2% for the big six markets.

With record levels of take-up across numerous regional markets and the ongoing shortage of prime properties set to continue, the Asset Manager anticipates rental growth for good quality secondary properties should remain well supported throughout 2018.

Regional REIT's Office Assets

Occupancy by value of the Group's regional offices was 83.2% (31 December 2016: 80.5%); occupancy by area was 82.4% (31 December 2016: 82.2%). A like-for-like comparison of the Group's regional offices occupancy by value, 31 December 2017 versus 31 December 2016, shows that occupancy remained constant at 81.5% (31 December 2016: 81.5%). WAULT to first-break was 3.1 years (31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.2 years (31 December 2016: 3.5 years).

Occupier Demand Strengthens in the UK Industrial Market

Take-up in 2017 totalled 26.6 million sq. ft., with 6.8 million sq. ft. taken up in the final quarter of 2017⁶. Occupier demand was particularly strong among companies in the manufacturing sector accounting for one third of total take-up with research from Colliers⁷ indicating that export and domestic demand for goods remained steady, particularly for investment goods. Knight Frank⁸ research shows, that similar to 2016, Midlands, London and the South East continued to account for the highest proportions of take-up in 2017.

In terms of development, Savills indicates that 4.4 million sq. ft. of industrial stock currently under construction will complete in 2018. However, JLL⁹ research suggests that supply is constraining demand in the industrial market due to very limited supply and continued demand for new speculative development, particularly for units below 100,000 sq. ft.. The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2018.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced annual rental value growth in 2017 of 4.9% according to IPD, which provides evidence of sustained growth. The Investment Property Forum UK Consensus Forecast, February 2018, shows 3.5% and 2.4% average rental growth rates respectively for 2018 and 2019. In comparison, the IPF UK Consensus Forecast predicts that the all property average annual rental value growth expected for 2018 is 0.8%.

Research by Cushman & Wakefield suggests that upward pressure on rents was apparent for both prime and secondary industrial properties. For prime properties, low supply as well as increased construction and land costs resulted in upward pressure on rents for new industrial stock in core markets, whilst limited supply of Grade A space has led to refurbished Grade B space in good locations achieving rental growth in 2017.

Regional REIT's Industrial Assets

Occupancy by value of the Group's industrial sites increased to 87.9% (31 December 2016: 86.2%); occupancy by area also increased to 86.4% (31 December 2016: 85.3%). A like-for-like comparison of the Group's industrial sites occupancy by value, 31 December 2017 versus 31 December 2016, shows that occupancy grew to 88.3% (31 December 2016: 86.4%). WAULT to first-break was 4.1 years (31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.9 years (31 December 2016: 3.6 years).

⁶ <http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-industrial-snapshot/>

⁷ http://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_property_snapshot_2018_02.pdf?la=en-GB

⁸ <http://content.knightfrank.com/research/802/documents/en/logic-uk-overview-h2-2017-5270.pdf>

⁹ http://www.jll.co.uk/united-kingdom/en-gb/Research/The_JLL_UK_Industrial_Market_Tracker_Spring_2018.pdf?ef6876a8-909a-42f0-a414-4c9c2ebdfce0

Buildings 2 & 3 HBOS Campus, Aylesbury

Market value (£m) 23.3
Sector Office
Let by value (%) 76.4%





Asset and Investment Managers' Report *(continued)*

Property Portfolio

As at 31 December 2017, the Group's property portfolio was valued at £737.3m (31 December 2016: £502.4), with contracted rental income of £61.9m (31 December 2016: £44.0m), and an occupancy rate by value of 85.0% (31 December 2016: 82.7%). Occupancy by area amounted to 84.3% (31 December 2016: 83.8%).

On a like-for-like basis, 31 December 2017 versus 31 December 2016, occupancy by value was 84.1% (31 December 2016: 83.4%) and occupancy by area was 84.9% (31 December 2016: 84.2%).

There were 164 properties (31 December 2016: 123), in the portfolio, with 1,368 units (31 December 2016: 941) units and 1,026 tenants (31 December 2016: 717), following the acquisition of 53 properties. If the portfolio was fully occupied at Cushman & Wakefield's and Jones Lang LaSalle's view of market rents, the gross rental income would be £73.8m per annum as at 31 December 2017 (31 December 2016: £53.1m).

As at 31 December 2017 the net initial yield on the portfolio was 6.5% (31 December 2016: 6.7%), the equivalent yield was 8.3% (31 December 2016: 8.6%), and the reversionary yield was 9.2% (31 December 2016: 9.5%).

Properties	Valuation		% by valuation	Sq. ft. (mil)	Occupancy		WALUT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Yield (%)		
	£m				(by value) (%)	(by area) (%)							Net initial	Equivalent	Reversionary
Office	95	495.9	67.3	4.02	83.2	82.4	3.1	41.4	34.8	12.50	51.0	123.23	6.5	8.4	9.4
Industrial	38	171.5	23.3	4.25	87.9	86.4	4.1	14.3	11.9	3.90	16.3	40.33	6.5	8.1	8.8
Retail	29	60.0	8.1	0.58	90.5	88.1	4.3	5.4	4.6	10.73	5.7	104.26	7.2	8.1	8.3
Other	2	9.9	1.3	0.12	94.9	61.1	9.6	0.7	0.7	9.54	0.8	80.28	6.6	7.8	7.3
Total	164	737.3	100.0	8.98	85.0	84.3	3.5	61.9	52.0	8.18	73.8	82.14	6.5	8.3	9.2

Property Portfolio by UK Region

Properties	Valuation £m		% by valuation	Sq. ft. (mil)	Occupancy		WALUT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Yield (%)		
					(by value) (%)	(by area) (%)							Net initial	Equivalent	Reversionary
Scotland	45	164.9	22.4	2.73	85.7	81.8	3.5	15.9	13.2	7.13	18.6	60.41	7.5	9.3	10.6
South East	30	198.9	27.0	1.51	92.5	92.2	2.9	16.2	14.6	11.57	17.8	131.30	6.7	7.3	8.0
North East	24	95.6	13.0	1.41	78.6	84.3	3.3	7.2	5.3	6.04	9.6	67.72	5.3	8.7	9.5
Midlands	32	111.9	15.2	1.33	89.3	89.5	3.1	9.9	9.2	8.35	10.2	84.21	7.5	8.0	8.3
North West	18	82.2	11.2	1.16	79.7	78.6	5.5	6.2	4.8	6.84	8.6	71.04	5.4	8.8	9.5
South West	12	57.4	7.8	0.45	68.5	73.9	3.1	4.3	3.4	12.96	6.5	128.88	5.3	8.4	10.1
Wales	3	26.4	3.6	0.39	89.3	83.1	5.8	2.2	1.5	6.91	2.4	68.05	5.4	7.9	8.4
Total	164	737.3	100.0	8.98	85.0	84.3	3.5	61.9	52.0	8.18	73.8	82.14	6.5	8.3	9.2

Tables may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Investments (market value) as at 31 December 2017

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Let by value (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Bath Street	Office	Barclays Bank Plc, University of Glasgow	32.4	4.4	157,525	87.4	87.1	2.5	3.5
Genesis Business Park, Woking	Office	McCarthy & Stone Retirement Lifestyles Ltd, Wood Group Mustang, Oracle Corporation UK Ltd	24.7	3.3	99,613	100.0	100.0	1.6	3.2
Juniper Park, Southfield industrial Estate, Fenton Way	Industrial	A Share & Sons Ltd, Schenker Ltd, Vanguard Logistics Services Ltd	23.8	3.2	277,228	98.4	97.4	2.0	1.6
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	The Equitable Life Assurance Society, Scottish Widows Ltd	23.3	3.2	146,936	73.9	76.4	1.8	4.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Cummins Ltd, Balfour Beatty WorkSmart Ltd, Thomson Pettie Ltd	19.7	2.7	686,940	89.6	88.6	2.3	1.8
Hampshire Corporate Park, Chandlers Ford	Office	The Royal Bank of Scotland Plc, Aviva Health UK Ltd	16.4	2.2	85,422	99.2	99.5	1.4	2.7
One and Two Newstead Court	Office	E.ON UK Plc	15.9	2.2	146,262	100.0	100.0	1.4	2.6
Columbus House, Coventry	Office	TUI Northern Europe Ltd	14.6	2.0	53,253	100.0	100.0	1.4	6.0
Road 4 Winsford Industrial Estate	Industrial	Jiffy Packaging Ltd	14.4	2.0	246,209	100.0	100.0	0.9	16.8
Turnford Place, Cheshunt	Office	Countryside Properties (UK) Ltd, Pulse Healthcare Ltd, Poupart Ltd	14.3	1.9	59,176	99.5	100.0	1.1	3.4
Ashby Park, Ashby De La Zouch	Office	Hill Rom UK Ltd, Ceva Logistics Ltd, Alstom UK Ltd	13.5	1.8	91,752	96.6	95.7	1.0	3.0
The Point, Glasgow	Industrial	The University of Glasgow, Screwfix Direct Ltd, Howden Joinery Properties Ltd	13.4	1.8	169,190	94.1	100.0	1.0	5.7
9 Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd	12.5	1.7	54,959	100.0	96.9	0.8	3.4
Arena Point, Leeds	Office	The Foundation for Credit Counselling, JD Wetherspoon Plc, Expotel Hotel Reservations Ltd	12.4	1.7	82,498	88.5	84.9	0.7	2.2
1-4 Llansamlet Retail Park, Nantylfin Rd, Swansea	Retail	Steinhoff UK Group Property Ltd, Wren Living Ltd, A Share & Sons Ltd	12.0	1.6	71,615	100.0	100.0	1.1	5.1
Total			263.2	35.7	2,428,578	93.5	93.5	21.0	3.9

Table may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Tenants (share of rental income) as at 31 December 2017

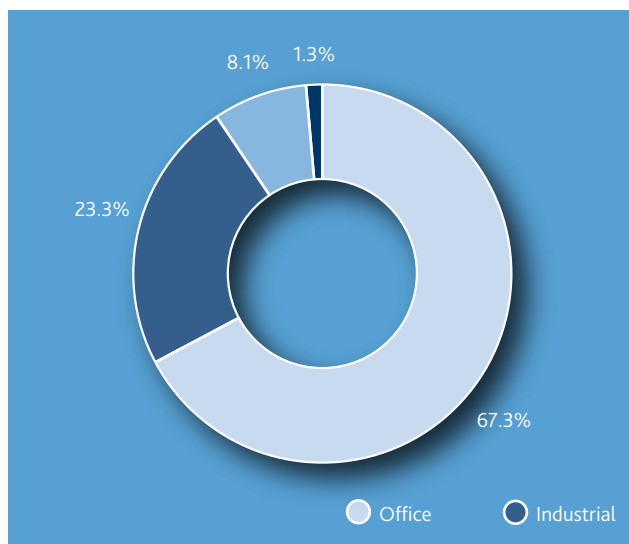
Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	3.9	78,044	2.6
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	2.6	146,262	2.3
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	6.0	53,253	2.2
Scottish Widows Limited	Buildings 3 HBOS Campus, Aylesbury	Financial and insurance activities	3.9	80,103	2.2
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	16.8	246,209	1.5
Sec of State for Communities & Local Govt	Sheldon Court, Solihull Bennett House, Hanley Oakland House, Manchester	Public Sector	0.2	74,886	1.4
Fluor Limited	Brennan House, Farnborough	Construction	1.4	29,707	1.2
The Secretary of State for Transport	St Brendans Court, Bristol Festival Court, Glasgow	Public Sector	2.5	55,586	1.1
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Swansea Juniper Park, Basildon	Wholesale and retail trade	6.4	75,791	1.1
Lloyds Bank Plc	Victory House, Chatham	Financial and insurance activities	0.4	48,372	1.1
Aviva Health UK Ltd	Hampshire Corporate Park, Eastleigh	Financial and insurance activities	1.0	42,612	1.1
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Public Sector	2.3	51,914	1.0
Entserv UK	Birchwood Park, Warrington	Information and communication	3.0	50,549	1.0
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	3.5	66,436	1.0
The Logic Group Holdings Ltd	Waterfront Business Park, Fleet	Information and communication	3.8	30,342	1.0
Total			4.1	1,130,066	21.8

Table may not sum due to rounding.

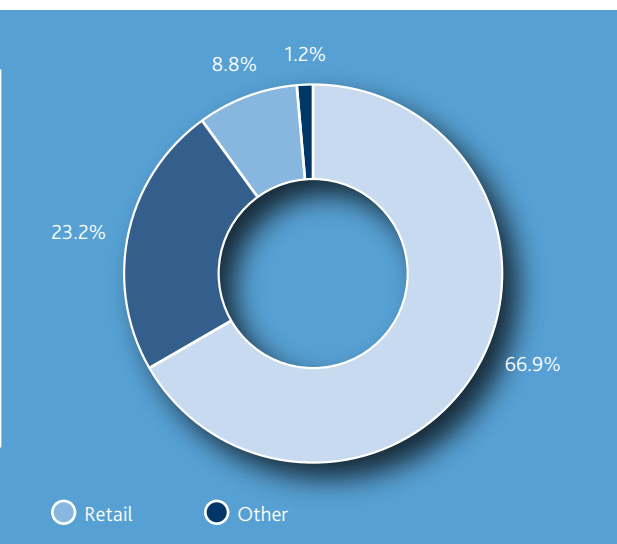
Asset and Investment Managers' Report *(continued)*

Property Portfolio Sector and Region Splits by Valuation and Income

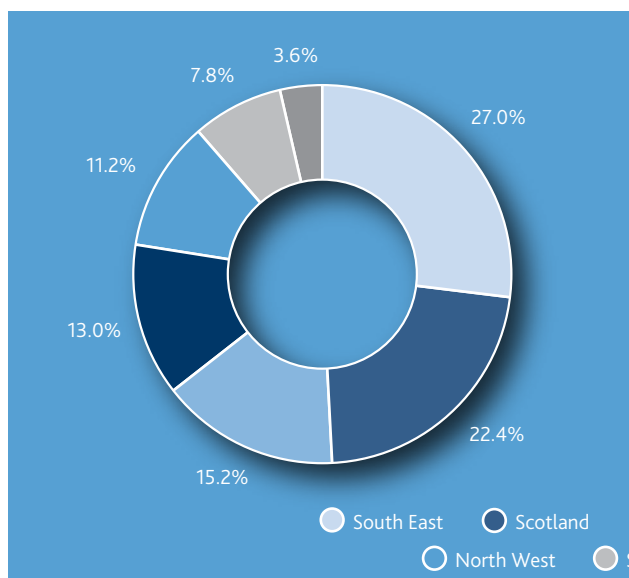
Sector split by valuation 2017



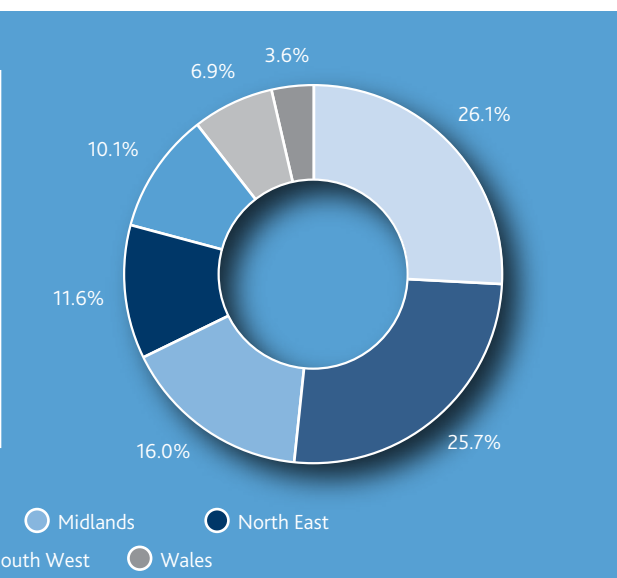
Sector split by income 2017



Regional split by valuation 2017



Regional split by income 2017



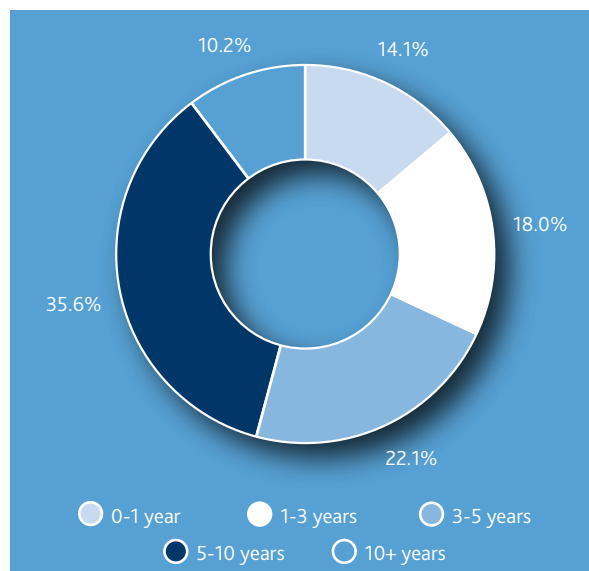
Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

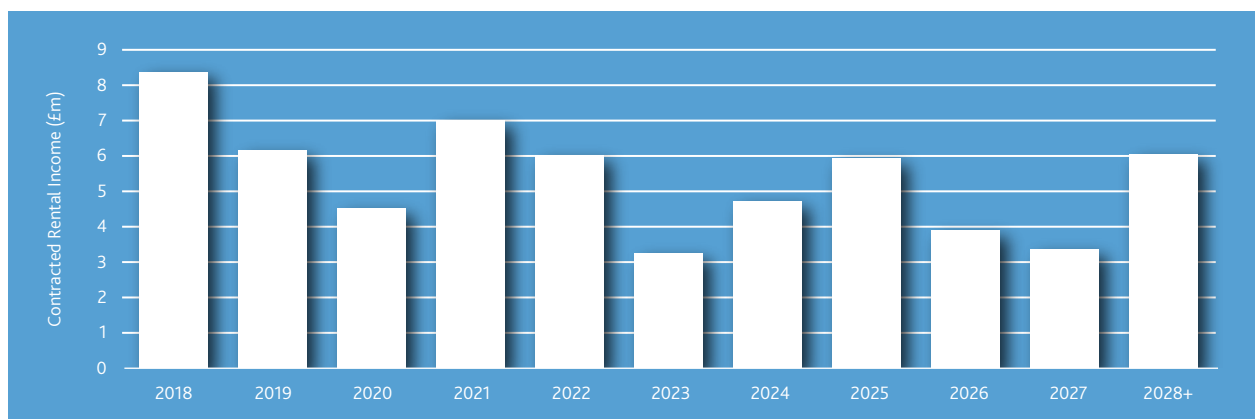
Lease Expiry Profile

The WAULT on the portfolio is 5.4 years (2016: 5.2 years); WAULT to first break is 3.5 years (2016: 3.6 years). As at 31 December 2017, 14.1% (2016: 15.2%) of income was leases which will expire within 1 year, 18.0% (2016: 22.5%) between 1 and 3 years, 22.1% (2016: 19.2%) between 3 and 5 years and 45.8% (2016: 43.1%) after 5 years.

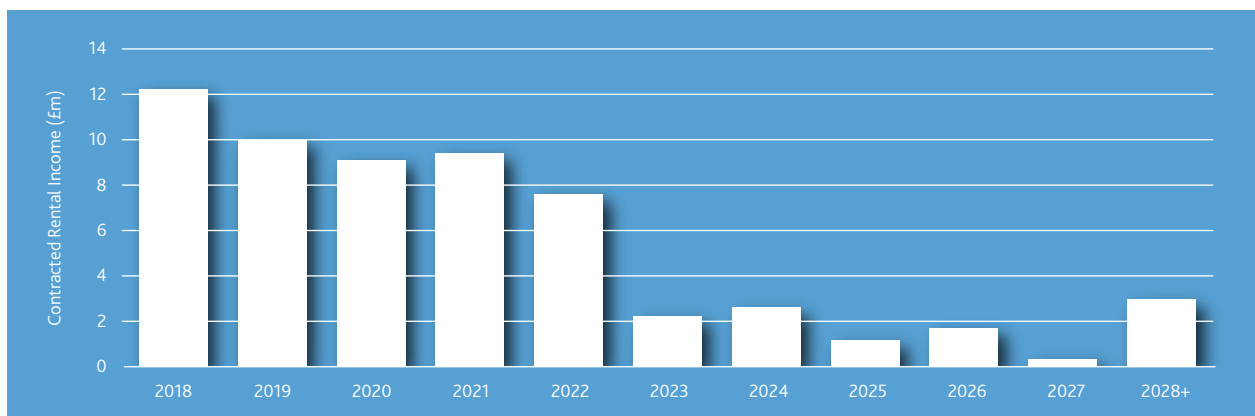
Lease expiry income profile



Lease expiry income profile by year



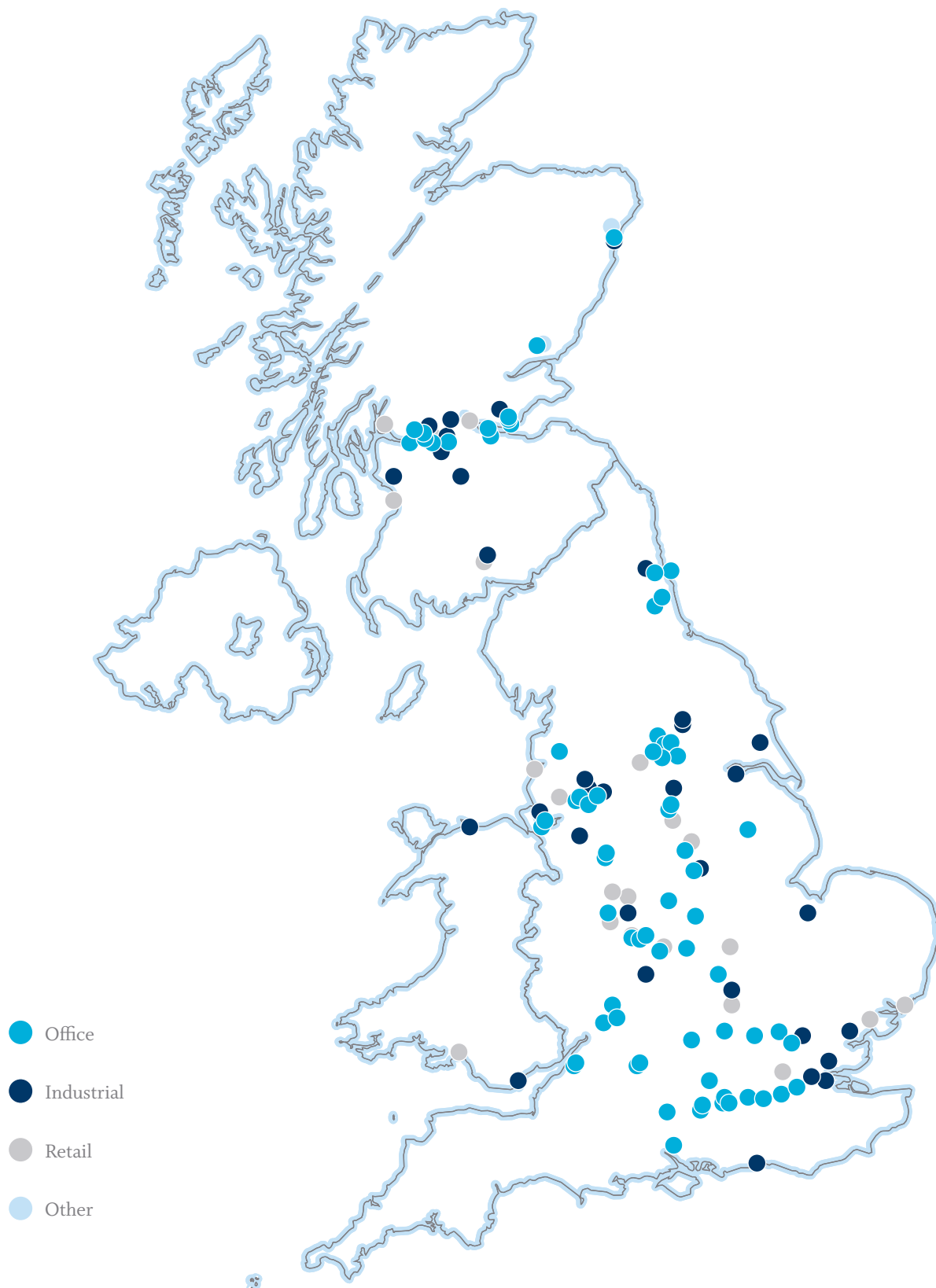
Lease expiry to first break income profile by year



Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

UK Property Locations as at 31 December 2017



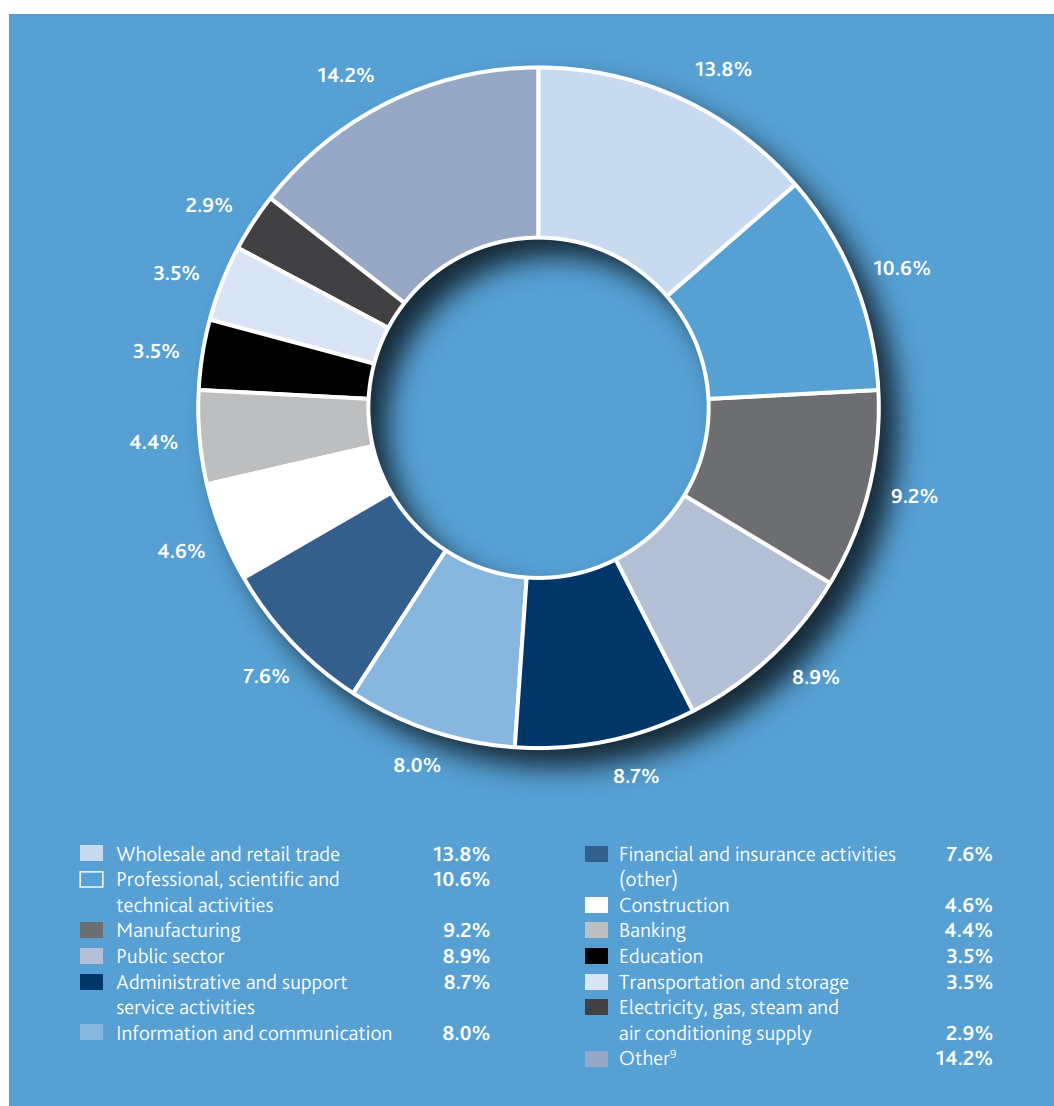
Asset and Investment Managers' Report *(continued)*

Tenants by Standard Industrial Classification as at 31 December 2017

As at 31 December 2017, 13.8% of income was from tenants in the wholesale and retail trade sector (2016: 13.7%), 10.6% from the professional, scientific and technical activities sector (2016: 11.4%), 9.2% from the manufacturing (2016: 11.7%), 8.9% from the public sector (2016: 10.2%) and 8.7% from the administrative and support service activities sector (2016: 7.0%). The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 31 December 2017, the largest being 2.6%.

Tenants by SIC Codes
(% of gross rent)



Charts may not sum due to rounding.

⁹ Other – human health and social work activities; real estate activities; arts, entertainment and recreation; accommodation and food service activities; other service activities; mining and quarrying; public administration and defence; compulsory social security; activities of extraterritorial organisations and bodies; water supply, sewerage, waste management and remediation activities; residential; and others that are not elsewhere classified.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office

Tay House, Glasgow

Market value (£m)	: 32.4
Sector	: Office
Annualised gross rental (£m)	: 2.49
Lettable area (Sq. Ft.)	: 157,525
Anchor tenants	: Barclays Bank Plc, University of Glasgow
Let by area (%)	: 87.4%
Let by value (%)	: 87.1%
WAULT (years) (to first break)	: 7.4 (3.5)



- **Secure Income** – Barclays leases re-gearred in December 2015, securing income until October 2021 at the earliest
- **Ongoing Asset Management** – continue with the marketing of the first floor against the background of limited supply of large open plan refurbished floor plates with the Glasgow city centre market. Explore potential of increasing Regus' Spaces occupation.
- **Asset Management Initiatives** – Early discussions commenced as to the possibility of removing University of Glasgow break option in September 2019

Genesis Business Park, Woking



Market value (£m)	: 24.7
Sector	: Office
Annualised gross rental (£m)	: 1.65
Lettable area (Sq. Ft.)	: 99,613
Anchor tenants	: McCarthy & Stone Retirement Lifestyles Ltd, Wood Group Mustang, Oracle Corporation UK Ltd
Let by area (%)	: 100.0%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 6.1 (3.2)

- **Established Business Park** – Located in strong South East office market
- **Improving Rental Tone** – Letting of part of ground floor in Unit 1 to Wick Hill Limited at £22.50/sq. ft.
- **Asset Management Initiatives** – Let balance of refurbished space. Seek to improve WAULT by removal of future break options

Buildings 2 & 3 HBOS Campus, Aylesbury

Market value (£m)	: 23.3
Sector	: Office
Annualised gross rental (£m)	: 1.77
Lettable area (Sq. Ft.)	: 146,936
Anchor tenants	: The Equitable Life Assurance Society, Scottish Widows Limited
Let by area (%)	: 73.9%
Let by value (%)	: 76.4%
WAULT (years) (to first break)	: 5.1 (4.2)



- **Adding Value** – Gross capital expenditure of c.£3.3m is aimed at providing Grade A office accommodation. The assessment of dilapidations with Scottish Widows is nearing completion and is anticipated to be an improved settlement to that originally forecast on acquisition
- **Continued Letting** – First floor of Building 2 let to Agria Pet Insurance Limited from February 2018 on a 10-year term at headline rent of £235,000. This followed new leases to the Equitable Life in 2016. Encouraging demand from prospective tenants for space in the Aylesbury area with prospects for ongoing growth in estimated rental value

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Hampshire Corporate Park, Eastleigh



Market value (£m)	: 16.4
Sector	: Office
Annualised gross rental (£m)	: 1.41
Lettable area (Sq. Ft.)	: 85,422
Anchor tenants	: The Royal Bank of Scotland Plc, Aviva Health UK Ltd
Let by area (%)	: 99.2%
Let by value (%)	: 99.5%
WAULT (years) (to first break)	: 4.2 (2.7)

- **Successful Refurbishment** – Interior and exterior refurbishment of Hampshire House. By advance programming and marketing, the void period for the building was limited to only five-months whilst the works were ongoing
- **Asset Management Initiatives** – Immediate opportunity is a re-gear of Aviva's Chilworth House lease in December 2018 or, if Aviva exit, seek to capitalise on strong occupier demand

One and Two Newstead Court, Annesley

Market value (£m)	: 15.9
Sector	: Office
Annualised gross rental (£m)	: 1.44
Lettable area (Sq. Ft.)	: 146,262
Anchor tenants	: E.ON UK Plc
Let by area (%)	: 100.0%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 7.6 (2.6)



- **High Quality Assets** – Two modern office pavilions in an established business park
- **Fully Let** – New leases agreed with E.ON on both buildings until April 2025, with a review and tenant break options in May 2020. The renegotiated lease of Building 1 attained a 10% improvement in the rental rate

Columbus House, Coventry



Market value (£m)	: 14.6
Sector	: Office
Annualised gross rental (£m)	: 1.38
Lettable area (Sq. Ft.)	: 53,253
Anchor tenants	: TUI Northern Europe Ltd
Let by area (%)	: 100.0%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 6.0 (6.0)

- **Income Profile** – Let to TUI until 2024 on a geared lease with fixed annual uplifts. TUI has sublet the entire space to First Utility that provides an underpinning to the rent
- **Asset Management Initiatives** – Potential to agree lease surrender with TUI, with benefits of existing sublets to First Utility who have recently been acquired by Shell Petroleum Company Limited

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Turnford Place, Cheshunt

Market value (£m)	: 14.3
Sector	: Office
Annualised gross rental (£m)	: 1.07
Lettable area (Sq. Ft.)	: 59,176
Anchor tenants	: Countryside Properties (UK) Ltd, Pulse Healthcare Ltd, Poupart Ltd
Let by area (%)	: 99.5%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 7.6 (3.4)



- **Asset Management Initiatives** – Seek to improve WAULT by removal of tenant break options and improve rental income following the letting of Block A, First Floor at £22 per sq. ft. headline rent
- **Alternative Uses** – Explore possibility of potential future alternative uses given proximity to adjoining hotel and strong residential market

Ashby Park, Ashby De La Zouch



Market value (£m)	: 13.5
Sector	: Office
Annualised gross rental (£m)	: 1.02
Lettable area (Sq. Ft.)	: 91,752
Anchor tenants	: Hill Rom UK Ltd, Ceva Logistics Ltd, Alstom UK Ltd
Let by area (%)	: 96.6%
Let by value (%)	: 95.7%
WAULT (years) (to first break)	: 4.4 (3.0)

- **Following Acquisition** – Dilapidations on the space vacated by Alstom agreed. Jigsaw Solutions exercised their July 2017 break but re-gear lease on increased space
- **Asset Management Initiatives** – Seek to re-let vacant space within Ceva House and re-gear the lease with Ceva Logistics

4 Portland Street, Manchester

Market value (£m)	: 12.5
Sector	: Office
Annualised gross rental (£m)	: 0.76
Lettable area (Sq. Ft.)	: 54,959
Anchor tenants	: New College Manchester Ltd, Mott MacDonald Ltd
Let by area (%)	: 100.0%
Let by value (%)	: 96.9%
WAULT (years) (to first break)	: 4.8 (3.4)

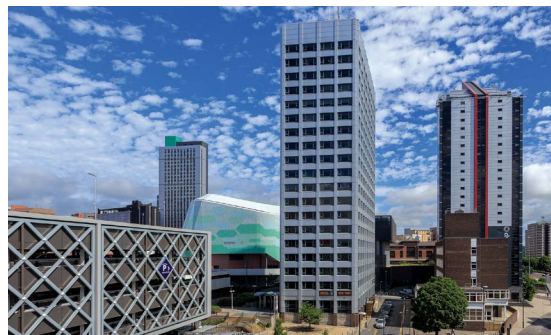


- **Action Taken** – Completed legacy issues from previous developer's refurbishment. Building now fully let and improved rental level – now set at £19.50/sq. ft.
- **Asset Management Initiatives** – Opportunity to secure re-gears and rent reviews at increased rental levels

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Arena Point, Leeds



Market value (£m)	: 12.4
Sector	: Office
Annualised gross rental (£m)	: 0.73
Lettable area (Sq. Ft.)	: 82,498
Anchor tenants	: The Foundation for Credit Counselling, JD Wetherspoon Plc, Expotel Hotel Reservations Ltd
Let by area (%)	: 88.5%
Let by value (%)	: 84.9%
WAULT (years) (to first break)	: 5.4 (2.2)

- **Three Phase Refurbishment** – Installation of new high-level illuminated signage to highlight the property as a landmark location in the cityscape. Phase 1 refurbishment of foyer, basement amenity area and 6th & 7th floors completed July 2017. Phase 2 refurbishment of 4th & 5th floors completed and third phase of refurbishment to 1st, 2nd & 3rd floors planned
- **Post-refurbishment Lettings** – 6th & 7th floors let to Interserve at £12.50/sq. ft. and remaining shell ground floor office space refurbishment completed February 2018 and let to Kier Construction on a 2-year lease as a site office for nearby project
- **Local Area Development** – Sale contract exchanged with Unite Students for sale of podium area subject to satisfactory planning consent being obtained – potential £10.5m plus receipt with 5% non-refundable deposit received

Top 15 Properties by Sector: Industrial

Juniper Park, Basildon

Market value (£m)	: 23.8
Sector	: Industrial
Annualised gross rental (£m)	: 2.00
Lettable area (Sq. Ft.)	: 277,228
Anchor tenants	: A Share & Sons Ltd, Schenker Ltd, Vanguard Logistics Services Ltd
Let by area (%)	: 98.4%
Let by value (%)	: 97.4%
WAULT (years) (to first break)	: 2.9 (1.6)



- **Diversified Income** – Multi-let to 10 tenants on 13 leases
- **Major Letting Secured** – Letting of previously void Unit 1A (84,475 sq. ft.) to SCS completed in September 2017. 10-year lease with tenant break option at year 5 – average rent for years 1-5 of £328,035 pa; rent thereafter £508,423 pa
- **Asset Management Initiatives** – Various initiatives ongoing with respect to re-gearing or renewal of leases with existing tenants

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Industrial *(continued)*

Wardpark Industrial Estate, Cumbernauld



Market value (£m)	: 19.7
Sector	: Industrial
Annualised gross rental (£m)	: 2.29
Lettable area (Sq. Ft.)	: 686,940
Anchor tenants	: Cummins Ltd, Balfour Beatty WorkSmart Ltd, Thomson Pettie Ltd
Let by area (%)	: 89.6%
Let by value (%)	: 88.6%
WAULT (years) (to first break)	: 2.8 (1.8)

- **Retaining Asset** – Decision to retain the asset based on stronger rental growth prospects for the estate
- **Lease Extensions** – Terms agreed with Bunzl UK Limited to extend their leases at Napier Road to March 2030 subject to tenant break options in 2025 at a combined annual headline rent of £165,000
- **Unit Sales** – Sale of two units at Wardpark South which does not form part of main estate holding and the sale of two vacant blocks, totalling 18,863 sq. ft., adjacent to the Wardpark Film Studio

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	: 14.4
Sector	: Industrial
Annualised gross rental (£m)	: 0.93
Lettable area (Sq. Ft.)	: 246,209
Anchor tenants	: Jiffy Packaging Ltd
Let by area (%)	: 100.0%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 16.8 (16.8)



- **Long-lease Term** – Let to Jiffy Packaging Limited until 2034
- **Business plan** – seek to sell re-gear low-yielding long lease

The Point, Glasgow



Market value (£m)	: 13.4
Sector	: Industrial
Annualised gross rental (£m)	: 0.96
Lettable area (Sq. Ft.)	: 169,190
Anchor tenants	: The University Glasgow, Screwfix Direct Ltd, Howden Joinery Properties Ltd
Let by area (%)	: 94.1%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 9.5 (5.7)

- **Improved Rental Tone** – 17% uplift achieved on See Woo review as of February 2016 Lease of Unit 8 to The University Glasgow extended for 10 years from January 2018 (subject to tenant break option in 2023) at £7.00/sq. ft. Rent review of Unit 5 also settled at £7.00/sq. ft. from February 2018
- **Strong Investment Market** – Explore potential of selling investment into strong market having improved the rental tone

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Other (Retail)

1-4 Llansamlet Retail Park, Swansea

Market value (£m)	: 12.0
Sector	: Retail
Annualised gross rental (£m)	: 1.10
Lettable area (Sq. Ft.)	: 71,615
Anchor tenants	: Steinhoff UK Group Property Ltd, Wren Living Ltd, A Share & Sons Ltd
Let by area (%)	: 100.0%
Let by value (%)	: 100.0%
WAULT (years) (to first break)	: 8.0 (5.1)



- **Modern Retail Warehouse Park** – Fully let retail park in prime location adjacent to the M4 motorway and a large Tesco Extra with tenants including Harveys, Wren Living and Halfords. Last remaining vacant unit was let to Tapi Carpets in early 2017
- **Drive-thru Development** – Planning consent has been obtained for a drive-thru unit and conditional terms, including a 20-year lease, have been agreed with an international fast food operator
- **Asset Management Initiatives** – Decision to retain for an interim period to obtain maximum value on disposal

Asset and Investment Managers' Report *(continued)*

Environmental Matters

The Asset Manager currently has five main aspects in its management of the environmental impact of the portfolio:

- An independent environmental report is required for all potential acquisitions which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination.
- The process of development and refurbishment projects considers the choice of materials used to avoid health hazards or damage to the environment.
- Ongoing risk examinations of the activities of current and incoming tenants is carried out by way of site inspections to identify and prevent pollution.
- All sites are visited at least annually with material evident environmental issues reported to the Board.
- All new leases seek to commit occupiers to environmental regulations.

Improving Resource Management at our Assets

In order to reduce energy consumption both in landlords' areas and the tenants' demise, the Asset Manager needs to work closely with tenants. The Asset Manager engages with tenants on resource consumption issues where the Asset Manager has responsibility for the payment of the supply. It has also engaged an energy consultant to advise on energy efficiencies. Energy improvements are always considered when repair or refurbishment programmes are undertaken.

Developments and Refurbishments

Development and refurbishments projects are subcontracted. The Asset Manager monitors the work directly and with project managers on larger projects, to ensure they are in accordance with relevant guidelines and laws. All subcontractors are assessed to ensure that they have sufficient resources to meet legal requirements.

Energy Performance Certificate ("EPC") Ratings and Implications

For commercial properties located in England and Wales, Minimum Energy Efficiency Standards Regulations (MEES) make it unlawful from 1 April 2018 to let buildings with an EPC rating lower than E.

Regulations for non-domestic buildings in Scotland are materially different in approach. No minimum EPC requirement is set for lettings but owners of buildings with a floor area greater than 1,000 square meters are currently obliged to carry out a Section 63 Action Plan to identify where energy efficiency improvements can be made and either carry out such works or exhibit a Display Energy Certificate.

We have completed an exercise to review all properties to ensure we have a record of their EPC status and to allow us to plan any specific works that might be required to improve any current F or G rated property to an EPC category of E or higher.

In total, F & G EPC ratings currently apply to 29 units across seven assets. The present day cost of carrying out works to directly allow re-assessment of the EPC to E or higher is estimated at £175,000. In practice, this will be spread over a number of years as leases end and when re-letting events occur. In addition, an element of the costs would, in any event, be included in wider dilapidation and refurbishment project works undertaken prior to re-letting.

Asset and Investment Managers' Report *(continued)*

Case Studies

Building A/B St James Court

- Building A – improvement from 'D' (81 points) to 'B' (46 points)
- Building B – improvement from 'E' (103 points) to 'B' (46 points)

Description of refurbishment:

Building A and B St James Court, Almondsbury are two large commercial offices constructed in 1992 in an established business park situated adjacent to the M4/M5 interchange in Bristol. Building A is a three storey 30,000ft² property whilst Building B is a two storey 18,000ft² property. Both buildings are of the same construction and comprise pitched trussed rafter roofs with an artificial slate covering, concrete block cavity walls and double glazed powder coated aluminium framed windows and doors. Internally, both buildings were fitted with a gas fired heating system with an external chiller for cooling, a centralised gas boiler for hot water and fluorescent light fittings. Both buildings were extensively refurbished both externally and internally to a 'Cat A' standard in 2016. The refurbishment works included the installation of a new zoned refrigerant based VRF heating and cooling system, electric point of use water heaters, energy efficient LED lighting and new machine-room-less passenger lifts. Following the above refurbishment works, the Energy Performance Rating for the buildings were greatly improved from a Grade D (81 points) to a Grade B (46 points) for Building A and from a Grade E (103 points) to a Grade B (46 points) for Building B.

800 Aztec West

- Original EPC rating: 'E' (120 points)
- New EPC rating: TBC but expected to be a 'B' rating

Description of refurbishment:

Building 800, Aztec West is a large commercial office constructed in the 1980's in an established business park situated adjacent to the M4/M5 interchange in Bristol. The building is a three storey and provides circa 73,000ft² of lettable office space. The building construction comprises a concrete encased steel frame with a flat roof covering, cavity brickwork walls, composite cladding and double glazed powder coated aluminium framed windows and doors. Internally, the building was fitted with an old VAV heating and cooling system, a centralised gas boiler for hot water and fluorescent light fittings. The building was extensively refurbished both externally and internally to a 'Cat A' standard in 2017/18. Externally, the refurbishment works included a new bituminous felt roof covering with new 120mm PUR insulation, new feature double glazed reception, new composite external cladding and new double glazed powder coated aluminium framed windows and doors. Internally, the refurbishment works included a new feature reception and staircase, new core corridors and lobbies, new toilet accommodation and a new shower block. The building services were completely refurbished to include new energy efficient LED lighting throughout, new VRV heating / cooling system with heat recovery, a new ventilation system and electric point of use water heaters. The refurbishment works are currently still onsite (due for completion in April 2018) but the Energy Performance Rating for the building is expected to be greatly improved from a Grade E (120 points) to a Grade B.

Hampshire House, Templars Way, Chandler's Ford, Eastleigh SO53 3RY

- Original EPC rating: 'C' (69 points)
- New EPC rating: 'B' (48 points)

Description of refurbishment:

London Scottish Properties Asset Management Limited embarked on works to prepare NatWest House (now Hampshire House) for re-letting in December 2016 with works completing in April 2017. The works entailed the strip out of existing fixtures and fittings and replacement of Mechanical, Electrical and Plumbing (MEP) installations with new highly efficient, modern specification equipment.

The works called for the installation of 4-pipe VRV/VRF HVAC systems designed to a ratio of one person per eight sq. m. (beyond typical BCO standards). In addition, the existing fluorescent lights were replaced by occupancy sensor controlled Hilclare Seville highly efficient LED modular lighting luminaires with high-transmission polycarbonate diffusers meeting with BSEN 60598.

The project greatly improved the overall efficiency of the areas subject to works with the pre-existing EPC from 2012 improved from C69 to B48. Typical offices newly constructed in 2018 from the ground upwards would be anticipated to reach an EPC standard of B28, so the rating for an existing building being classified at B48 far exceeds expectations by comparison and shows a real return on investment. Typical building stock of similar type have borderline C/D ratings so from a marketing perspective, the EPC classification provides an opportunity to set the building apart from competitor properties.

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	14.4
Sector	Industrial
Let by value (%)	100.0%



Asset and Investment Managers' Report *(continued)*

Net Asset Value

In the year to 31 December 2017, the EPRA Net Asset Value ("NAV") of the Group rose to £395.7m from £293.2m as at 31 December 2016, which equates to a decrease in diluted NAV of 1 pence per share ("pps") to 105.9pps (31 December 2016: 106.9pps). For the 2017 calendar year the Company has declared dividends amounting to 7.85pps.

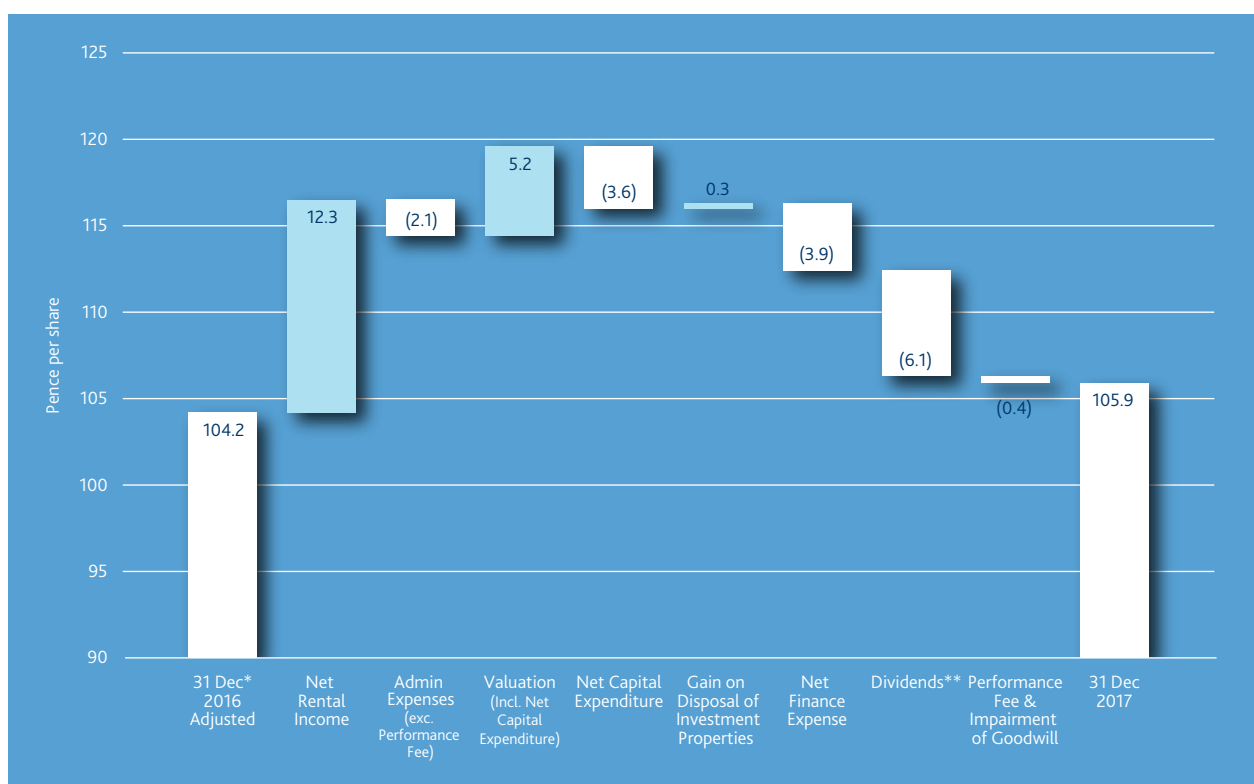
The EPRA NAV increase of some £102.5m since 31 December 2016 is predominately from the issuance of two tranches of new equity and the revaluation of the investment property portfolio.

On 24 March 2017, 26,326,644 ordinary shares were issued, at an adjusted EPRA NAV of 106.347pps, with the assumption of some £105m of borrowings, in consideration for the acquisition of c. £129m excluding transaction costs, of investment properties from The Conygar Investment Company PLC ("Conygar").

On 21 December 2017, 72,277,228 ordinary shares were issued at 101pps, pursuant to a capital raise of gross proceeds of £73.0m. As announced on the 27 December 2017, some of the funds were deployed on 22 December 2017 acquiring two portfolios in aggregate for £88.3m, excluding transaction costs, the associated borrowing amounted to some £35.7m.

In the 12 months to 31 December 2017, the Group completed property acquisitions of £228.1m, before costs and gross, including transaction costs, of £231.3m (31 December 2016: £133.6m, gross £140.7m). In the period net disposals amounted to £16.9m, and gross, excluding transaction costs, £17.4m (31 December 2016: £44.9m, gross £45.9m). Net capital expenditure amounted to £13.4m (31 December 2016 £9.1m), after dilapidations gross capital expenditure was £14.8m (31 December 2016 £12.4m).

EPRA Net Asset Value – diluted Bridge 2017



* Opening year ending 2017 adjusted for 26,326,644 and 72,277,228 shares issued in the period.

**The 26,326,644 shares issued in March 2017 did not qualify for the dividend of 2.4pence per share declared on 23 February 2017. The 72,277,228 shares issued pursuant to the Capital Raise which completed in December 2017 did not qualify for any dividend paid in 2017 calendar year.

Asset and Investment Managers' Report *(continued)*

The diluted EPRA NAV per share decreased to 105.9pps (31 December 2016: 106.9pps). The EPRA NAV is reconciled in the table below.

	Year ending 2017 £m	Year ending 2017 Pence per Share
Opening EPRA NAV*	389.2	104.2
Net rental income	45.8	12.3
Administration and other expenses	(9.4)	(2.5)
Gain on the disposal of investment properties	1.2	0.3
Change in the fair value of investment properties	5.9	1.6
EPRA NAV after Operating profit	432.8	115.8
Finance expense	(14.5)	(3.9)
Impairment of Goodwill	(0.6)	(0.1)
EPRA NAV before Dividends paid and dilution	417.7	111.8
Dividends paid**	(22.8)	(6.1)
Performance Fee Shares	0.8	0.2
Closing EPRA NAV – diluted	395.7	105.9

* Opening year ending 2017 adjusted for 26,326,644 and 72,277,228 shares issued in the period.

**The 26,326,644 shares issued in March 2017 did not qualify for the dividend of 2.4 pence per share declared on 23 February 2017. The 72,277,228 shares issued pursuant to the Capital Raise which completed in December 2017 did not qualify for any dividend paid in 2017 calendar year.

Table may not sum due to rounding

Income Statement

Operating profit before exceptional items and gains and losses on property assets and other investments for the year ended 31 December 2017 amounted to £36.4m (31 December 2016: £29.9m). Profit after finance items and before taxation was £28.7m (31 December 2016: £13.4m). 2017 included a full rent roll for properties held as at 31 December 2016, plus the partial rent roll for properties acquired during 2017.

Rental income amounted to £52.3m (31 December 2016: £43.0m), the increase was primarily the result of the enlarged investment property portfolio as a result of the following acquisitions: Conygar portfolio, Woodlands Court, Equinox North, and on 27 December 2017 the acquisition of two portfolios.

Currently more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.5m (31 December 2016: minimal).

The EPRA cost ratio was 29.7% (31 December 2016: 29.6%), adjusting for ground rent. The minimal movement in the cost ratio is a reflection of increased non-recoverable property costs, which are offset by costs trending down due to the scale of the business and the Company registering for VAT. The allowable VAT recovery will amount to £0.8m for 2015 and 2016, and £0.3m for 2017. Non recoverable property costs were impacted due to the refurbishment programmes. Administrative expenses included an accrued performance fee of £1.6m.

Finance expense increased due to the increased amount of debt and the refinancing during the period. The increase debt reflects the portfolio acquisition in March 2017, with the assumption of £69.4m of bank borrowing and some £35.7m of Zero Dividend Preference shares ("ZDP"); and the £35.7m of additional borrowings in relation to the acquisitions in December 2017. On the 12 December 2017, a new 10-year borrowing facility was agreed, replacing five existing debt facilities and extending the weighted average maturity to 6.0 years. The associated fees amounted to £2.5m.

The Company is a member of the Association of Investment Companies ("AIC"). In accordance with the AIC Code of Corporate Governance, the ongoing charges for the year ending 31 December 2017 were 4.5% (31 December 2016: 4.2%). The total return from 6 November 2015 to 31 December 2017 was 19.9%, an annualised rate of 8.8%.

Asset and Investment Managers' Report *(continued)*

Dividend

In relation to the period 1 January 2017 to 31 December 2017, the Company declared dividends totalling 7.85pps (2016: 7.65pps). Since the end of the period, the Company has declared a dividend for the fourth quarter of 2017 of 2.45pps.

Period Covered	Announcement Date	Ex Date	Record Date	Payment Date	Pence per Share
1 Jan 2016 to 31 Mar 2016	27 May 2016	9 Jun 2016	10 Jun 2016	8 Jul 2016	1.75p
1 Apr 2016 to 30 Jun 2016	1 Sep 2016	8 Sep 2016	9 Sep 2016	7 Oct 2016	1.75p
1 Jul 2016 to 30 Sep 2016	17 Nov 2016	24 Nov 2016	25 Nov 2016	22 Dec 2016	1.75p
1 Oct 2016 to 31 Dec 2016	23 Feb 2017	2 Mar 2017	3 Mar 2017	13 Apr 2017	2.40p
1 Jan 2017 to 31 Mar 2017	25 May 2017	8 Jun 2017	9 Jun 2017	14 Jul 2017	1.80p
1 Apr 2017 to 30 Jun 2017	31 Aug 2017	7 Sep 2017	8 Sep 2017	13 Oct 2017	1.80p
1 Jul 2017 to 30 Sep 2017	14 Nov 2017	23 Nov 2017	24 Nov 2017	22 Dec 2017	1.80p
1 Oct 2017 to 31 Dec 2017	22 Feb 2018	1 Mar 2018	2 Mar 2018	12 Apr 2018	2.45p

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-10 years, with a weighted average maturity of 6.0 years (31 December 2016: 2.9 years).

The Group's borrowing facilities are with ICG Longbow Ltd., Royal Bank of Scotland, HSBC, Santander UK, Scottish Widows Ltd. and Aviva Investors Real Estate Finance and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing at 31 December 2017 amounted to £339.1m (31 December 2016: £220.1m) (before unamortised debt issuance costs). Bank facilities with Lloyds Banking Group and HSBC were acquired with the purchase of the Conygar property portfolio in late March of 2017, totalling £69.4m. In December 2017, the Scottish Widows Ltd. and Aviva Investors Real Estate Finance 10 year £165m facility replaced five existing secured debt facilities and increased the average maturity of the Group.

At 31 December 2017, the Group's cash and cash equivalent balances amounted to £44.6m (31 December 2016: £16.2m), which includes proceeds from the December 2017 capital raise not deployed at the year-end.

The Group's net loan-to-value ratio stands at 45.0% (31 December 2016: 40.6%) before unamortised costs. This has been managed down from the c.49% in the aftermath of the acquisition of investment properties from Conygar, in late March 2017. The Board targets a Group net loan-to-value ratio of 40%, with a maximum limit of 50%.

The Managers continue to monitor the borrowing requirements of the Group.

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross Loan to Value** (%)	Annual Interest Rate
ICG Longbow Ltd	£65,000	£65,000	Aug-19	44.6%	5.00% Fixed
Royal Bank of Scotland	£19,336	£17,376	Dec-20	40.0%	2.00% over 3mth £ LIBOR
HSBC	£20,998	£20,998	Dec-21	53.2%	2.15% over 3mth £ LIBOR
Santander UK	£70,700	£70,700	Nov-22	43.4%	2.15% over 3mth £ LIBOR
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	£165,000	£165,000	Dec-27	48.9%	3.28% Fixed
	£341,034	£339,074			
Zero Dividend Preference Shares	£39,879	£37,389	Jan-19	N/A	6.50% Fixed
	£380,913	£376,463			

* Before unamortised debt issue costs

**Based on Cushman and Wakefield and Jones Lang LaSalle property valuations

Asset and Investment Managers' Report *(continued)*

As at 31 December 2017, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio, net debt to ordinary shareholders' equity (diluted), of the Group was 84.5% as at 31 December 2017 (31 December 2016: 69.9%). The increase is predominantly a result of the borrowings acquired during 2017.

Interest cover stands at 3.2 times (31 December 2016: 3.8 times) including the ZDP, and 3.8 times excluding the ZDP (acquired March 2017).

Hedging

The Group applies an interest hedging strategy that is aligned to the property management strategy, and aims to mitigate interest rate volatility on at least 90% of the debt exposure.

	31 December 2017 %	31 December 2016 %
Borrowings interest rate hedged (Incl. ZDP)	89.8	106.5
Thereof:		
Fixed	71.0	29.5
Swap	9.4	41.3
Cap	9.4	35.7
WACD ¹	3.8	3.7
WACD – Excluding the ZDPs ²	3.5	3.7

¹ Weighted Average Cost of Debt – Weighted Average Effective Interest Rate including the cost of hedging

² Zero Dividend Preference Shares which were assumed on 24 March 2017

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.

On 9 January 2018, the Company registered for VAT purposes in England. Following developments in case law, HMRC have updated their policy and have published new guidance on the circumstances in which VAT can be recovered. In accordance with the new guidelines, and in consultation with the Company's advisors, the Company has registered for VAT and intends to recover VAT which it incurs in the future as well as that which it has incurred since November 2015, when it first became active.

At 31 December 2017, the Group's taxation charge amounted to £1.6m, which comprised £1.4m of deferred tax for the potential future sale of a property held by Hamilton Hill Estates Ltd., and £0.2m of income tax for revenue generated outside the REIT regime.

Subsequent Events after the Reporting Period

On 1 February 2018, the Company announced the appointment of Frances Daley as a Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

Tay House, Glasgow

Market value (£m) 32.4
Sector Office
Let by value (%) 87.1%





Principal Risks and Uncertainties

The Board acknowledges that it faces a number of risks which could impact its ability to achieve its strategy. While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks. The Board and the Audit Committee robustly reviews the risk management plan on a bi-annual basis.

The Prospectus issued in December 2017 (available from the Company's website: www.regionalreit.com) includes details of what the Group considers to be the key principal risks faced. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but 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 these.

Key to risk trend



No change



Trend up



Trend down

Strategic Risks

Potential impact	Mitigation	Movement in the period	《》
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	<p>An annual review of the investment strategy.</p> <p>A defined investment appraisal process.</p> <p>Acquire portfolios which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties.</p>	The property portfolio remains balanced across a range of geographical areas and large number of investment properties.	
	Only acquiring office and industrial properties, in the UK and outside of 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.	The Group continues to purchase properties in the UK outside the M25 motorway.	
	No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's investment property value at the time of investment.	Tay House is the highest valued property which equates to 4.4% of the Group's investment properties.	
	No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.	The Group's largest single tenant exposure is 2.6% of gross rental income.	
	Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	No speculative construction was undertaken in the year.	
	The value of the assets is protected by an active asset management programme, which is regularly reviewed against the business plan for each property.	The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.	

Principal Risks and Uncertainties *(continued)*

Economic and Political Risk			
Potential impact	Mitigation	Movement in the period	⌵
Significant political events, including the decision to leave the EU, and the triggering of Article 50 of the Lisbon Treaty on the 29 March 2017 could impact the health of the UK economy, resulting in borrowing constraints, change in demand by tenants for suitable properties and the quality of the tenants.	The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.	
Bank reference interest rates may be set to rise accompanying higher inflation.	Policy of hedging at least 90% of variable interest rate borrowings. Borrowings are currently provided by a range of institutions with targeted staggered maturities. Funding options are constantly reviewed with an emphasis on lengthening the maturity of borrowings	Continued adherence to the hedging policy and the increased weighted average duration of debt.	
Tenant Risk			
Potential impact	Mitigation	Movement in the period	⌵⌵
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	An active asset management programme. Diversified portfolio of properties let, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the UK.	The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 1,026 as at 31 December 2017.	
A high concentration of lease term maturity and/or break options.	The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. There is a focus on securing early renewals and increased lease period.	The WAULT to first break as at 31 December 2017 was 3.5 years. The largest tenant is 2.6% of the gross rental income.	
	The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents	The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents	
Financial and Tax Change Risk			
Potential impact	Mitigation	Movement in the period	⌵⌵
Changes to the UK REIT and non – REIT regimes, tax and financial legislation.	The REIT and non-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.	Advice is received from a number of corporate advisors and the Group adapts to changes as required.	

Principal Risks and Uncertainties *(continued)*

Operational Risk			
Potential impact	Mitigation	Movement in the period	«»»
Business disruption could impinge on the normal operations of the Group.	The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group.	Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.	
	An annual due diligence exercise is carried out on all principal vendors.	Annual due diligence visits were undertaken with the Company's principal vendors.	
	As an externally managed Company, there is a continued reliance on the Asset and Investment Managers.	Both the Asset and Investment Manager are viable long-term concerns.	
	All properties undergo an annual comprehensive fire risk assessment to ensure correct cladding or construction materials are in place. Close relationships maintained with Health and Safety Executive.	The Asset Manager remains vigilant to changes in Health and Safety regulations.	
Accounting, Legal, and Regulatory, including Environmental Risk			
Potential impact	Mitigation	Movement in the period	«»»
Changes to the accounting legal and/or regulatory legislation could result in changes to current operating processes.	Robust processes are in place to ensure adherence to accounting, tax, legal, regulatory requirements, and the Listing Rules.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required.	
	All contracts are reviewed by the Group's legal advisors.	The Company Secretary continues to attend all Board meetings and advise on the Listing Rules in conjunction with the Financial Advisor.	
	The Administrator, Sub-Administrator, in its capacity as Group accountant and the Company Secretary attend all Board meetings and provide advice to the Board as required.		
	All compliance issues are raised with the Financial Advisor.		
	Property acquisitions undergo a rigorous due diligence process, including an environmental assessment.		
	The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process.		

On behalf of the Board

Kevin McGrath

Chairman and Independent Non-Executive Director

21 March 2018

Turnford Place, Cheshunt

Market value (£m) 14.3
Sector Office
Let by value (%) 100.0%



Management Arrangements

Asset Manager

London & Scottish Investments Limited (“LSI”) were appointed as the Asset Manager to provide asset management services to the Company (and Regional Commercial Midco Limited (“Midco”) and the Jersey limited companies which hold the properties directly) with effect from the Company’s shares being admitted to trading on the London Stock Exchange on 6 November 2015.

Under the Asset Management Agreement, the Asset Manager is responsible for the day-to-day asset management of the Property Portfolio, subject to the Investment Objective of the Company and its Investment Policy (as set out on page 14) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the real estate assets of the Company.

Notice of termination of the Asset Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company’s Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If a notice to terminate is not given, the agreement shall continue for recurring three year periods (“Subsequent Periods”). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated earlier with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager or by the Investment Manager.

The Company or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board, the Asset Manager and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Property Manager

London and Scottish Property Asset Management Limited has been appointed to manage the day-to-day property management of each property within the Portfolio. A Property Management fee of 4%, based upon the gross rental yield, is charged per annum.

Investment Manager and Alternative Investment Fund Manager

The Company appointed Toscafund Asset Management LLP (“Tosca”) as the Company’s Investment Manager (and to provide certain related services to Midco and the Jersey limited companies which hold property directly). The Investment Manager is responsible for the day to day management of the Company’s investments, subject to the investment objective and the investment policy of the Company. The Investment Manager is the Alternative Investment Fund Manager (“AIFM”) under the Alternative Investment Fund Managers Directive (“AIFMD”).

Notice of termination of the Investment Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5-years from the date of the Admission of the Company’s Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If notice to terminate is not given, the agreement shall continue for recurring three year periods (“Subsequent Periods”). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

Management Arrangements *(continued)*

Management and Performance Fees

The Investment Manager and the Asset Manager are each entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the Company's Net Asset Value ("NAV"), reducing to 0.9% on NAV over £500,000,000. The fee shall be payable in cash quarterly in arrears.

In addition the Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of Total Shareholder Returns in excess of the annual Hurdle Rate of 8% for the relevant Performance Period. Total Shareholder Returns for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per ordinary share and the total dividends per ordinary share declared in the Performance Period. The initial Performance Period runs from 6 November 2015 to 31 December 2018. Subsequent Performance Periods will be annual, from 1 January to 31 December.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark, which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially for the period ending 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-85 of the IPO Prospectus, published on 3 November 2015.

Continuing Appointment of Asset Manager and Investment Manager

The Management Engagement and Remuneration Committee ("MERC") recommended to the Board that the continued appointment of the Managers on the terms of their respective agreements be approved and the Directors agreed with this recommendation. Further details can be found in the MERC Report on page 79.

Administrator

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining Company's records and statutory registers, and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Link Alternative Fund Administrators Limited as Sub-Administrator. An annual fee of £127,000 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

The Administration Agreement is for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Company Secretary

The Company appointed Link Company Matters Limited (formerly Capita Secretarial Services Limited) to provide company secretarial services to the Company pursuant to a Company Secretarial Services Agreement. This agreement will automatically renew for 12 month periods unless notice of termination is served by either party at least six months prior to the end of each period.



Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.7
Sector	Industrial
Let by value (%)	88.6%



Board of Directors



Kevin McGrath DL OBE

(Chairman and Independent Non-Executive Director – appointed 16 October 2015)

Kevin McGrath is a chartered surveyor who has worked in the property industry for over 30 years. He is a member of the Royal Institute of Chartered Surveyors, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a trustee of a number of charities.

Kevin is chairman of M&M Property Asset Management and the non-executive chairman of INTCAS, a technology and support service company that assist education institutions from across the world to attract, recruit and manage international students in a safe, compliant and cost efficient way. Kevin was previously managing director and senior adviser of F&C REIT Asset Management and prior to that, he was a founding equity partner in REIT Asset Management, having previously worked as a senior investment surveyor with Hermes Investment Management.

William Eason

(Senior Independent Non-Executive Director – appointed 16 October 2015)

William (“Bill”) Eason was previously head of charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a member of the London Stock Exchange in 1976. Bill was chief investment officer at Laing & Cruickshank Investment Management and is a former chairman of Henderson High Income Trust plc.

Bill is currently a director of Henderson International Income Trust plc, The European Investment Trust plc and of Institutional Protection Services Ltd. He is an Associate of the Society of Investment Professionals and a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles Bill has acted as a governor of Henley Management School and is currently a trustee of Marshall’s Charity, The Gordon Foundation, and the John Hampden Fund. He is also a business fellow of Gray’s Inn.



Daniel Taylor

(Independent Non-Executive Director – appointed 16 October 2015)

Daniel (“Dan”) Taylor is the founder and chief executive officer of Westchester Capital Limited, an investment and advisory firm, specialising in real estate. He currently holds the role as managing partner of Bourne Financial Ltd, a privately held serviced office business based in London, in which Westchester Capital is a principal investor.

From 2011 to 2015, Dan was chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK’s second largest serviced office provider until the sale of the business to Regus plc.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He has active registered status with the Financial Conduct Authority (“FCA”) as an investment manager (CF30) and CF1-Director and has held the following controlled functions at authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; and CF27-Investment Management.

Board of Directors *(continued)*

Stephen Inglis

(Non-Executive Director – appointed 16 October 2015)

Stephen Inglis is the chief executive officer and co-founder of the Asset Manager. He has over 30 years' experience in the commercial property market. He has responsibility for all property functions within the Asset Manager's structure, from investment management to asset and property management.

The majority of his experience is in the investment and development sectors, having worked for several international property consultants in Glasgow and London.

In his current role, Stephen has, since June 2013, acquired or sold over 300 assets in deals totalling more than £850 million. He was instrumental in establishing, equity raising and investing both Tosca Property Fund I and Tosca Property Fund II and the subsequent IPO of Regional REIT.

Stephen has, since 1991, been a member of the Royal Institution of Chartered Surveyors and is a member of the Investment Property Forum.



Timothy Bee

(Non-Executive Director – appointed 7 July 2017)

Timothy ("Tim") Bee was appointed a Non-Executive Director in place of Martin McKay on 7 July 2017. Tim Bee is the chief legal counsel of the Investment Manager. Tim joined Tosca in May 2014 having previously been a corporate partner at two leading London-based law firms. He qualified as a solicitor in 1988 and has extensive experience in mergers and acquisitions, equity capital markets and financial services.

Frances Daley

(Independent Non-Executive Director – appointed 1 February 2018)

Frances Daley is a chartered accountant who qualified with a predecessor firm to EY, spending nine years in corporate finance, followed by 18 years in various chief financial officer roles. From 2007 to 2012 she was group finance director of the private equity backed Lifeways Group, the UK's largest provider of specialist support to adults with learning disabilities and mental health needs. Frances is a non-executive director of Henderson Opportunities Trust Plc and chair of Baring Emerging Europe Plc. She is also chair of Haven House Children's Hospice and James Allen's Girls' School.



Report of the Directors

The Directors of Regional REIT are pleased to present their report and the consolidated audited financial statements of the Company and the Group for the year ended 31 December 2017.

In accordance with the Listing Rules and the Disclosure, Guidance and Transparency Rules, the reports within the Corporate Governance section of the Annual Report and Accounts should be read in conjunction with one another, and the Strategic Report. As permitted, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 10 to 53) as the Board considers them to be of strategic importance.

Principal Activity

The Company has been incorporated for the purpose of investment in, holding and managing commercial property investments, or debt portfolios secured on such properties, which are located predominately in the regional centres of the UK outside the M25 motorway.

Status

The Company was incorporated in Guernsey, Channel Islands under the Companies (Guernsey) Law, 2008, as amended (the "Law") 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 Registered Collective Investment Schemes Rules 2015. It is a member of the Association of Investment Companies ("AIC").

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails the Company to pay an annual fee of £1,200.

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax. In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

On 9 January 2018, the Company registered for VAT purposes in England. Following developments in case law, HMRC have updated their policy and have published new guidance on the circumstances in which VAT can be recovered. In accordance with the new guidelines, and in consultation with the Company's advisors, the Company has registered for VAT and intends to recover VAT which it incurs in the future as well as that which it has incurred since November 2015, when it first became active.

The allowable VAT recovery will amount to £0.8m for 2015 and 2016, and £0.3m for 2017.

Corporate Governance Statement

The Corporate Governance Statement is set out on pages 64 to 74 and forms part of this report by reference.

The Directors are committed to establishing and maintaining high standards of corporate governance, in line with best practice. The Board works closely with the Company Secretary in this regard. The Board is accountable to Shareholders for the governance of the Group's affairs.

The Directors have prepared a statement on how the principles and recommendations of the AIC Corporate Governance Code have been applied. This statement may be found on pages 65 to 71 and forms part of this report by reference.

Directors

The Directors of the Company were in office during the whole of the year ended 31 December 2017, with the exception of Tim Bee, who was appointed on 7 July 2017. Frances Daley was appointed on 1 February 2018.

The full biographies of the Directors can be found on pages 54 and 55. Tim Bee and Frances Daley will stand for election at the forthcoming Annual General Meeting ("AGM") on Thursday, 17 May 2018 in accordance with the Company's Articles of Incorporation (the "Articles") and the AIC Code of Corporate Governance.

In accordance with the Company's Articles, all the other Directors will stand for re-election at the forthcoming AGM.

The Directors ensure that they maintain their continuing professional development requirements in accordance with the requirements of their respective professions as well as receiving briefings from the Company Secretary and other advisors on a regular basis.

Diversity

The Board of Directors of the Company comprises of five males and one female.

The Board recognises the importance and benefits of improving the gender balance of the Board and notwithstanding that gender diversity was a consideration throughout the recent selection process in respect of the appointment of a new Non-Executive Director, the Board does not consider that it would be appropriate to set diversity targets as all Board appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Directors and Officers Liability Insurance

Directors and Officers Liability insurance is maintained through the Investment Manager's own insurance policy. Save for the indemnity provisions in the Articles, there are no qualifying third party indemnity provisions in force.

Report of the Directors (continued)

Directors

The beneficial interests of the Directors of the Company are set out in the below table.

Director	At 31 December 2017		At 21 March 2018	
	Number of Ordinary Shares	% Interest in share capital	Number of Ordinary Shares	% Interest in share capital
Daniel Taylor	350,000	0.09	350,000	0.09
William Eason	200,000	0.05	200,000	0.05
Stephen Inglis	752,549	0.20	752,549	0.20
Kevin McGrath*	297,030	0.07	297,030	0.07
Tim Bee**	150,000	0.04	150,000	0.04
Frances Daley	–	–	–	–

* Held by his minor children.

**Held by his spouse.

Share Capital

As at 31 December 2017, the Company's total issued share capital was 372,821,136 ordinary shares (31 December 2016: 274,217,264). All of the Company's ordinary shares are listed on the premium listing segment of the London Stock Exchange and each ordinary share carries one vote.

There is only one class of ordinary shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2016: none) are currently in issue.

Issue of Shares

On 24 March 2017, the Company issued 26,326,644 new ordinary shares in aggregate to Topp Holdings Limited and Conygar Properties Limited, which are both wholly owned subsidiaries of The Conygar Investment Company PLC ("Conygar"), in part settlement of the acquisition of 31 mixed-use property assets geographically spread across the regions of England and Wales. The total number of shares in issue as at 31 March 2017 was 300,543,908.

Capital Raise and Further Issue of Shares

On 4 December 2017, the Company proposed a firm placing, placing, open offer, excess open offer and offer for subscription at 101 pence per share (the "Capital Raise"). On 21 December 2017, the Company issued 72,277,228 new ordinary shares at 101 pence per share, raising, in aggregate gross proceeds of £73m. The total number of shares in issue as at 31 December 2017 was 372,821,136.

Disapplication of Pre-emption Rights

At the 2017 AGM the Company received authority to allot shares for cash on a non pre-emptive basis up to 10% of the Company's issued share capital as at 12 April 2017.

These authorities were updated at the Extraordinary General Meeting ("EGM") held on 19 December 2017 and will expire at the conclusion of the 2018 AGM. Resolutions will be proposed at the 2018 AGM to renew the Company's authority to issue shares for cash on a non pre-emptive basis. These authorities will be sought in accordance with the Pre-Emption Group's Statement of Principles.

At the EGM held on 19 December 2017, the Company was granted additional authority by its Shareholders to issue i) a maximum number of 123,762,375 shares for cash on a non pre-emptive basis in connection with the capital raise; and (ii) an additional 10% of the enlarged share capital for cash on a non pre-emptive basis. As stated above, this latter authority will expire at the end of the 2018 AGM.

The Company completed the Capital Raise and 72,277,228 new ordinary shares were issued and admitted to trading on 21 December 2017.

Purchase of Own Shares

No shares have been bought back in the year. The latest authority for the Company to purchase its own ordinary shares was granted to the Directors at the Company's last AGM on 25 May 2017 and expires on the date of the next AGM. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming AGM on 17 May 2018.

Report of the Directors *(continued)*

Restrictions on the Transfer of Shares

Subject to the Articles, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his ordinary shares in any manner which is permitted by the Law or in any other manner which is from time to time approved by the Board.

If any Ordinary Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a “Non-Qualified Holder” (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Ordinary Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, (i) the person will be deemed, upon the expiration of such 30 days, to have forfeited his Ordinary Shares or (ii) if the Board in its absolute discretion so determines, the Company may dispose of the Ordinary Shares at the best price reasonably obtainable and pay the net proceeds of such a disposal to the former holder.

A Non-Qualifying Holder is defined as any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may:

- cause the Company’s assets to be deemed “plan assets” for the purposes of the US Internal Revenue Code of 1986 (as amended), or US Employee Retirement Income Security Act of 1974 (as amended);

- cause the Company to be required to register as an “investment company” under the US Investment Company Act 1940;
- cause the Company or any of its securities to be required under the US Exchange Act, the US Securities Act or any similar legislation;
- cause the Company not being considered a “Foreign Private Issuer”, as such term is defined in rule 3b-4(c) under the US Exchange Act;
- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Company being disqualified from issuing securities pursuant to Rule 506 of Regulation D under the US Securities Act;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under US Internal Revenue Code of 1986 (as amended), Section 708;
- result in a person holding ordinary shares in violation of the transfer restrictions put forth in any prospectus published by the Company from time to time; or
- cause the Company to be a “controlled foreign corporation” for the purposes of Section 957 of the US Internal Revenue Code of 1986, (as amended), or may cause the Company to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Company within formation that it requires in order to comply with its obligations under exchange of information agreements.

Substantial Shareholdings

Information on major interests in shares provided to the Company under the Disclosure Guidance and Transparency Rules of the UK Listing Authority is published via a Regulatory Information Service and on the Company’s website.

The Company has received notification of the following disclosable interests in the voting rights of the Company:

Shareholder	At 31 December 2017		At 21 March 2018	
	Number of Ordinary shares notified	% Interest in share capital	Number of Ordinary shares notified	% Interest in share capital
Toscafund Asset Management LLP	27,154,198	7.28	27,154,198	7.28
The Conygar Investment Company Plc	26,326,644	7.06	26,326,644	7.06
Old Mutual Plc	15,129,686	4.06	15,129,686	4.06
Johnson Tosc LLC	14,692,745	3.94	14,692,745	3.94

The disclosure thresholds for such a non-UK issuer (in accordance with Disclosure Guidance & Transparency Rule 5) are 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

Report of the Directors *(continued)*

Dividends

The Directors maintain a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' view on the outlook for sustainable recurring earnings, subject to compliance with REIT status requirements. The Directors intend to reinvest proceeds from disposals of assets in accordance with the Company's Investment Policy.

During 2017 the Company declared three quarterly dividends, each of 1.80 pence per share. A dividend of 2.45 pence per share for the year ended 31 December 2017 was declared on 22 February 2018. This dividend will be paid on 12 April 2018 to Shareholders on the register at the close of business on 2 March 2018. The ex-dividend date will be 1 March 2018.

Shareholders are not required to vote on the payment of a dividend under the Law at the Company's AGM scheduled to be held on 17 May 2018. Given the requirement to distribute at least 90% of qualifying property rental business income, it is not thought that this adversely impacts Shareholders' rights.

At the time of the IPO, the Company's stated Investment Objective was to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway. The Company intends to continue to pursue a progressive dividend policy and its quarterly dividends provide a source of regular income for Shareholders, thus improving their cashflow return profile.

- For the purpose of determining the profits available for a dividend distribution the Company continues to choose to treat all of its net income from the Property Related Business as qualifying property income, notwithstanding that the Company accounts for both property income and interest income.
- The payment and level of dividends will always remain subject to the Company's performance, its financial position, the business outlook and to market conditions.
- It is the Company's intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution requirement.
- The Board will resolve to declare any dividends at an appropriate time after the end of the relevant quarter dates, being 31 March, 30 June, 30 September and 31 December. The dividends will be paid approximately one month after being declared. Pursuant to the Law, Shareholders are not required to approve the payment of any dividend.

In order to maintain REIT status, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute at least 90% of the income profits (broadly, calculated using normal tax rules) of the Group to the extent that they are derived from the Property Related Business of the Group (other than any Property Related Business carried on outside the UK by non-UK tax resident members of the Group).

The Company has the ability, by ordinary resolution, to offer Shareholders the right to elect to receive further ordinary shares, credited as fully paid, instead of cash in respect of all or any part of any dividend (a scrip dividend). At the current time, and following a consultation with Shareholders, it is not the Directors' intention to offer a scrip dividend option.

Relations with Shareholders

Communication with Shareholders remains of critical importance to the Board, who believe that understanding the views of shareholders is a key factor in the Group's strategic direction and successful development of the business.

The Company places considerable emphasis on maintaining an open dialogue with shareholders, and in particular institutions and wealth managers. It has a regular schedule of announcements and additional announcements as required. In addition, meetings are held with institutional shareholders, private shareholders, wealth managers, and sell-side equity analysts to present the Group's financial and operational results and to discuss the strategy and business model, as well as the UK regional commercial property market. The Company also encourages investors and analysts to utilise its on-line facilities and communications and has developed comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

During the year, the Company undertook a successful capital raise of £73m. The fundraising structure allowed current Shareholders to maintain or increase their current holding percentage and new institutions to purchase material tranches of the offering. The capital raise received strong support from existing and new shareholders.

The Board receives a regular investor relations report summarising shareholder contact, sell-side analysts' research, media coverage, and share price movement. In addition, the Board receives feedback from its Broker on Shareholder issues.

Shareholders are encouraged to attend and vote at the Company's AGM which provides a forum for communication with both private and institutional Shareholders alike. The Board makes itself available at the AGM to answer Shareholder questions. The Chairman, and as necessary all other members of the Board, are also available to meet with Shareholders throughout the year.

Report of the Directors *(continued)*

The Group's Annual Report and Accounts is despatched to all Shareholders by post at least 20 working days before the AGM, accompanied by the details of the resolutions to be proposed and the notice of the AGM. Shareholders are able to lodge their votes via the CREST system or by returning the proxy card sent with the Annual Report. Details of the number of proxy votes for, against and withheld for each resolution will be disclosed at the meeting and in the AGM RNS announcement.

The Annual Report, notice of AGM, and the proposed resolutions, and the interim results and all other announcements by the Group, are made available on the Group's website. In addition Shareholders, and any other interested parties, can register for email alerts of the Group's announcements.

The Group will consider a number ways of building on its engagement with Shareholders, sell-side analysts and potential investors in the course of 2018.

Financial Risk Management

The principal risks and uncertainties faced by the Company and Group and the Company's policies for managing these risks are set out on pages 46 to 48.

The principal financial risks relating to financial instruments and details of the risk mitigation factors relating to financial instruments are set out in note 29.

Going Concern

The Board confirm that it has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these Financial Statements were approved.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Financial Statements on a going concern basis.

Viability Statement

The Directors have assessed the prospects of the Group and future viability over a three-year period from year end, being longer than the 12 months required by the 'Going Concern' provision.

The Board confirms that it has a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the next three years, taking account of the risks as set out in the Chairman's Statement and the Principal Risks and Uncertainties Report.

During 2017, the Board in conjunction with the Audit Committee, carried out a robust assessment of the Principal Risks and Uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the three-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believe that the Group is well placed to manage its Principal Risks and Uncertainties successfully, taking into account the current and economic and political environment.

The Board chose to conduct the review for a three-year period based upon the Group's detailed budget covering a rolling three-year period; and the WAULT of 3.5 years to first-break, which allows the forecast to include the re-letting and rent reversions arising from tenancy reviews. The Group's weighted average debt to maturity was 6.0 years as at 31 December 2017.

The Board's expectation is further underpinned by the regular briefings provided by the Asset Manager and Investment Manager. These reviews consider market conditions, opportunities, the ability to raise third-party funds and deploy promptly, changes in the regulatory landscape, set against the current political and economic risks and uncertainties. These risks, and other potential risks which may arise, continue to be closely monitored by the Board.

The Directors have carefully reviewed areas of potential financial risk. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Corporate, Social and Environmental Responsibility

Corporate responsibility covers many different aspects of business. The Company has no direct social or community responsibilities but the environmental impact of our properties is important to the Group. Although the Company is not required by statute to provide reporting on its environmental impact and, as a REIT with no employees, the Company's own direct environmental impact is minimal, the Board considers the environmental impact of the Group to be an important issue to be monitored by the Asset Manager, who is responsible for the management of the properties on behalf of the Company. Further details can be found on pages 37 and 38.

Auditor

RSM UK Audit LLP were appointed as auditor to the Company on listing on 6 November 2015. RSM UK Audit LLP ("RSM") has expressed its willingness to continue in office as Auditor to the Company and resolutions for its re-appointment and for the Directors to determine its remuneration will be proposed at the forthcoming AGM.

Report of the Directors *(continued)*

Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor are aware of that information.

Listing Rules Disclosures

Listing Rule 9.8.4R requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4 with the exception of the details of any contract of significance in which a Director is or was materially interested. The details of the Agreements with the Asset Manager and Investment Manager are set out on pages 50 and 51.

Subsequent Events

Details of significant subsequent events are set out on page 43.

Annual General Meeting

The Company's AGM will be held on Thursday, 17 May 2018, at the offices of the Company's solicitors, Macfarlanes LLP, 20 Cursitor Street, London EC4A 1LT.

The notice of AGM, which sets out the resolutions to be proposed, together with an explanation of the resolutions proposed, accompanies this Annual Report and can also be found on the Company's website at (www.regionalreit.com).

The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its Shareholders as a whole and will be voting in favour of all resolutions with their own shares.

The AGM is the Company's principal forum for communication with Shareholders. The Chairman of the Board and the Chairmen of the Committees, together with the other Directors, will be available to answer Shareholders' questions at the AGM.

The Directors look forward to meeting Shareholders at the AGM.

For and on behalf of the Board

Kevin McGrath

*Chairman and Independent
Non-Executive Director*

21 March 2018



Ashby Park, Ashby De La Zouch

Market value (£m) 13.5
Sector Office
Let by value (%) 95.7%



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements in accordance with applicable law and regulations.

The Companies (Guernsey) Law 2008, as amended (the "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 ("FCA") to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected 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 are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state that the Financial Statements have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; 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 Law 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 Company's 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 on pages 54 and 55 confirms that to the best of each person's knowledge:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group and the undertakings included in the consolidation taken as a whole;
- The Asset and Investment Managers' Report include a fair review of the development and performance of the business and the position of the Company and Group 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, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Company's and Group's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 21 March 2018 and signed on its behalf by:

Kevin McGrath

*Chairman and Independent
Non-Executive Director*

21 March 2018

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

The Company is committed to maintaining high standards of corporate governance, which meet the statutory and regulatory requirements for companies listed in the UK. The Board is accountable to the Shareholders for the governance of the Group's affairs. This section of the Annual Report sets out the principles of corporate governance that the Board has adopted and their compliance with the codes of corporate governance that they have chosen to adopt.

The Listing Rules and the Disclosure Guidance and Transparency Rules ("Disclosure Rules") of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject.

As a member of the Association of Investment Companies ("AIC"), the Board has agreed to comply with the AIC Code of Corporate Governance (the "AIC Code"), published in July 2016, by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") published by the AIC in July 2016, except as set out below. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules. Details of the Company's compliance with the AIC Code is set out within this statement.

The Guernsey Financial Services Commission's ("GFSC") "Finance Sector Code of Corporate Governance" (the "GFSC Code"), updated and published in February 2016, applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk. A copy of the GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

The Directors recognise the value of the AIC Code and believe that reporting against the principles and recommendations of the AIC Code, and by reference the AIC Guide will provide shareholders with better information. Accordingly, the Company has taken appropriate measures to ensure that the Company complies with the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company's position, being an externally managed investment company. In particular, all of the Company's day-to-day functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported on these provisions.

Corporate Governance Statement *(continued)*

The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections, covering:

1. The Board;
2. Board Meetings and the relationship with the Investment Manager; and
3. Shareholder Communications.

The Board

AIC Code	Principle	Compliance Statement
1	The Chairman should be independent	<p>The Chairman, Kevin McGrath, was independent of the Asset and Investment Managers at the time of his appointment and remains so. The Chairman has not been employed by either of the Managers in the five-years prior to his appointment, nor did he act as advisor to either Manager in that period and he does not hold any other directorship of an investment company managed by the Asset Manager or the Investment Manager.</p> <p>There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third party service providers.</p> <p>The AIC Code recommends that the Board should appoint one of the independent Directors as a Senior Independent Director. The Senior Independent Director is available to shareholders for communication as well as providing a sounding board for the Chairman and to review the performance of the Chairman. The Board recognises the importance of strong corporate governance and shareholder relations. William Eason was appointed as Senior Independent Non-Executive Director with effect from 1 December 2016.</p>
2	The independence of Directors	<p>The Board consists of six Non-Executive Directors; four Independent Directors (Kevin McGrath, Frances Daley (appointed 1 February 2018), William Eason and Daniel Taylor) who are each independent of the Asset and Investment Manager's; and two Non-Independent Directors (Stephen Inglis and Tim Bee (appointed 7 July 2017)) who sit on the Board and report on the activities of the Asset Manager and Investment Manager respectively.</p> <p>Mr Eason and Ms Daley are directors of separate companies managed by investment manager Janus Henderson. This has been considered by the Board, which is satisfied that they are demonstrably independent and that their independence as Directors of the Company is not affected.</p> <p>The independence of the Directors is important to the Company in maintaining good governance. The independence of each Director is assessed as part of the annual evaluation process. Having assessed the performance and independence of each Director, the Board is satisfied that all Directors, including Stephen Inglis and Tim Bee bring strong independent oversight and continue to demonstrate independence in judgement and character.</p>
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance	<p>All Directors submit themselves for annual re-election by shareholders at the Annual General Meeting ("AGM") of the Company.</p> <p>The individual performance of each Director is evaluated annually by the Chairman. The Senior Independent Director evaluated the performance of the Chairman. The recommendations made to shareholders to vote in favour of the re-election of all Directors at the AGM are based on the outcome of the Board evaluation process. Following this year's evaluation, the Chairman concluded that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time. He therefore recommends the election of Frances Daley and Tim Bee and the re-election of the remaining Directors at the forthcoming AGM.</p>

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
4	The Board should have a policy on tenure, which is disclosable in the annual report	<p>Each Director has a signed letter of appointment which formalises the terms of their engagement as a Director of the Company. These letters detail an initial three-year appointment, but each Director may be invited by the Board to serve for an additional period, if both the individual Director and the Board believes this is in the interest of the Company, having taken into account the independence of the Director.</p> <p>The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, there is no limit on the overall length of service of any of the Directors. The Board does not believe that length of service on a wholly non-executive board has a bearing on independence. An individual Director's experience and continuity of Board membership can significantly enhance the effectiveness of the Board as a whole.</p>
5	There should be full disclosure of information about the Board	<p>The biographical details for each Director are set out on pages 54 and 55 of this Report and demonstrate the wide range of skills, knowledge and experience they bring to the Board.</p> <p>Details of the Board's Committees and composition are set out in the Terms of Reference which are available on the Company's website at:</p> <p>http://www.regionalreit.com/~media/Files/R/Regional-Reit/documents/audit-committee.pdf</p> <p>http://www.regionalreit.com/about-us/board-committees/management-engagement-and-remuneration-committee</p> <p>The Audit Committee report is set out on pages 76 to 78 of this Report. The Audit Committee membership comprises all the Independent Directors. The Chairman is a member of the Audit Committee but does not chair it.</p> <p>The Management, Engagement and Remuneration Committee ("MERC") report is set out on page 79 of this Report. The MERC membership comprises all the Independent Directors. Whilst not in compliance with the AIC's recommendation, due to the size and nature of the Company, the Board feels that it is appropriate for the Chairman of the Board to also Chair the MERC, with the caveat that the Chairman's own remuneration is set by the other Independent Directors.</p> <p>The Board will monitor the committee structure and will carry out a regular review as part of the annual Board evaluation process.</p> <p>The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and he is responsible for ensuring that all Directors receive accurate, timely and clear information. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic matters.</p>
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company	<p>The Board considers that, as it is comprised of a majority of Non-Executive Directors and given the size of the Company, it is not appropriate to establish a Nomination Committee. The experience, skills and knowledge of the Directors is detailed in the biographies of the Directors, set out on pages 54 and 55 of this Report.</p> <p>The Board believes that diversity of experience and approach amongst board members is of great importance. It has agreed that while the benefits of diversity, including gender, will be taken into account in respect of Board appointments, the overriding priority should be appointment on merit, therefore no measurable targets in relation to Board diversity will currently be set.</p>

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors	<p>It is the Board's policy to evaluate the performance of the Board, Board Committees and individual Directors through an assessment process on an annual basis. The independence of each Director is also considered as part of this process.</p> <p>The performance of the Chairman is evaluated by the other Directors on an annual basis, under the leadership of the Senior Independent Director.</p> <p>The Board carried out an evaluation of performance during 2017 by way of questionnaires specifically designed to assess the strengths and weakness of the Board and its Committees. The questionnaires were completed by each Director and the assessment covers the functioning of the Board as a whole and a similar review of the effectiveness of the Board Committees and the individual performance of the Directors is undertaken. The performance of the Chairman was also evaluated by way of questionnaires. Details of the evaluation for 2017 are shown on page 73.</p>
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent	<p>Details on the Directors' remuneration is contained in the Directors' Remuneration Report on page 80 of this Report.</p> <p>The MERC annually reviews the fees paid to the Directors (and will compare these with its peer group and the REIT industry generally), taking into account the level of commitment and responsibility of each Board member.</p> <p>As all of the Directors are non-executive and the Chairman is independent from the Managers, the Board considers that it is acceptable for the Chairman of the Company to chair MERC meetings, however when the MERC discusses Directors' fees he is excluded from setting his own remuneration.</p>
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report	<p>The Company does not utilise a separate Nomination Committee as this function is carried out by the Board. It is not thought appropriate given the size and nature of the Board.</p> <p>The Independent Directors would be expected to lead the process of the appointment of any new Director to the Board. The recruitment process for the appointment of Frances Daley was led by the Independent Directors.</p>
10	Directors should be offered relevant training and induction	<p>New Directors receive a full induction pack containing key information and governance documents from the Company Secretary when they are appointed. They will also be given key information on the Company's regulatory and statutory requirements as they arise.</p> <p>In addition they will be offered a tailored induction programme with the Asset and Investment Managers, which covers the investment portfolio and the Managers' approach to investment.</p> <p>Frances Daley was appointed as a Non-Executive Director of the Company and as a member of the Audit Committee on 1 February 2018. Frances received a tailored induction training programme throughout the first month of her appointment. It was designed to give her a comprehensive overview of the Company, including its business and strategic aims and its governance structure. She also met with the Company Secretary and will visit some of the Company's properties in 2018.</p> <p>All Directors will continue to receive periodic relevant training and updates as necessary from the Company Secretary, legal advisors and other service providers to enhance and refresh their knowledge.</p> <p>The annual board evaluation process provides Directors with an opportunity to identify any training or development requirements.</p> <p>The Directors have access to the advice and services of the Company Secretary through its appointed representative.</p>

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
11	The Chairman (and the Board) should be brought into the process of structuring a new launch as soon at an early stage	Principle 11 applies to the launch of new investment companies and is, therefore, not applicable to the Company.
12	Boards and managers should operate in a supportive, co-operative and open environment	<p>Formal Board meetings provide important forums for the Directors and key members of the Managers' teams to interact and for Directors to receive reports and provide challenge to both the Asset Manager and Investment Manager.</p> <p>Representatives of the Asset and Investment Managers are appointed to the Board, which facilitates communication between them and the Board and supplements the regular reporting to the Directors at Board meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.</p> <p>Interaction between the Board and the Asset and Investment Managers is not restricted to Board meetings. Between meetings the Managers update the Board on developments and respond to queries and requests by Directors as they arise.</p> <p>In addition, informal meetings take place regularly between the Directors and the Asset and Investment Managers. Senior members of the Asset Manager's and Investment Manager's teams are also invited to the Board's annual strategy meeting.</p>
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues	<p>At each meeting, the Board receives a report on the performance of the Group from the Asset Manager and Investment Manager.</p> <p>The Board is responsible for establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments and the level of permitted gearing and borrowings. The Investment Management Agreement with the Investment Manager sets out restrictions on the activities of the Investment Manager without Board approval.</p> <p>The Board, at its regular meetings, undertakes reviews of key investment and financial data, analyses of asset allocation, peer group information, the economy generally, transactions and performance comparisons, share price and net asset value performance. It also receives an update from the Asset Manager on property market conditions and trends, movements compared to previous quarters, yields on properties within the portfolio, lease lengths and letting activity, including estimated rental values and vacant properties.</p> <p>The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information and through the Company Secretary ensures that each service provider reports to the Board as required.</p>
14	Boards should give sufficient attention to overall strategy	<p>The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis.</p> <p>The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.</p>

Corporate Governance (continued)

AIC Code	Principle	Compliance Statement
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager	<p>The MERC meet at least once annually to review the overall performance of the Asset Manager and Investment Manager and considers both the appropriateness of the Asset Manager's and Investment Manager's appointments and the contractual arrangements (including the structure and level of remuneration) with the Asset Manager and Investment Manager, as well as other contractual arrangements.</p> <p>The Audit Committee reviews the Asset Manager and Investment Manager compliance and control systems in operation insofar as they relate to the affairs of the Company. The Audit Committee further reviews the arrangements with, and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.</p>
16	The Board should agree policies with the manager covering key operational issues	<p>The Master Asset Management Agreement between the Company and the Asset Manager sets out the limits of the Asset Manager's authority, beyond which Board approval is required, for example an acquisition or sale of any portfolio property, the value of which exceeds £15 million.</p> <p>The Master Investment Management and Services Agreement between the Company and the Investment Manager sets out the limits of the Investment Manager's authority, beyond which Board approval is required.</p> <p>Representatives of each of the Asset Manager and the Investment Manager attend each meeting of the Board to address questions on operational issues and specific matters and to seek approval for specific transactions which are required to be referred to the Board.</p> <p>The Board has retained responsibility for matters such as Board membership, gearing and share buy-backs.</p>
17	Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it	<p>The Company's share price is monitored continually by the Investment Manager on a daily basis and is considered at each Board meeting. The Investment Manager also circulates an investor relations bulletin to the Board via email on a monthly basis. This bulletin contains, amongst other information, the share price discount or premium.</p> <p>At each Board meeting the Board considers the discount or premium to NAV and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the longer term.</p>
18	The Board should monitor and evaluate other service providers	<p>On the Company's behalf, the Investment Manager monitors the performance and systems and controls employed by the third-party service providers.</p> <p>The MERC reviews the performance and cost of the Company's third-party service providers and considers the recommendations from the Investment Manager.</p> <p>The Board ultimately considers if a provider should be replaced.</p>

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
19	The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's view to Shareholders	<p>The Board believes that the maintenance of good relations with its shareholders is important for the long-term prospects of the Company. The AGM is the Company's principal forum for communication with Shareholders and Directors are available to answer Shareholders' questions at the meeting.</p> <p>The Board receives feedback on the views of Shareholders from its corporate broker. Through this process the Board seeks to monitor the views of Shareholders and to ensure an effective communication programme.</p> <p>The Asset Manager holds regular discussions with major Shareholders, the feedback of which is provided to and greatly valued by the Board.</p> <p>Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office address.</p> <p>The Notice of Meeting sets out the business of the meeting. The Asset Manager will make a presentation to Shareholders covering the investment performance and strategy of the Company at the forthcoming AGM. The Directors welcome the view of all Shareholders.</p>
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues if the Asset Manager or Investment Manager is asked to act as spokesperson.	All substantive communications regarding any major corporate matters are discussed by the Board taking into account representations from the Asset and Investment Managers and, as appropriate, the Auditor, Legal Advisers, the Broker and Company Secretary. Formal Board approval of any substantive communication is required.

Corporate Governance (continued)

AIC Code	Principle	Compliance Statement
21	The Board should ensure that Shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the Shares	<p>The Board aims to provide Shareholders with a full understanding of the Company's investment objective, policy and activities, its performance and the principal risks by means of the Annual Report and Half-Year Reports.</p> <p>The Board believes that sufficient information is available to Shareholders to understand the risk: reward balance to which they are exposed by holding Shares in the Company. The publication of the Key Information Document, on the Company's website, which is prepared by the Investment Manager provides the nature and key risks of the Company to Shareholders.</p> <p>Details of the Principal Risks and their management are set out on pages 46 to 48. The Investment Objective and Policy is set out on page 14.</p> <p>The performance of the Company and that of the Asset Manager and Investment Manager is discussed in the Chairman's Statement and the Asset and Investment Managers' Report on pages 10 to 45. The performance of the Asset Manager and Investment Manager is considered on an annual basis by the MERC. Details of the MERC's review of the performance by the Asset and Investment Managers' are set out on page 51.</p> <p>Details of the Performance Fees payable to the Asset and Investment Managers are set out on page 51.</p> <p>The ongoing charge is disclosed on page 41.</p> <p>The going concern and viability statements of the Group are set out on page 60.</p> <p>The full list of the property portfolio of the Group is available on the Company's website. The Top 15 properties are shown on pages 31 to 36.</p> <p>There is a formal set of matters reserved for decision by the Board which, together with the terms of the Master Asset Management Agreement and Master Investment Management Agreement, limits the decision making of the Asset Manager and the Investment Manager. As the Company only invests in property, it is not relevant for the Board to determine the Investment Manager's remit regarding voting and corporate governance issues in respect of any investee companies.</p> <p>Details of the Group's borrowings are set out on pages 42 and 43 and in the notes to the accounts. Details of the Company's banking covenants are disclosed in note 23.</p>

Corporate Governance *(continued)*

Annual General Meeting (“AGM”)

Notice of the Company’s AGM and an explanation of the resolutions contained in the notice will be circulated separately.

Details of proxy votes received in respect of each resolution will be published on the Company’s website.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company’s Shareholders as a whole. The Board recommends unanimously to Shareholders that they vote in favour of each of the resolutions.

The Board of Directors

The Board consists entirely of Non-Executive Directors and has no employees. Biographical details of the Directors of the Company who held office during the period are shown on pages 54 and 55.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision-making. The Directors possess a wide range of business expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company’s affairs.

None of the Directors have a service contract, but letters of appointment setting out the terms of their appointment are in place. Directors are not entitled to any compensation for loss of office. Copies of the letters of appointment are available for inspection at the Company’s registered office address and will be made available for up to 15 minutes prior of the start of the AGM.

Chairman and Senior Independent Director

The Chairman, Kevin McGrath, is deemed by his fellow Board members to be independent and have no conflicting relationships. He considers himself to have sufficient time to commit to the Company’s affairs.

William Eason was appointed as the Senior Independent Director on 1 December 2016. He provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman.

Induction of New Directors

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing key information about the Company, its processes and procedures. New appointees have the opportunity of meeting representatives of the Asset and Investment Managers and the audit partner.

Board Diversity and Appointment of New Director

The Board acknowledges the benefits of greater diversity, including gender and remains committed to ensuring that the Company’s directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

The Board does not feel that it would be appropriate to set diversity targets as all appointments must be made on merit and objective criteria. However, gender and diversity generally will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each Board vacancy. The Board has established the following measurable objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Long lists of potential non-executive directors will always include diverse candidates of appropriate merit.
- The Board will only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

In accordance with the above policy and following the Board evaluation process and the departure of Mr McKay from the Board, the Directors determined that it would be appropriate to appoint an additional Director to the Board to complement the existing skills and experience of the other Directors. Following a short listing process led by the independent Directors, Frances Daley was appointed as a Director of the Company with effect from 1 February 2018. No executive search firm or open advertising was used by the Board in connection with the appointment as the Board were satisfied that the short list of candidates put together by the Independent Directors provided sufficiently diverse and qualified candidates with appropriate experience to bring to the Board. Frances was an ideal match to the Board’s requirements for an individual with a background in finance and significant board experience.

Directors’ Tenure

The Board’s policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

Directors’ Re-Election

Subject to the Articles, at each AGM of the Company, all Directors will retire from office and each Director may offer himself for election or re-election by the Shareholders. If they are elected or re-elected they will be treated as continuing in office throughout. If they are not elected or re-elected, they shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in their place or when a resolution to elect or re-elect the Director is put to the meeting and lost.

Corporate Governance *(continued)*

Board Operation

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 December 2017, the number of scheduled Board meetings attended by each Director were as follows:

Director	Scheduled Board Meetings	
	Number entitled to attend	Number attended
Kevin McGrath	5	5
William Eason	5	5
Daniel Taylor	5	4
Stephen Inglis	5	5
Tim Bee	2	1

Additional Board meetings were also held as required during the year, including to deal with transactions and other specific events such as acquisitions, dividends, equity raises and debt financings and were attended by those Directors available at the time.

The Board follow a formal agenda, which is approved by the Chairman and circulated by the Company Secretary in advance of the meeting to all the Directors and other attendees. A typical agenda includes a review of investment performance, investment opportunities, the Company's financial performance, updates on investor relations and specific regulatory or governance matters. Representatives of the Company's advisors are invited to attend Board meetings from time to time, particularly the Company's valuers, brokers and lawyers.

The Board meet once a year for a whole day to review and focus on the Company's strategy.

Conflicts of Interest

The Company's Articles permit a Director to act in a situation where a Director has disclosed the nature and extent of an interest that conflicts, or may possibly conflict, with the interests of the Group in accordance with the Law.

The Board has established a formal process whereby actual and potential conflicts of interests are considered by the Directors who have no interest in the matter, who then decide whether to authorise the conflict and any conditions to be attached to such authorisations.

The Directors are able to impose limits or conditions when giving authorisation, if they think this is appropriate in the circumstances. A register of potential conflicts is maintained by the Company Secretary and is reviewed at each Board meeting to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

Board Evaluation

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. Given the relatively short history of the Company and to allow sufficient time for the individual Directors to develop and settle into their roles, the Board agreed that the use of an external evaluation service provider was not necessary at this stage.

The Directors have therefore opted to undertake an internal performance evaluation by way of questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its committees. The questionnaires are also intended to analyse the focus of Board meetings and assess whether they are appropriate, or if any additional information may be required to facilitate Board discussions. The results of the Board evaluation process were reviewed and discussed by the Board as a whole.

As a result of the evaluation, the Board considers that all the current Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company. The Board further concluded that the Chairman remained independent and his performance was satisfactory, with strong leadership capability.

Board Committees

The Board has two Committees in operation and has delegated certain responsibilities to its Audit Committee and its Management, Engagement and Remuneration Committee. Given the size of the Company, it is not felt appropriate for the Company to have a separate Nomination Committee or Remuneration Committee.

The Board has established formal terms of reference for each of the Committees which are available on the Company's website.

Audit Committee

Throughout 2017, the Audit Committee comprised the three Independent Directors and is chaired by William Eason. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman. Frances Daley was appointed as a member of the Audit Committee on 1 February 2018.

All members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates. The Board is also satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

No individual who is not a member of the Audit Committee is entitled to attend or to vote at its meetings, but the Audit Committee may invite anyone to attend the meetings and representatives of the external auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 76 to 78.

Corporate Governance *(continued)*

Management Engagement and Remuneration Committee (“MERC”)

Throughout 2017, the MERC comprised the three Independent Directors and is chaired by Kevin McGrath who is also the Chairman of the Company. Frances Daley was appointed as a member of the MERC on 1 February 2018.

Although no individual who is not a member of the MERC is entitled to attend and vote on matters at its meetings, the committee may invite anyone to attend at its discretion. A Management, Engagement and Remuneration Committee Report is set out on page 79.

Internal Control Review and Management of Risk

The Board has overall responsibility for the Company’s systems of internal controls and for reviewing their effectiveness, ensuring that risk management and control processes are embedded in day-to-day operations.

The Board has established an ongoing process for identifying, evaluating and managing significant risks with the aim of helping to safeguard the Company’s assets. The Board exercises its oversight of financial, reporting, compliance, operational and overall risks by relying on regular reporting on performance and other management information from the Asset Manager and Investment Manager. These procedures are designed to manage rather than eliminate risk. The Board manages risks as set out below:

- The Board, through the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Company’s third-party service providers;
- The responsibilities for the investment management, asset management, accountancy and depository functions are segregated and the procedures of the third-party service providers are designed to safeguard the Company’s assets;
- The Board is kept regularly updated by the Asset and Investment Managers outside of scheduled Board meetings and each manager provides reports at each meeting of the Board; and
- Under the terms of the Asset Management Agreement between the Company and the Asset Manager, Board level approval is required for purchases of property exceeding £15m in value and for disposals exceeding £5m in value.

Regular risk assessments and reviews of internal controls are undertaken in the context of the Company’s overall investment objective by the Board, through the Audit Committee.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk register is reviewed by the Audit Committee as appropriate and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 46 to 48.

The Board reviews financial information produced by the Investment Manager and the Sub-Administrator on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the material third party is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit Chairman on behalf of the audit committee.

Taking into account the principal risks provide on pages 46 to 48 and the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of Board, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Group; and have reviewed the effectiveness of the risk management and internal control systems and no significant failings were identified; and
- have reviewed the effectiveness of the risk management and internal controls systems and no significant failings were identified.

By order of the Board

Kevin McGrath

*Chairman and Independent
Non-Executive Director*

21 March 2018

Genesis Business Park, Woking

Market value (£m) 24.7
Sector Office
Let by value (%) 100.0%



Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 December 2017.

The Committee is a Board Committee with governance responsibilities that include the oversight of financial disclosures and corporate reporting and it is therefore important that the Committee operates effectively and efficiently.

Since the year-end, Frances Daley has been appointed as a member of the Audit Committee, with effect from 1 February 2018. I am confident that the Committee members collectively have a broad range of financial, commercial and property sector expertise that enables them to provide oversight of both financial and risk matters, and to advise the Board accordingly.

Role of the Audit Committee

The principal duties of the Audit Committee are:

Financial Reporting

- to monitor the integrity of the half-yearly, full year financial statements and preliminary results announcement of the Company;
- to report to the Board on any significant financial reporting issue and judgments having regard to any matters communicated to it by the Auditor;
- as requested by the Board, to review the contents of the Annual Report and Accounts and advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides shareholders with sufficient information to assess the Company's performance, business model and strategy;

Risk Management and Control

- to keep under review the adequacy of the Company's third-party's internal controls and risk management systems;
- to review the Company's procedures for detecting fraud and for the Managers to raise concerns (in confidence) about potential financial wrongdoing;
- review the Company's risk register, including significant and emerging risks;

External Audit

- to manage the relationship with the Company's external Auditor, including reviewing the Auditor's remuneration, independence and performance and making recommendations to the Board as appropriate;
- to review the policy on the engagement of the Auditor to supply non-audit services;



Audit Committee Report *(continued)*

- to safeguard the Auditor's independence and objectivity; and
- to regularly review the need for an internal audit function.

External Property Valuation

- to review the quality and appropriateness of the half-yearly and full year external valuations of the Group's property portfolio; and

Other

- review the Committee's terms of reference and performance effectiveness.

The Audit Committee is to meet at least twice annually and its quorum is two members. It reports and makes recommendations to the Board, after each meeting.

Matters considered by the Audit Committee in the year

There are at least two scheduled Audit Committee meetings per year, however, during 2017, the Audit Committee met on four occasions and twice post the year end.

Member	Scheduled Audit Committee Meetings	
	Number of meetings entitled to attend	Number attended
William Eason (Chairman)	2	2
Kevin McGrath	2	2
Daniel Taylor	2	2

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- reviewed financial results;
- agreed the audit plan with the Auditor, including the principal areas of focus, and agreed the audit fee;
- reviewed the annual and half-year valuation reports from Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield) and Jones Lang LaSalle Incorporated ("JLL");
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the provision of non-audit services by the Auditor;
- reviewed the independence of the Auditor; and
- reviewed the Group's Financial Statements and advised the Board accordingly.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix. The Company's principal risks can be found on pages 46 to 48.

The Administrator and the Investment Manager update the Audit Committee on changes to accounting policies, legislation and best practice and areas of significant judgment by the Investment Manager.

Significant Matters considered by the Audit Committee in the year

The Group made the purchase of several properties during the year, held via special purpose vehicles ("SPVs"). The Audit Committee considered the accounting treatment of the acquisitions of these SPVs, specifically whether these acquisitions were classed as the acquisition of a business under IFRS3. The Administrator and the Investment Manager provided advice to the Audit Committee in this regard. The Audit Committee was satisfied that these acquisitions were to be treated as a group of assets and liabilities rather than a business combination. The Auditor concurred with the conclusion reached by the Audit Committee.

Property Portfolio Valuation

The Audit Committee recognises that the valuation of the properties within the Company's portfolio is central to the Company's business and that errors could have a material impact on the Company's net asset value. Properties are independently valued by specialist third party service providers, Cushman & Wakefield and JLL. JLL valued the properties that were acquired from Conygar.

The valuations are prepared in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance–Applications and United Kingdom Valuation Standards contained within the RICS Valuation-Professional Standards 2014. The valuations are compliant with International Valuation Standards.

The Asset Manager has held open discussions with the valuers throughout the year on the valuation process to discuss and challenge various elements of the property valuations. The Auditor also has direct access to them as part of the audit process.

Since the year end, the Audit Committee has reviewed the valuation reports and has discussed these reports with the Asset Manager. At the half-year the Audit Committee discussed the half-year valuation with Cushman & Wakefield. The Audit Committee met with JLL in February 2018 to discuss the valuation as at 31 December 2017 to ensure it was properly conducted and could be fully supported. The Audit Committee were satisfied with the valuation reports.

Audit Committee Report *(continued)*

The performance of the valuers are assessed on an annual basis by the Management, Engagement and Remuneration Committee ("MERC"), as set out in their report on page 79.

External Audit Process

Each year, the Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, undertakes a detailed review of the audit plan and the audit results report and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year just ended.

Each year, the Audit Committee meet with the Auditor before the interim and annual results are prepared, to discuss the scope to the audit plan. They further meet with the Auditor to discuss the findings of the external audit and consider and evaluate any findings.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit Fees and Non-Audit Services

An audit fee of £70,000 has been agreed in respect of the audit of the Company for the year ended 31 December 2017 (31 December 2016: £63,250). The Group's audit fees for the year ended 31 December 2017 totalled £348,000 (31 December 2016: £219,000).

In order to help safeguard the external Auditor's independence and objectivity, the Audit Committee has a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance and such approval will not be granted in circumstances where it's considered that the nature or cost of the work could interfere with the external Auditor's independence.

The cost of non-audit services provided by the Auditor to the Company for the financial year ended 31 December 2017 was £122,998 (31 December 2016: £112,000). These services related to work undertaken by RSM Corporate Finance LLP, a separate corporate body to that of the Auditor (RSM UK Audit LLP) in respect of corporate finance services.

Deloitte LLP have been engaged to advise on all ongoing taxation matters.

Independence and Objectivity of the Auditor

RSM UK Audit LLP ("RSM") has been auditor to the Company since listing on 6 November 2015, during which time Mr Euan Banks, Partner at RSM, has been the audit partner on the audit. No tender for the audit of the Company has been undertaken. In evaluating RSM's performance, the Audit Committee considered the effectiveness of the audit process, quality of delivery, staff expertise, audit fees and the Auditor's independence, along with matters raised during the audit. The Audit Committee received confirmation from RSM that they maintain appropriate internal safeguards in line with applicable professional standards.

In accordance with new requirements relating to the appointment of auditors, the Company will need to conduct an audit tender no later than for the accounting period beginning 1 January 2026.

Having considered the Auditor's independence in respect of the year ended 31 December 2017, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

Review of Auditor Appointment

Following consideration of the performance of the Auditor, the service provided during the year and a review of their independence and objectivity, the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Company's external independent auditor.

Internal Audit

The Audit Committee has determined that there is no need for an internal audit function given the limited size and complexity of the Company and its business.

Committee Effectiveness

During the year, the Board carried out an internally facilitated evaluation of its performance and that of its Committees. This evaluation confirmed that the Audit Committee continued to operate at a high standard.

William Eason

Audit Committee Chairman

21 March 2018

Management, Engagement and Remuneration Committee Report

I am pleased to present the Management, Engagement and Remuneration Committee Report for the year ended 31 December 2017.

Role of the Management, Engagement and Remuneration Committee (“MERC”)

The principal duties of the MERC are:

- to have responsibility for setting the remuneration policy for all Directors and the Company Chairman;
- to monitor the level and structure of remuneration of the Directors, Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the third party service providers; and
- within the terms of the agreed policy and in consultation with the Chairman, to determine the total individual remuneration package of each Director and the Managers, including bonuses, incentive payments and share options or other share awards.

No individual is to be involved in discussions about his/her own remuneration. The MERC reports, and makes recommendations, to the Board after each meeting. The MERC is to meet at least once annually and its quorum is two members.

Activities during the year

The MERC met once during the year and twice post year-end. The MERC considered the appointment and remuneration of Frances Daley and recommended her appointment to the Board. It also met to consider the continued appointment and remuneration of the Investment Manager and Asset Manager and the continued

appointment of all of the Company’s corporate advisers and principal services providers. The MERC also considered the remuneration of the independent non-executive Directors.

Member	Scheduled MERC Meetings	
	Number of meetings entitled to attend	Number attended
Kevin McGrath (Chairman)	1	1
Bill Eason	1	1
Daniel Taylor	1	1

Having assessed the performance, quality of service and additional added value given by the Managers’ and the Company’s service providers, the MERC was satisfied with their performance and recommended to the Board, the continuing appointment of both the Asset Manager and Investment Manager and their remuneration, details of which are set out on pages 50 and 51. The MERC recommended that all service providers should be retained.

On the basis of the assessment under taken by the MERC, the Board was satisfied with the performance of the Asset Manager and Investment Manager and their ability to support the Company’s Investment Objective, and agreed that the continued appointment of both the Asset Manager and Investment Manager, on the terms agreed, was in the best interests of the Company and its shareholders as a whole. The Board was satisfied that the Company was benefiting from added value in respect of the services it procures and also agreed that all service providers should be retained.

Further details of the Directors’ remuneration can be found in the Remuneration Report on page 80.



Remuneration Report

Directors' Remuneration

All Directors act in a non-executive capacity and the level of remuneration has been set to reflect the experience of the Board as a whole, determined with reference to comparable organisations and appointments. The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine).

The fees per annum of each of the Directors are as follows:

Director	Position	Annual Fee
Kevin McGrath	Chairman and Chairman of the Management, Engagement & Remuneration Committee	£70,000
William Eason	Independent non-executive Director, Senior Independent Director and Chairman of the Audit Committee	£50,000
Daniel Taylor	Independent non-executive Director	£50,000
Frances Daley	Independent non-executive Director	£50,000
Stephen Inglis	Non-Executive Director	–
Tim Bee	Non-Executive Director	–

Kevin McGrath receives no additional remuneration for his role as Chairman of the Management, Engagement & Remuneration Committee.

William Eason receives no additional remuneration for his role as Chairman of the Audit Committee or as Senior Independent Non-Executive Director.

Stephen Inglis received no remuneration from the Company due to his position as Chief Executive Officer of the Asset Manager.

Tim Bee received no remuneration from the Company due to his position as Chief Legal Counsel of the Investment Manager.

The Directors may be paid all reasonable travel, hotel and other out-of-pocket expenses properly incurred by them in attending Board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director.

In respect of Directors' remuneration, the MERC considered the level of activity of the Company, market rates generally and took into account the time commitment and responsibilities of each Director.

Additional Remuneration

There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. The Directors do not receive pension benefits, long-term incentive schemes or share options or any other non-statutory benefits.

No element of the Directors' remuneration is related to performance.

Payment for Loss of Office

No payment has been made to any former Director for loss of office.

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The Board will consider the engagement of remuneration consultants in the future if it is thought appropriate or desirable to do so.

Total Director Remuneration

The following amounts were paid to the Directors as fees for their services during the year:

Director	Fees paid to 31 December 2017	Fees paid to 31 December 2016
Kevin McGrath	£70,000	£70,000
William Eason	£50,000	£50,000
Daniel Taylor	£50,000	£50,000
Stephen Inglis	–	–
Tim Bee*	–	n/a
Martin McKay**	–	–
Aggregate:	£170,000	£170,000

* Appointed on 7 July 2017

** Resigned on 7 July 2017

No additional remuneration was paid to the Directors during the year.

Frances Daley will be paid £50,000 per annum for her services as a Director.

The Director fees will not be increased for 2018.

Remuneration of the Asset Manager and Investment Manager

The fees payable to the Asset Manager and the Investment Manager are detailed in note 34 to the Accounts. Details of the contractual relationship between the Company and both Managers' are set out in the Report of the Directors.

By order of the Board

Kevin McGrath

Chairman and MERC Chairman

21 March 2018

Hampshire Corporate Park, Eastleigh

Market value (£m) 16.4
Sector Office
Let by value (%) 99.5%



Independent Auditor's Report to the Members of Regional REIT Limited

Opinion

We have audited the financial statements of Regional REIT Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated and Company Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity and Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit and the parent company's profit for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of the Companies (Guernsey) Law 2008 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties held by the group

This is detailed in the Audit Committee report on pages 76 to 78; the significant accounting judgements and estimates on pages 98 to 101; significant accounting policies on page 102 and note 14 to the Financial Statements on pages 112 and 113.

The group owns or controls through a portfolio of Special Purpose Vehicles (SPV's) a portfolio of investment properties which include industrial, office and retail. The total value of the portfolio at 31 December 2017 was £737.3 million (2016: £502.4 million). These properties are spread across the UK with a wide geographical spread.

Independent Auditor's Report to the Members of Regional REIT Limited *(continued)*

The Directors' assessment of the value of the investment properties at the year end date, is considered a key audit matter due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity and complexity of the valuation process.

The valuation is carried out by external valuers, Jones Lang LaSalle and Cushman & Wakefield in line with the methodology set out in note 14.

We audited the independent valuations of investment properties to ensure they had been prepared on a consistent basis for all properties and in accordance with RICs standards and are considered to be appropriate and correctly recorded in the Financial Statements in line with Accounting Standards.

We assessed both external valuers qualifications and expertise and considered their terms of engagement, we also considered their objectivity and any other existing relationships with the group and concluded that there was no evidence that either valuers objectivity had been compromised.

We reviewed the Top 20 properties by value, along with considering those additional properties where the valuation moved by more than £500,000 or where the current tenant profile seemed to contradict the movement in valuation. We discussed and challenged these large properties and significant movements with the valuer, who demonstrated a detailed knowledge of each property, the geographical location, the tenant status and the overall asset desirability. We tested the inputs used by the valuer and ensured these reflected the correct inputs for a sample of properties.

Asset acquisition

This is detailed in the Audit Committee report on pages 76 to 78 and the significant accounting judgements and estimates on pages 99 to 101.

During the year the Company has made three significant acquisitions. All of these acquisitions have been treated as asset acquisitions as in the directors view they do not constitute business combinations under the requirements of IFRS 3. This judgement by the Directors is a key audit matter due to the fact the acquisitions are significant to the business, meaning that the wrong judgements in initial accounting could lead to a material mis-statement in the financial statements.

We have audited the papers prepared by management with regards to the acquisitions of portfolios noted above. Our audit work did not identify any issues with the directors' conclusion that the acquisitions represent asset acquisitions and not business combinations, having considered the requirements of IFRS 3. We have considered the disclosures in the accounts and conclude that adequate disclosure has been made for a user to fully understand the nature and the way these acquisitions have been dealt with and that the key judgements and the basis for concluding have been fully disclosed in the financial statements.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £6.5 million, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £150,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit scope covered 100% of group revenue, group profit and total group assets, and was performed to the materiality levels set out above. The key audit matters were as noted above.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 81, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard. In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

Independent Auditor's Report to the Members of Regional REIT Limited *(continued)*

- **Fair, balanced and understandable set out on page 63** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 76 to 78** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the AIC Code set out on page 64 to 71** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the AIC Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the AIC Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the parent company financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description, which is located on page 86, forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board on 6 November 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement is three years, covering the years ending 31 December 2015 to 31 December 2017.

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

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

Independent Auditor's Report to the Members of Regional REIT Limited (*continued*)

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP, Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

21 March 2018

Appendix: Auditor's responsibilities for the audit of the financial Statements

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Arena Point, Leeds

Market value (£m) 12.4
Sector Office
Let by value (%) 84.9%



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Continuing Operations			
Revenue			
Rental income	5a	52,349	42,994
Non-recoverable property costs	6	(6,502)	(4,866)
Net rental income		45,847	38,128
Administrative and other expenses	7	(9,429)	(8,217)
Operating profit before gains and losses on property assets and other investments		36,418	29,911
Gain on disposal of investment properties	14	1,234	518
Change in fair value of investment properties	14	5,893	(6,751)
Operating profit		43,545	23,678
Finance income	9	215	193
Finance expense	10	(14,728)	(8,822)
Impairment of goodwill	16	(557)	(557)
Net movement in fair value of derivative financial instruments	25	217	(1,097)
Profit before tax		28,692	13,395
Taxation	11	(1,632)	23
Total comprehensive income for the year (attributable to owners of the parent company)		27,060	13,418

Total comprehensive income arises from continuing operations.

Earnings per share – basic	12	9.1p	4.9p
Earnings per share – diluted	12	9.1p	4.9p
EPRA earnings per share – basic	12	8.1p	7.7p
EPRA earnings per share – diluted	12	8.1p	7.7p
Company specific adjusted earnings per share – basic	12	8.6p	7.8p
Company specific adjusted earnings per share – diluted	12	8.6p	7.8p

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Investment properties	14	737,330	502,425
Goodwill	16	1,672	2,229
Non-current receivables on lease surrender	17a	–	206
Non-current receivables on tenant loan	17b	1,926	1,541
		740,928	506,401
Current assets			
Trade and other receivables	18	21,947	11,375
Cash and cash equivalents	19	44,640	16,199
		66,587	27,574
Total assets		807,515	533,975
Liabilities			
Current liabilities			
Trade and other payables	20	(26,941)	(14,601)
Deferred income	21	(12,667)	(8,022)
Taxation liabilities	22	(2,636)	(662)
Bank and loan borrowings	23	(400)	–
		(42,644)	(23,285)
Non-current liabilities			
Bank and loan borrowings	23	(333,981)	(217,442)
Zero dividend preference shares	24	(37,239)	–
Derivative financial instruments	25	(752)	(1,513)
		(371,972)	(218,955)
Total liabilities		(414,616)	(242,240)
Net assets		392,899	291,735
Equity			
Stated capital	26	370,318	274,217
Retained earnings		22,581	17,518
Total equity attributable to owners of the parent		392,899	291,735
Net assets per share – basic	27	105.4p	106.4p
Net assets per share – diluted	27	105.1p	106.3p
EPRA net assets per share – basic	27	106.1p	106.9p
EPRA net assets per share – diluted	27	105.9p	106.9p

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

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 21 March 2018 and signed on its behalf by:

Kevin McGrath
Chairman and Independent
Non-Executive Director

21 March 2018

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Attributable to owners of the parent		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017		274,217	17,518	291,735
Total comprehensive income		–	27,060	27,060
Share based payments	34	–	814	814
Issue of share capital	26	98,687	–	98,687
Share issue costs	26	(2,586)	–	(2,586)
Dividends paid	13	–	(22,811)	(22,811)
Balance at 31 December 2017		370,318	22,581	392,899

For the year ended December 2016

	Notes	Attributable to owners of the parent		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		–	13,418	13,418
Share based payments	34	–	115	115
Dividends paid	13	–	(17,139)	(17,139)
Balance at 31 December 2016		274,217	17,518	291,735

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Profit for the year before taxation	28,692	13,395
– Change in fair value of investment properties	(5,893)	6,751
– Change in fair value of financial derivative instruments	(217)	1,097
– Gain on disposal of investment properties	(1,234)	(518)
Impairment of goodwill	557	557
Finance income	(215)	(193)
Finance expense	14,728	8,822
Share based payments	814	115
Increase in trade and other receivables	(5,479)	(716)
Increase in trade and other payables	8,617	9
(Decrease)/increase in deferred income	(119)	2,115
Cash generated from operations	40,251	31,434
Financial income	988	988
Finance costs	(10,155)	(7,614)
Taxation paid	(236)	(1,715)
Net cash flow generated from operating activities	30,848	23,093
Investing activities		
Purchase of investment properties	(25,188)	(144,143)
Sale of investment properties	16,921	44,857
Interest received	25	60
Acquisition of subsidiaries, net of cash acquired	(51,866)	(5,573)
Net cash flow used in investing activities	(60,108)	(104,799)
Financing activities		
Proceeds from the issue of shares	72,654	–
Share issue costs	(1,398)	–
Dividends paid	(23,321)	(15,723)
Net costs paid on the disposal of derivatives	(441)	–
Bank borrowings advanced	179,540	107,762
Bank borrowings repaid	(165,619)	(16,345)
Bank borrowing costs paid	(3,714)	(1,744)
Net cash flow generated from financing activities	57,701	73,950
Net increase/(decrease) in cash and cash equivalents	28,441	(7,756)
Cash and cash equivalents at the start of the year	16,199	23,955
Cash and cash equivalents at the end of the year	44,640	16,199

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

Company Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Revenue			
Amounts charged to group entities	5b	920	837
Administrative and other expenses	7	(2,765)	(3,343)
Operating loss		(1,845)	(2,506)
Finance income	9	25,635	19,061
Profit before tax		23,790	16,555
Taxation	11	–	–
Total comprehensive income for the year (attributable to equity shareholders)		23,790	16,555
Total comprehensive income arises from continuing operations.			
Earnings per share – basic	12	8.0p	6.0p
Earnings per share – diluted	12	8.0p	6.0p

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

Company Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Investment in subsidiaries	15	351,461	274,286
		351,461	274,286
Current assets			
Trade and other receivables	18	2,303	870
Cash and cash equivalents	19	20,336	65
		22,639	935
Total assets		374,100	275,221
Liabilities			
Current liabilities			
Trade and other payables	20	(3,304)	(2,319)
Total liabilities		(3,304)	(2,319)
Net assets		370,796	272,902
Equity			
Stated capital	26	370,318	274,217
Retained earnings/Accumulated losses		478	(1,315)
Total equity		370,796	272,902
Net assets per share – basic	27	99.5p	99.5p
Net assets per share – diluted	27	99.2p	99.5p

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

These financial statements were approved by the Board of Directors and authorised for issue on 21 March 2018 and signed on its behalf by:

Kevin McGrath
Chairman and Independent
Non-Executive Director

21 March 2018

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Stated capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2017		274,217	(1,315)	272,902
Total comprehensive income		–	23,790	23,790
Share based payments	34	–	814	814
Issue of share capital	26	98,687	–	98,687
Share issue costs	26	(2,586)	–	(2,586)
Dividends paid	13	–	(22,811)	(22,811)
Balance at 31 December 2017		370,318	478	370,796

For the year ended 31 December 2016

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2016		274,217	(846)	273,371
Total comprehensive income		–	16,555	16,555
Share based payments	34	–	115	115
Dividends paid	13	–	(17,139)	(17,139)
Balance at 31 December 2016		274,217	(1,315)	272,902

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

Company Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Profit for the year before taxation	23,790	16,555
Share based payments	323	46
Increase in trade and other receivables	(913)	(867)
Increase in trade and other payables and deferred income	310	35
Net cash flow generated from operating activities	23,510	15,769
Investing activities		
Acquisition of subsidiaries	(51,000)	–
Net cash flow used in investing activities	(51,000)	–
Financing activities		
Proceeds from the issue of shares	72,654	–
Share issue costs	(1,398)	–
Dividends paid	(23,321)	(15,723)
Amounts paid on behalf of group companies	(174)	–
Net cash flow generated from/(used in) financing activities	47,761	(15,723)
Net increase in cash and cash equivalents for the year	20,271	46
Cash and cash equivalents at the start of the year	65	19
Cash and cash equivalents at the end of the year	20,336	65

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

Notes to the Financial Statements

For the year ended 31 December 2017

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2017 comprise the results of the Company and its subsidiaries (together constituting "the Group") and, together with the Company's financial statements, were approved by the Board and authorised for issue on 21 March 2018.

Regional REIT Limited ("the Company") is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (the "Law"). 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").

The Company 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 Registered Collective Investment Schemes Rules 2015.

The Company did not begin trading until 6 November 2015 when the shares were admitted to trading on the LSE.

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

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

2. Basis of preparation

The Group's Consolidated and Company financial statements (together constituting "the financial statements") have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA (previously the Financial Services Authority ("FSA")) and with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB and as adopted by the European Union ("EU"), in accordance with Article 4 of the IAS Regulations and the Law.

The Group's consolidated financial statements have been prepared on a historical cost basis, as modified for the Group's investment properties and certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Company's financial statements have been prepared on a historical cost basis.

2.1. Functional and presentation currency

The financial information is presented in Pounds Sterling which is also the functional currency, and all values are rounded to the nearest thousand (£'000s) pound, except where otherwise indicated.

2.2. Going concern

The assessments of going concern are prepared in accordance with the FRC Guidance issued September 2014.

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts. Regional REIT ZDP PLC zero dividend preference shares mature on 9 January 2019. The Board of Directors are currently considering refinancing options. 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 from approval of these financial statements. The Directors have satisfied themselves that the Group and the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Board of Directors continue to adopt the going concern basis in preparing the financial statements.

2.3. Business combinations

At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. For an acquisition of a business where an integrated set of activities are acquired in addition to the property, the Group accounts for the acquisition as a business combination under IFRS 3 Business Combinations ("IFRS 3").

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

2. Basis of preparation *(continued)*

2.4. New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2017 have had an impact on the financial statements as follows:

Amendments to IAS 7 ‘Statement of Cash Flows’, is effective for annual reporting periods beginning on or after 1 January 2017. The amendments require the disclosure of cash and non-cash changes in liabilities arising from financing activities.

2.5. New standards, amendments and interpretations effective for future accounting periods

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2018, 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 July 2014. 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. Other changes include changes to the model for impairments from “expected loss” to “incurred loss”.

The Group anticipates the main impact on the financial statements will be some minor additional disclosures 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 does not anticipate there will be any impact on the financial statements because the Group’s rental contracts are outside the scope of the standard. The Group intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

Amendment to IFRS 2, ‘Classification and measurement of share-based payment transactions’, is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 2 are intended to eliminate diversity in practice in three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The Group does not anticipate there will be a significant impact on the financial statements of the amendments to IFRS 2 and intends to adopt them no later than the accounting period beginning on or after 1 January 2018.

Amendment to IAS 40, ‘Investment Property’, is effective for annual periods beginning on or after 1 January 2018. The amendment states that an entity shall transfer a property to or from investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.

IFRS 16, ‘Leases’, is effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, most leased assets are capitalised as “right-to-use-assets” by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. This is a significant change for the lessee, however IFRS 16 substantially carries forward existing lessor accounting from IAS 17.

The Group has yet to assess the full impact of IFRS 16 and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2019.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions

The preparation of the 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 at the reporting date of £737,330,000 (31 December 2016: £502,425,000), 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 14.

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 respective counterparties with revaluation occurring on a quarterly basis. The counterparties 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 £752,000 (31 December 2016: £1,513,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. 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 £1,672,000 (31 December 2016: £2,229,000).

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 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. Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of the Performance Fee. The fee is calculated at a rate of 15% of the Total Shareholder Return in excess of the Hurdle rate of 8% per annum for the relevant Performance Period. Total Shareholder Return for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the Performance Period.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-85 of the IPO Prospectus.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.2. Critical judgements in applying the Group's accounting policies *(continued)*

3.2.2. Performance Fee *(continued)*

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no performance fee is ultimately due. Further details are disclosed in note 34.

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 28 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 which 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. Further details are disclosed in note 15.

3.4. Acquisition of subsidiary companies by the issue of share capital

On 24 March 2017, the Group acquired 11 property-owning SPVs and Conygar ZDP PLC (renamed Regional REIT ZDP PLC). Consideration was in the form of 26,326,644 Ordinary Shares issued by Regional REIT Limited, and the novation of an intercompany loan and contribution agreement to the Group.

The Directors considered whether this acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities.

A business is defined in IFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Furthermore a business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The acquisition consisted of a portfolio of investment properties and existing leases with multiple tenants over varying periods however there was little in the way of processes acquired. It was therefore concluded the acquisition did not meet the criteria for the acquisition of a business as outlined IFRS 3 above. Furthermore, as the consideration for the acquisition was in the form of the issue of Ordinary Shares, the accounting treatment follows the rules outlined in IFRS 2 share-based payments as detailed below.

Under IFRS 2, assets and liabilities acquired are recognised at their fair value and transaction costs of the acquisition are allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. The issue of shares is recognised as an increase to equity. The value of the consideration equates to the fair value of the assets and liabilities acquired. Any associated costs of the issue of shares, for example, registrar's fees and listing fees, are deducted from the consideration received for the shares issued in accordance with the Law.

The Directors have reviewed all the assets and liabilities acquired and made the following assumptions to determine the fair value of each asset and liability:

- Investment property is measured at fair value at 30 September 2016, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Interest rate caps are measured at mark-to-market value.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.
- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.4. Acquisition of subsidiary companies by the issue of share capital *(continued)*

- The liability to Zero Dividend Preference ("ZDP") shareholders is determined by the fair value of the ZDP shares at completion of the acquisition on 24 March 2017. Whilst these preference shares, listed on the London Stock Exchange, had a price of £1.24 per share at that date, the Directors do not consider that this value is an appropriate amount to base the fair value calculation because there was no intention for the ZDP shares to be acquired on the open market. It is intended that the ZDP shares will exist for the full term of the obligation, and thus, the Directors consider that the accrued capital value is the best estimate of the fair value of this liability. This is equivalent to amortised cost as calculated in the books of Regional REIT ZDP PLC excluding the unamortised issue costs concerning the original issue.
- Bank loans have been valued at net present value based on the discounting of future cash flows.

Based on the assumptions above the total fair value of the assets and liabilities acquired under the acquisition was £25,687,000. The table below shows the fair value of assets and liabilities acquired through this non-cash transaction.

	Fair Value at Acquisition £'000
Investment properties acquired	128,665
Derivative financial instruments	103
Trade and other receivables	3,316
Cash and cash equivalents	1,940
Deferred income, trade and other payables	(2,946)
Taxation liabilities	(374)
Bank and loan borrowings	(69,397)
Zero dividend preference shares	(35,620)
Total	25,687

3.5. Acquisition of subsidiary companies for cash consideration

On 22 December 2017 the Group made two further corporate acquisitions. Consideration was in the form of cash paid to the vendors. With both acquisitions, new bank borrowings were taken out at completion to replace the borrowings and shareholder loans held within those companies prior to acquisition.

As part of the purchase transactions an amount was received for rental guarantees and top ups representing funds equivalent to the loss of income from properties purchased where a rent free is in place. The Directors consider that this amount does not form part of the consideration but should be treated within the accounts of the companies acquired as both an asset (being the cash received) and a liability (deferred income). The deferred income should be released to income over the remainder of the rent free periods.

The Directors considered whether this acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities. The acquisition consisted of a portfolio of investment properties and existing leases with multiple tenants over varying periods however there was little in the way of processes acquired. It was concluded the acquisition did not meet the criteria for the acquisition of a business as outlined IFRS 3. The Group has followed the following accounting treatment. Assets and liabilities acquired are recognised at their fair value and transaction costs of the acquisition are allocated to the individual identifiable assets and liabilities at the date of purchase. In practice, costs associated with the issue of bank loans have been allocated to bank loans and the remainder of costs have been allocated to investment properties.

The Directors have reviewed all the assets and liabilities acquired and made the following assumptions to determine the fair value of each asset and liability:

- Investment property is measured at fair value at 8 November 2017, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.5. Acquisition of subsidiary companies for cash consideration *(continued)*

- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.
- Deferred income representing rental income, rent guarantees and top ups received by the companies acquired. The Directors consider that these amounts have a fair value which is the value of the amount received in advance.
- Bank loans taken out at completion have been recognised at the principal issued which on the point of issue is fair value.

Based on the assumptions above the total fair value of the assets and liabilities acquired under the acquisition was £53,089,000. The table below shows the fair value of assets and liabilities acquired.

	Fair Value at Acquisition £'000
Investment properties acquired	88,250
Trade and other receivables	4,081
Cash and cash equivalents	1,093
Deferred income, trade and other payables	(5,177)
Bank and loan borrowings	(35,695)
Bank loan issue costs paid at completion	537
Total	53,089

The figures above are based on the accounting records available at the completion date. Revised accounting records prepared by the vendors to the completion date have recently been received. The figures for current assets and liabilities (trade and other receivables, cash and cash equivalents and deferred income and trade payables) have been reviewed and are not significantly different to those disclosed above.

Income and expenditure relating to the companies acquired has been forecasted for the period from acquisition to 31 December 2017 and included within the Consolidated Statement of Comprehensive Income. The current assets and liabilities of the companies acquired have been forecasted forward to 31 December 2017 based on the value of the assets listed above and the forecasted income and expenditure movements. The forecasted assets and liabilities of the companies acquired are included in the Consolidated Statement of Financial Position.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2016 and have been consistently applied for the year ended 31 December 2017. There are no significant changes apart from new disclosures in note 28 to the financial statements arising from accounting standards effective for the first time.

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. 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.2 Subsidiaries *(continued)*

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 is recognised in profit or loss. 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 to the Group's 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 the 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 Board of Directors.

After a review of the information provided for management purposes, it was determined that the Group has one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

4.4. Investment property

Investment property comprises freehold or leasehold properties that are 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's Consolidated 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's Consolidated 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 (being the fair value at the start of the financial year) 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 Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

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 plus 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 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 sell or transfer 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 Consolidated Statement of Comprehensive Income. Premiums payable under such arrangements are initially capitalised into the Group's Consolidated 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.

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 tenant loan relates to a loan made to a tenant which is subject to interest. The amount receivable has been recognised at amortised cost using the effective interest method.

The lease surrender receivable relates to a lease surrender payment which has been received in instalments. The amount receivable has been recognised at amortised cost using the effective interest method.

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

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's 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. Zero Dividend Preference Shares

Zero Dividend Preference Shares ("ZDP shares") are recognised as liabilities in the Group's Consolidated Statement of Financial Position in accordance with IAS 32 Financial Instruments: Presentation. After initial recognition, these liabilities are measured at amortised cost, which represents the value the liability is recognised at initial recognition, plus the accrued entitlement to the date of these financial statements.

4.13. Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.14. 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 Consolidated Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and 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.

4.15. Non recoverable property costs - service and management charges

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

4.16. 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

Interest costs are expensed in the period in which they occur. Arrangement fees, that an entity incurs in connection with bank and other borrowings are amortised over the term of the loan.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.19. Taxation

As the Company 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 Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

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 UK 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.

There are a small number of entities within the Group which fall outside the REIT rules and are subject to UK taxes on profits and property gains.

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 based on tax rates (and tax laws) enacted or substantively enacted at the date of the Statement of Financial Position. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

Deferred tax has been recognised on the unrealised property valuation gains of properties owned by Group entities which fall outside of the REIT tax rules.

The current rate of UK Corporation Tax is 19%. Reductions in UK Corporation Tax have been enacted, reducing the rate to and 18% with effect from 1 April 2020. It has been enacted that the rate will be further reduced to 17% from 1 April 2020.

4.21. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary shares. Ordinary shares are classed as equity.

4.22. Share based payments

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

Where the Company has an obligation to issue shares under the Performance Fee arrangements and the Performance Fee cost is recognised in a subsidiary company, the Company should recognise an increase in the investment of the subsidiary and the obligation to settle shares, where this arises, should be credited to equity.

Where the Group has issued Ordinary Shares as consideration for the acquisition of subsidiary companies and the acquisition is not a business combination, the value attributed to the Ordinary Shares issued is equal to the fair value of the assets and liabilities acquired.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

5. Revenue

5a. Rental income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Rental income – freehold property	44,505	36,233
Rental income – long leasehold property	7,844	6,761
Total	52,349	42,994

5b. Amounts charged to group entities

Amounts charged to group entities of £920,000 (31 December 2016: £837,000) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non-recoverable property costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Other property expenses and irrecoverable costs	6,502	4,866
Total	6,502	4,866

Non-recoverable property costs represent direct operating expenses which arise on investment properties generating rental income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

7. Administrative and other expenses

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Investment management fees	1,732	1,651
Property management fees	1,972	1,698
Performance fees	1,610	249
Asset management fees	1,739	1,675
Directors' remuneration (see note 8)	190	186
Administration fees	702	530
Legal and professional fees	1,493	1,687
Marketing and promotion	68	63
Other administrative costs (including bad debts)	689	63
Bank charges	28	24
VAT recoverable for previous periods	(794)	–
VAT recoverable deducted from comparative expenses above	–	391
Total	9,429	8,217
Company		
Investment management fees	1,386	1,320
Performance fees	633	110
Directors' remuneration (see note 8)	190	186
Administration fees	215	210
Legal and professional fees	1,007	1,024
Marketing and promotion	66	63
Other administrative costs	62	39
VAT recoverable for previous periods	(794)	–
VAT recoverable deducted from comparative expenses above	–	391
Total	2,765	3,343

The Company has registered for VAT and is recovering VAT where applicable incurred since launch. Previously expenses for the Company were shown gross of VAT costs. Expenses are now shown net of VAT recoverable and comparative figures have been reanalysed to be shown net of VAT.

The number of persons employed by the Group and Company in the year 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:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Audit of the consolidated and parent company financial statements	70	63
Audit related services in respect of the half year financial statements	30	25
Audit of the subsidiaries for their respective periods of account	140	131
Fees associated with share issue	108	–
Total	348	219

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. Directors' remuneration

Key management comprises the Directors of the Company. A summary of the Directors' emoluments is set out in the Directors' Remuneration Report.

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group & Company		
Directors' fees	170	170
Employers National Insurance contributions	20	16
Total	190	186

9. Finance income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Interest income	25	60
Other finance income	–	(99)
Unwinding of the discount on financial assets	190	232
Total	215	193
Company		
Group dividend income received	25,635	19,061
Total	25,635	19,061

10. Finance expense

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Interest payable on bank borrowings	9,550	7,821
Accrued capital entitlement on ZDP shares	1,769	–
Amortisation of loan arrangement fees	722	1,001
Amortisation of ZDP share acquisition costs	114	–
Break costs associated with refinancing	605	–
Loan arrangement fees recognised early due to refinancing	1,968	–
Total	14,728	8,822

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. Taxation

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Income tax charge/(credit)	208	(36)
Increase in deferred tax creditor	1,424	13
Total	1,632	(23)

The current tax charge/(credit) is reduced by the UK REIT tax exemptions. The Tax credit is due to the release of a historic accrual. The tax charge/(credit) for the year can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Profit before taxation	28,692	13,395
UK Corporation tax rate	19.25%	20%
Theoretical tax at UK Corporation tax rate	5,523	2,679
Effects of:		
Revaluation loss/(gain) on investment properties	(1,134)	1,350
Permanent differences	461	(3,601)
Profits from the tax exempt business	(4,642)	–
Deferred tax movement	1,424	–
Utilisation of losses brought forward	–	14
Taxation losses and other timing differences	–	(343)
Prior year adjustment	–	(122)
Total	1,632	(23)

Permanent differences are the differences between an entity's taxable profits and its results as stated in the financial statements. These arise because certain types of income and expenditure are non-taxable or disallowable, or because certain tax charges or allowances have no corresponding amount in the financial statements.

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 they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to corporation tax.

As a REIT, Regional RIET Ltd is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To retain UK REIT status, there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

Income tax and deferred tax above arise on entities which form part of the Group consolidated accounts but do not form part of the REIT group.

Due to the Group's REIT status and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments held by entities within the REIT group.

No deferred tax asset has been recognised in respect of losses carried forward due to the unpredictability of future taxable profits.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. Taxation (continued)

Company

Profit/(loss) before taxation	23,790	16,555
UK Corporation tax rate	19.25%	20%
Theoretical tax at UK Corporation tax rate	4,580	3,311
Effects of:		
Permanent differences	(4,580)	(3,311)
Total	–	–

12. Earnings per share

Earnings per share (“EPS”) amounts are calculated by dividing profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year. As there are dilutive instruments outstanding both basic and diluted earnings per share are disclosed below.

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary shares. As detailed in note 34, an estimate of Performance Fee for the period from commencement of trading to 31 December 2017 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the Performance Fee period is from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the fee charge will be based on the EPRA NAV as at 31 December 2018.

Group

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	27,060	13,418
Adjustments to remove:		
Changes in value of investment properties	(5,893)	6,751
Changes in fair value of interest rate derivatives and financial assets	(407)	865
Gain on disposal of investment property	(1,234)	(518)
Impairment of goodwill	557	557
Deferred tax charge	1,424	–
Close out costs on borrowings and derivatives	2,507	–
EPRA Net profit attributable to Ordinary Shareholders	24,014	21,073
Add performance fee	1,610	249
Company specific adjusted earnings figure	25,624	21,322
Weighted average number of Ordinary Shares	296,807,647	274,217,264
Dilutive instruments	875,752	107,729
Adjusted weighted average number of Ordinary Shares	297,683,399	274,324,993
Earnings per share – basic	9.1p	4.9p
Earnings per share – diluted	9.1p	4.9p
EPRA Earnings per share – basic	8.1p	7.7p
EPRA Earnings per share – diluted	8.1p	7.7p
Company specific adjusted earnings per share – basic	8.6p	7.8p
Company specific adjusted earnings per share – diluted	8.6p	7.8p

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

12. Earnings per share (continued)

Company

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	23,790	16,555
Weighted average number of Ordinary Shares	296,807,647	274,217,264
Dilutive instruments	875,752	107,729
Adjusted weighted average number of Ordinary Shares	297,683,399	274,324,993
Earnings per share – basic	8.0p	6.0p
Earnings per share – diluted	8.0p	6.0p

13. Dividends

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group and Company		
Dividend of 2.40 (2016: 1.00) pence per Ordinary share for the period 1 October 2016 – 31 December 2016	6,581	2,742
Dividend of 1.80 (2016: 1.75) pence per Ordinary share for the period 1 January 2017 – 31 March 2017	5,410	4,799
Dividend of 1.80 (2016: 1.75) pence per Ordinary share for the period 1 April 2017 – 30 June 2017)	5,410	4,799
Dividend of 1.80 (2016: 1.75) pence per Ordinary share (for the period 1 July 2017 – 30 September 2017)	5,410	4,799
	22,811	17,139

On 23 February 2017 the Company announced a dividend of 2.40 pence per share in respect of the period 1 October 2016 to 31 December 2016. The dividend payment was made on 13 April 2017 to shareholders on the register as at 3 March 2017.

On 25 May 2017 the Company announced a dividend of 1.80 pence per share in respect of the period 1 January 2017 to 31 March 2017. The dividend payment was made on 14 July 2017 to shareholders on the register as at 9 June 2017.

On 31 August 2017 the Company announced a dividend of 1.80 pence per share in respect of the period 1 April 2017 to 30 June 2017. The dividend payment was made on 13 October 2017 to shareholders on the register as at 8 September 2017.

On 14 November 2017 the Company announced a dividend of 1.80 pence per share in respect of the period 1 July 2017 to 30 September 2017. The dividend payment was made on 22 December 2017 to shareholders on the register as at 24 November 2017.

On 22 February 2018 the Company announced a dividend of 2.45 pence per share in respect of the period 1 October 2017 to 31 December 2017. The dividend will be paid on 12 April 2018 to shareholders on the register as at 2 March 2018. The financial statements do not reflect this dividend.

The Board intends to peruse a progressive dividend policy and continue to pay quarterly dividends.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

14. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, and Jones Lang LaSalle, Chartered Surveyors who are both accredited independent valuers with recognised and relevant professional qualifications 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 year have been treated as properties purchased rather than business combinations.

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2017			
Valuation at 1 January 2017	424,310	78,115	502,425
Property additions – acquisitions	212,332	18,994	231,326
Property additions – subsequent expenditure	12,444	929	13,373
Property disposals	(16,921)	–	(16,921)
Gain on the disposal of investment properties	1,234	–	1,234
Change in fair value during the year	3,201	2,692	5,893
Valuation at 31 December 2017	636,600	100,730	737,330

Movement in investment properties for the year ended 31 December 2016

Valuation at 1 January 2016	332,052	71,650	403,702
Property additions– acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the period	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016	424,310	78,115	502,425

The historic cost of the properties is £628,723,000 (31 December 2016: £488,104,000).

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

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2017	737,330	–	–	737,330
31 December 2016	502,425	–	502,425	–

The hierarchy levels are defined in note 25.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

14. Investment properties (continued)

It has been determined that the entire investment properties portfolio should be classified under the level 3 category and the assets have been transferred to level 3 at the beginning of the year. The table below shows the movement in the year on the level 3 category:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Balance at the start of the year	–	–
Assets transferred from level 2	502,425	–
Additions	244,699	–
Disposals	(16,921)	–
Gain on the disposal of investment properties	1,234	–
Change in fair value during the year	5,893	–
Balance at the end of the year	737,330	–

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 investment properties, which take into consideration 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.

The current 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 2017, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. With greater volatility in the global financial system, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more stable market.

Techniques used for valuing investment properties

The following descriptions and definitions relate to valuation techniques and key observable 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: Market Rental

The rent at which space could be let in the market conditions prevailing at the date of valuation range: £2,860- £3,092,125 per annum (2016: £3,100 - £3,119,381 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: 0%-29.94 % (2016: 0.28%-29.23%).

As set out within the significant accounting estimates and judgements 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. Investment in subsidiaries

	31 December 2017 £'000	31 December 2016 £'000
Company		
Cost at start of year	274,286	274,217
Acquisitions of subsidiaries during the year	98,686	69
Disposal of subsidiaries during the year	(21,511)	–
Cost at end of year	351,461	274,286

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

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

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

	Country of incorporation	Ownership %
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Bristol Ltd	Jersey	100%
RR Eureka SARL	Luxembourg	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (South) Limited	Jersey	100%
RR Range Limited	Jersey	100%
RR Sea Dundee Ltd.	United Kingdom	100%
RR Sea Hannover Street Ltd.	United Kingdom	100%
RR Sea Lamont I Ltd	Jersey	100%
RR Sea Lamont II Ltd	Jersey	100%
RR Sea Lamont III Ltd	Jersey	100%
RR Sea St. Helens Ltd.	United Kingdom	100%
RR Sea Stafford Ltd.	United Kingdom	100%
RR Sea Strand Limited	United Kingdom	100%
RR Sea TAPP Ltd	Guernsey	100%
RR Sea TOPP Bletchley Ltd	Guernsey	100%
RR Sea TOPP I Ltd	Guernsey	100%
RR UK (Central) Limited	Jersey	100%
RR UK (Cheshunt) Limited	Jersey	100%
RR UK (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Regional REIT ZDP PLC	United Kingdom	100%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

	Country of incorporation	Ownership %
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Rosalind Ltd	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 UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Portland Street Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund South Gyle Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%

All of the above entities have been included in the Group's consolidated financial statements.

By virtue of the Amended and Restated Call Option Agreement, dated 3 November 2015, the Directors consider that the Group has control of Credential Investment Holdings Limited and its 28 subsidiaries ("the Credential Group").

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

Under this option, the Group may acquire any of the properties held by the Credential Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice is obliged to convey its title within one month after receipt of the option notice. The option may be exercised in whole by serving one option notice in respect of all the remaining relevant assets or on any number of occasions by servicing any number of separate option notices.

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 companies which make up the Credential Group are as follows:

List of subsidiaries that are controlled by the Group:

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

All of the above entities have been included in the Group's consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. Investment in subsidiaries (continued)

Business Combinations

There have been no new business combinations entered into in the financial year.

During the year there were several subsidiary company acquisitions that took place in order for the Group to acquire the investment property owned by that company. These acquisitions have not been treated as a business combinations. For further details please refer to the Group's basis of preparation note 3.4.

16. Goodwill

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	2,229	2,786
Impairment	(557)	(557)
At end of year	1,672	2,229

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 Group's Statement of Comprehensive Income.

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 less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on group pre-tax cash flow projections of cost savings of the Group as a whole as a single cash generating unit, using a discount factor of 2.3%, which is based on the borrowing margins currently available. If a reasonable change occurs in a key assumption the recoverable amount of goodwill would still be expected to be equal to the carrying value. The impairment review was conducted over a five-year period, which is predominately derived from the borrowings facility terms, and will result in a nil terminal value.

17. Non-current receivables

17a. Non-current receivables on lease surrender premium

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	1,004	1,760
Movement in year	(988)	(988)
Unwinding of discount	190	232
At end of year	206	1,004
Asset due within 1 year	206	798
Asset due after 1 year	—	206
	206	1,004

In May 2014, the tenant of one of the subsidiaries (Blythwood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over four years with the final instalment to be paid in the quarter ending 31 March 2018. 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

17. Non-current receivables (continued)

17b. Non-current receivables on tenant loans

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	1,926	–
Amounts loaned in the year	–	1,926
At end of year	1,926	1,926
Asset due within 1 year	–	385
Asset due after 1 year	1,926	1,541
	1,926	1,926

During 2016 the Group entered into a loan agreement with a tenant for £1,926,000. The loan is subject to interest of 4% above the base rate of the Bank of Scotland and is repayable in instalments over ten years.

18. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Group		
Gross amount receivable from tenants	8,171	4,384
Less provision for impairment	(1,033)	(258)
Net amount receivable from tenants	7,138	4,126
Current receivables – surrender premium (note 17a)	206	798
Current receivables – tenant loans (note 17b)	–	385
Other receivables	4,715	2,487
Prepayments	9,888	3,579
	21,947	11,375
Company		
Other debtors	1,113	837
VAT recoverable	1,143	–
Prepayments	47	33
	2,303	870

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

18. Trade and other receivables (continued)

The aged analysis of trade receivables that are past due but not impaired was as follows:

	31 December 2017 £'000	31 December 2016 £'000
Current	6,662	1,176
< 30 days	264	1,692
30-60 days	859	806
> 60 days	1,959	710
	9,744	4,384
Less provision for impairment	(1,033)	(258)
	8,711	4,126

The Directors consider the fair value of receivables equals their carrying amount.

The table above shows the aged analysis of trade receivables included in the table above which are past due but not impaired. These relate to tenants for whom there is no recent history of default.

Provision for impairment of trade receivables movement as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	258	228
Provision for impairment in the year	607	184
Upon acquisition of subsidiary companies	225	–
Receivables written off as uncollectable	–	(7)
Unused provision reversed	(57)	(147)
At end of year	1,033	258

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

19. Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Group		
Cash held at bank	33,433	10,850
Restricted cash held at bank	11,207	5,349
At end of year	44,640	16,199

	31 December 2017 £'000	31 December 2016 £'000
Company		
Cash held at bank	20,336	65
At end of year	20,336	65

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. Cash and cash equivalents (continued)

Restricted cash balances of the Group comprise:

- £2,499,000 (2016: £2,000) 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.
- £4,198,000 (2016: £4,025,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £2,144,000 (2016: £1,322,000) of funds which represent tenants' rental deposits.
- £1,957,000 (2016: £nil) 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 conditions are met. The restricted funds arose on net proceeds held in relation to rental guarantees given by the seller of properties purchased by the Group. These funds can only be withheld by the lender and used to repay outstanding loans in the event of a default. £414,000 of this balance will be released to free cash before 31 March 2018.
- £409,000 (2016: £nil) of funds held in blocked rent accounts which are controlled by one of the Group's lenders and will be released to free cash post year end without restriction.

All restricted cash balances will be available before 31 March 2018.

20. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Group		
Withholding tax due on dividends paid	906	1,416
Trade payables	3,739	3,381
Other payables	9,493	5,164
Value added tax	298	1,136
Accruals of incidental costs for fund raise and acquisitions	2,593	–
Accruals	9,912	3,504
At end of year	26,941	14,601
	31 December 2017 £'000	31 December 2016 £'000
Company		
Withholding tax due on dividends paid	906	1,416
Accruals of incidental costs for fund raise	1,187	–
Accruals	1,211	903
At end of year	3,304	2,319

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

22. Taxation liabilities

	31 December 2017 £'000	31 December 2016 £'000
Group		
Income tax	586	36
Deferred tax	2,050	626
	2,636	662
The movement on Deferred tax liability is shown below:		
At start of year	626	612
Deferred tax on the valuation of investment properties	1,424	14
At end of year	2,050	626

23. Bank and loan borrowings

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 year end are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Bank borrowings drawn at start of year	220,060	128,643
Bank borrowings drawn	284,633	107,762
Bank borrowings repaid	(165,619)	(16,345)
Bank borrowings drawn at end of year	339,074	220,060
Less: unamortised costs at start of year	(2,618)	(1,875)
Less: loan issue costs incurred in the year	(4,765)	(1,744)
Add: loan issue costs amortised in the year	2,690	1,001
At end of year	334,381	217,442
Maturity of bank borrowings		
Repayable within 1 year	400	–
Repayable between 1 to 2 years	65,400	58,960
Repayable between 2 to 5 years	108,274	161,100
Repayable after more than 5 year	165,000	–
Unamortised loan issue costs	(4,693)	(2,618)
	334,381	217,442

During the year, the Group assumed new loan facilities which were held in the group of subsidiary companies acquired from The Conygar Investment Company PLC. As detailed in note 24 the Group also has 30,000,000 ZDP shares in issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

23. Bank and loan borrowings (continued)

The table below lists the Group's loan facilities held and the liability due to the ZDP shares.

Lender	Original Facility £'000	Outstanding Debt** £'000	Maturity Date	Gross Loan to Value*** %	Annual Interest rate	Amortisation
ICG Longbow Ltd	65,000	65,000	Aug '19	44.6	5.00% pa for term	none
Royal Bank of Scotland	19,336	17,376	Dec '20	40.0	2.00% over 3mth £ LIBOR	MP
HSBC*	20,998	20,998	Dec '21	53.2	2.15% over 3mth £ LIBOR	MP
Santander UK	70,700	70,700	Nov '22	43.4	2.15% over 3mth £ LIBOR	MP
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	48.9	3.28% pa for term	MP
Total bank borrowings	341,034	339,074				
ZDP Shares	39,879	37,389	Jan '19	n/a	6.5% pa to maturity	none
Total	380,913	376,463				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Acquired upon the acquisition of the SPV companies from The Conygar Investment Company PLC

** Before unamortised debt issue costs

*** Based upon Cushman & Wakefield and Jones Lang LaSalle property valuations

The weighted average term to maturity of the Group's debt at the period end was 6.0 years (31 December 2016: 2.9 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.7% (31 December 2016: 3.3%).

The Group weighted average interest rate, including the ZDP shares and hedging costs at the period end amounted to 3.8% pa (31 December 2016: 3.7% pa).

The Group has been in compliance with all of the financial covenants relating to the above facilities as applicable throughout the year covered by these consolidated financial statements. Each facility has distinct covenants which generally include: historic interest cover, projected interest cover, loan to value cover, and debt service cover. A breach of agreed covenant levels would typically result in an event of default of the respective facility, giving the lender the right, but not the obligation, to declare the loan immediately due and payable. Where a loan is repaid in these circumstances early repayment fees will apply, which are generally based on a percentage of the loan repaid or calculated with reference to the interest income foregone by the lenders as a result of the repayment.

As shown in note 26, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. The Group's exposure to interest rate volatility is minimal.

24. Zero dividend preference shares

	31 December 2017 £'000	31 December 2016 £'000
Fair value arising on the acquisition of subsidiaries	35,620	—
Acquisition costs	(264)	—
Amortisation of acquisition costs	114	—
Accrued capital entitlement	1,769	—
At end of year	37,239	—

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

24. Zero dividend preference shares (continued)

During the year the Group acquired 100% of the voting capital of Conygar ZDP PLC (subsequently renamed Regional REIT ZDP PLC), a company which has 30,000,000 zero dividend preference shares ("ZDP shares") in issue. The ZDP shares were originally issued at 100 pence per share. The ZDP shares have an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but do not receive any dividends or income distributions. Additional capital accrues to the ZDP shares on a daily basis at a rate equivalent to 6.5% per annum (5.5% per annum until 24 March 2017), resulting in a final capital entitlement of 132.9 pence per share. The ZDP shares are listed on the London Stock Exchange (LSE: RGLZ).

During the period, the Group accrued £1,769,000 (31 December 2016: £nil) of additional capital payable. The total amount repayable at maturity will be £39,879,269.

The ZDP shares do not carry the right to vote at general meetings of Regional REIT ZDP PLC, although they carry the right to vote as a class on certain proposals which would be likely to materially affect their position. In the event of a winding-up of Regional REIT ZDP PLC, the capital entitlement of the ZDP shares will rank ahead of ordinary shares but behind other creditors of Regional REIT ZDP PLC.

25. Derivative financial instruments

Interest rate caps and swaps are in place to mitigate the interest rate risk that arises as a result of entering into variable rate borrowings.

	31 December 2017 £'000	31 December 2016 £'000
Group		
Fair value at start of year	(1,513)	(416)
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	103	–
Net costs of disposing of derivative financial instruments	441	–
Revaluation in the year	217	(1,097)
Fair value at end of year	(752)	(1,513)

The calculation of fair value of interest rate caps and swaps is based on the following calculation: the notional amount multiplied by the difference between the swap rate and the current market rate and then multiplied by the number of years remaining on the contract.

The table below details the hedging and swap notional amounts and rates against the details of the Group's loan facilities.

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Interest cost per annum	Notional Amount £'000	Rate %
ICG Longbow Ltd	65,000	65,000	Aug '19	5.00% pa for term	n/a	n/a
Royal Bank of Scotland	19,336	17,376	Dec '20	2.00% over 3mth £ LIBOR	nil	nil
HSBC*	20,998	20,998	Dec '21	2.15% over 3mth £ LIBOR	nil	nil
Santander UK	70,700	70,700	Nov '22	2.15% over 3mth £ LIBOR	Swap 35,350 Cap 35,350	1.605% 1.605%
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	3.28% pa for term	nil	nil
Total	341,034	339,074				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2017, the swap notional arrangements were £35.35m (31 December 2016: £90.8m).

The Group weighted average effective interest rate of 3.5% (31 December 2016: 3.7%) inclusive of hedging costs but excluding the ZDP.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

25. Derivative financial instruments (continued)

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end the total proportion of hedged debt equated to 88.5% (31 December 2016: 106.5%), as shown below. The minimal under-hedge remains under review.

	31 December 2017 £'000	31 December 2016 £'000
Total bank borrowings	339,074	220,060
Notional value of interest rate caps and swaps	70,700	169,441
Value of fixed rate debts	230,000	65,000
	300,700	234,441
Proportion of hedged debt	88.7%	106.5%

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 consolidated 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.

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
Interest rate derivatives				
31 December 2017	(752)	–	(752)	–
31 December 2016	(1,513)	–	(1,513)	–

The fair value of these contracts are recorded in the Consolidated 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 year end.

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary shares.

Group & Company	31 December 2017 £'000	31 December 2016 £'000
Issued and fully paid shares of no par value		
At start of the year	274,217	274,217
Shares issued 24/03/2017	25,687	–
Shares issued 21/12/2017	73,000	–
Share issue costs	(2,586)	–
At end of the year	370,318	274,217
Number of shares in issue		
At start of the year	274,217,264	274,217,264
Shares issued 24/03/2017	26,326,644	–
Shares issued 21/12/2017	72,277,228	–
At end of the year	372,821,136	274,217,264

On 24 March 2017 the Company issued 26,326,644 Ordinary Shares as consideration for the acquisition of 11 property owning SPVs and Conygar ZDP PLC (renamed Regional REIT ZDP PLC).

On 21 December 2017, the Company issued 72,277,228 Ordinary Shares for consideration of £73,000,000.

27. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing the net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year. As there are dilutive instruments outstanding, basic and diluted NAV per share are disclosed below.

Dilutive instruments relate to the partial settlement of the Performance Fee by the future issue of Ordinary Shares. As detailed in note 34, an estimate Performance Fee for the period from commencement of trading to 31 December 2017 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the shares issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

EPRA Net Asset Value (NAV) is a key performance measure used in the real estate industry which highlights the fair value of net assets on an ongoing long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of derivatives and deferred taxes on property valuation surpluses are therefore excluded.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

27. Net asset value per share (NAV) (continued)

Net asset values have been calculated as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	392,899	291,735
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	752	1,513
Deferred tax liability	2,050	–
EPRA net assets	395,701	293,248
Number of Ordinary Shares in issue	372,821,136	274,217,264
Dilutive instruments	875,752	107,729
Adjusted number of Ordinary Shares	373,696,888	274,324,993
Net asset value per share – basic	105.4p	106.4p
Net asset value per share – diluted	105.1p	106.3p
EPRA net asset value per share – basic	106.1p	106.9p
EPRA net asset value per share – diluted	105.9p	106.9p
	31 December 2017 £'000	31 December 2016 £'000
Company		
Net asset value per Company Statement of Financial Position	370,796	272,902
Number of Ordinary Shares in issue	372,821,136	274,217,264
Dilutive instruments	875,752	107,729
Adjusted number of Ordinary Shares	373,696,888	274,324,993
Net asset value per share – basic	99.5p	99.5p
Net asset value per share – diluted	99.2p	99.5p

28. Notes to the Statement of Cash Flows

28.1. Non cash transactions

The Group has accounted for the following non-cash transactions:

- A non cash transaction relating to the acquisition of the subsidiary companies acquired from The Conygar Investment Company PLC by issue of Ordinary shares is detailed in note 3.4.
- The value of Performance fees expensed within the Group where Ordinary shares will be issued for the consideration.

The Company's acquisitions and disposals of subsidiaries are made up of the following non-cash transactions:

- Investment in Regional Commercial Midco Ltd of £25,686,000 associated with the acquisition of the portfolio of companies from The Conygar Investment Company PLC by issue of Ordinary shares is detailed in note 3.4.
- The acquisition of and immediate sale to Regional Commercial Midco Ltd for £21,511,000 of subsidiary companies. This transactions did not involve any cash or result in any gain or loss.
- The value of Performance fees expensed in subsidiary companies where the Company will issue Ordinary shares for the payment of the Performance fee of £489,000.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

28. Notes to the Statement of Cash Flows (continued)

28.2. Reconciliation of changes in liabilities to cash flows arising from financing activities

Group at 31 December 2017	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Derivative financial instruments £'000	Total £'000
Balance at 1 January 2017	217,442	–	1,513	218,955
Changes from financing cash flows:				
Net costs paid on the disposal of derivatives	–	–	(441)	(441)
Bank borrowings advanced	179,540	–	–	179,540
Bank borrowings repaid	(165,619)	–	–	(165,619)
Bank borrowing costs paid	(3,714)	–	–	(3,714)
Total changes from financing cash flows	10,207	–	(441)	9,766
Arising from subsidiary acquisitions	105,093	35,620	(103)	140,610
Costs of subsidiary acquisitions allocated	(1,051)	(264)	–	(1,315)
Amortisation of issue costs	2,690	114	–	2,804
Accrued capital entitlement	–	1,769	–	1,769
Change in fair value	–	–	(217)	(217)
Total other changes	106,732	37,239	(320)	143,651
Balance at 31 December 2017	334,381	37,239	752	372,372
Balances are included in the Statement of financial position as follows:				
Current liabilities	400	–	–	400
Non-current liabilities	333,981	37,239	752	371,972
Balance at 31 December 2017	334,381	37,239	752	372,372

29. Financial risk management

29.1. 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, amounts due to Zero Dividend preference shareholders and interest rate derivatives, 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:

	31 December 2017		31 December 2016	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Group				
Loans and receivables – measured at amortised cost				
Trade and other receivables	13,985	13,985	9,543	9,543
Cash and short-term deposits	44,640	44,640	16,199	16,199
Financial liabilities – measured at amortised cost				
Trade and other payables	(26,035)	(26,035)	(15,263)	(15,263)
Bank and loan borrowings	(334,381)	(334,381)	(217,442)	(217,442)
Zero dividend preference shares	(37,239)	(38,550)	–	–
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(752)	(752)	(1,513)	(1,513)

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

29. Financial risk management (continued)

29.1. Financial instruments (continued)

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

	31 December 2017		31 December 2016	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Company				
Loans and receivables – measured at amortised cost				
Trade and other receivables	2,256	2,256	837	837
Cash and short-term deposits	20,336	20,336	65	65
Financial liabilities – measured at amortised cost				
Trade and other payables	(2,398)	(2,398)	(2,319)	(2,319)

29.2. 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.

29.3. 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.

If interest rates were to increase by the following rates, this would increase the annual interest charge to the Group and thus reduce profits and net assets as follows:

Interest rate increase	Increase to the annual interest charge	
	31 December 2017 £'000	31 December 2016 £'000
0.00%	–	–
0.25%	184	186
0.50%	368	372
0.75%	552	529
1.00%	737	592

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

29. Financial risk management (continued)

29.4. 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. The Company is exposed to credit risk from its deposits with banks. 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.

29.5. Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the Group's Statement of Financial Position 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 year end were received shortly after the year end.

29.6. 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 latest Fitch credit ratings, was as follows:

Bankers	Fitch Ratings
Barclays	A Rating Watch Positive
Royal Bank of Scotland	BBB + Stable
Santander UK	A Rating Watch Positive

29.7. 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:

Group at 31 December 2017	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(26,035)	–	–	–	(26,035)
Bank borrowings	(12,019)	(75,599)	(131,712)	(191,793)	(411,123)
Interest rate derivatives	(242)	(242)	(700)	–	(1,184)
Zero dividend preference shares	–	(39,879)	–	–	(39,879)
	<u>(38,296)</u>	<u>(115,720)</u>	<u>(132,412)</u>	<u>(191,793)</u>	<u>(478,221)</u>

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

29. Financial risk management *(continued)*

29.7. Liquidity risk *(continued)*

Group at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(15,263)	–	–	–	(15,263)
Bank borrowings	(7,177)	(66,093)	(164,942)	–	(238,212)
Interest rate derivatives	(884)	(874)	(528)	–	(2,286)
	<u>(23,324)</u>	<u>(66,967)</u>	<u>(165,470)</u>	<u>–</u>	<u>(255,761)</u>

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

Company at 31 December 2017	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	<u>(3,304)</u>	<u>–</u>	<u>–</u>	<u>(3,304)</u>

Company at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	<u>(2,319)</u>	<u>–</u>	<u>–</u>	<u>(2,319)</u>

30. 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 Group's capital is represented by reserves and bank borrowings. 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 40% of Investment Property Values 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 Investment Property Values at any time without the prior approval of Ordinary shareholders in a General Meeting.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

31. Operating leases

The future minimum lease payments receivable under non-cancellable operating leases in respect of the Group's property portfolio are as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Receivable within 1 year	49,621	37,229
Receivable between 1 – 2 years	38,678	28,000
Receivable between 2 – 5 years	66,437	50,777
Receivable after 5 years	47,979	34,744
	<u>202,715</u>	<u>150,750</u>

The Group has in excess of 939 operating leases. The number of years remaining on these operating leases varies between 1 and 82 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point a surrender premium will be charged to cover the shortfall in rental income received.

32. Operating lease commitments

Total commitments on operating leases in respect of land and buildings are as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Payable within 1 year	471	485
Payable between 1 – 2 years	471	485
Payable between 2 – 5 years	1,414	1,456
Payable after 5 years	36,001	37,794
	<u>38,357</u>	<u>40,220</u>

33. Segmental information

After a review of the information provided for management purposes during the current year, it was determined that the Group has one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

34. Transactions with related parties

Transactions with the Directors

Directors' remuneration is disclosed within the Remuneration Report and note 8 to the financial statements. Directors' beneficial interest in the Ordinary shares of the Company are disclosed within the Directors' Report. During the year, the following dividends were received by the Directors (and their spouses) on the holdings:

	Year ended 31 December 2017 £'000
Kevin McGrath	–
William Eason	10
Daniel Taylor	16
Stephen Inglis	49
Frances Daley	–
Timothy Bee	11
Total	<u>86</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

34. Transactions with related parties (continued)

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, as well as being the Chief Executive Officer of London & Scottish Investments Limited ("LSI") and a director of London & 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 the EPRA net asset value (NAV), reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

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 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.

The Asset Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below.

The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Asset management fees charged*	1,739	1,675
Property management fees charged*	1,972	1,698
Performance fees charged	814	115
Total	4,525	3,488
	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding **	1,882	563

* Including irrecoverable VAT charged where appropriate

** Including amounts to be settled by the issue of ordinary shares

Transactions with the Investment Manager, Toscafund Asset Management LLP

Martin McKay was a non-executive Director of Regional REIT Limited and the Chief Financial Officer of Toscafund Asset Management LLP until 7 July 2017. With effect from that date he was replaced on the Board of Regional REIT Limited by Tim Bee, Chief Legal Counsel of Toscafund Asset Management LLP. 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 the EPRA net asset value (NAV), reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

34. Transactions with related parties (continued)

Transactions with the Investment Manager, Toscafund Asset Management LLP (continued)

The Investment Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below. The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Investment management fees charged*	1,732	1,914
Performance fees charged	814	115
Irrecoverable VAT on performance fees charged	(19)	19
Total	2,527	2,048
	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding**	1,378	609

* Including irrecoverable VAT charged where appropriate

** Including amounts to be settled by the issue of Ordinary shares

Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of the Total Shareholder Return in excess of the Hurdle Rate of 8% per annum for the relevant performance period. Total Shareholder Return for any financial year consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the financial year. A Performance Fee is only payable in respect of a performance period where the EPRA NAV per Ordinary Share exceeds the High-water Mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous performance period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183 to 85 of the IPO Prospectus.

The Performance Fee for the first Performance Period, 6 November 2015 to 31 December 2018, is payable 50% in cash, and 50% in Ordinary Shares. The shares are to be issued at the prevailing price per Ordinary Share at the date of issue, and are to be locked-in for 1 year.

The Performance Fees for subsequent years are payable 34% in cash and 66% in Ordinary Shares, again at the prevailing price per share, with 50% of the shares locked-in for 1 year and 50% of the shares locked-in for 2 years.

Based on the EPRA NAV of the Group as at 31 December 2017 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 liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2017 was estimated at £1,859,000 (31 December 2016: £249,000). This fee has been accrued in the consolidated financial statements. To reflect the nature of the future payment of the performance fee charge, 50% of the fee, along with the irrecoverable VAT thereon of £nil (31 December 2016: £19,000), has been accrued as a liability totalling £930,000 (31 December 2016: £134,000) and the 50% of the fee which is payable by the issue of Ordinary Shares has been reflected as a share based payment in the consolidated statement of changes in equity.

35. Subsequent events

On 1 February 2018, the Company announced the appointment of Frances Daley as a Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

EPRA Performance Measures

The Group is a member of the European Public Real Estate Association (“EPRA”).

EPRA have developed and defined the following performance measures to give transparency, comparability and relevance of financial reporting across entities which may use different accounting standards. The Group is pleased to disclose the following measures which are calculated in accordance with EPRA guidance:

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2017	31 December 2016
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings	£24,014,000	£21,073,000
		EPRA Earnings per share (basic)	8.1p	7.7p
		EPRA Earnings per share (diluted)	8.1p	7.7p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts.	Adjusted Earnings	£25,624,000	£21,322,000
		EPRA Earnings per share (basic)	8.6p	7.8p
		EPRA Earnings per share (diluted)	8.6p	7.8p
EPRA NAV	Net Asset Value adjusted to include properties and other investment interest at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	EPRA Net Asset Value	£395,701,000	£293,248,000
		EPRA NAV per share (basic)	106.1p	106.9p
		EPRA NAV per share (diluted)	105.9p	106.9p
EPRA NNNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNNAV	£392,899,000	£291,735,000
		EPRA NNNNAV per share (basic)	105.4p	106.4p
		EPRA NNNNAV per share (diluted)	105.1p	106.3p
EPRA NET INITIAL YIELD	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property with (estimated) purchasers' costs.	EPRA Net Initial Yield	6.5%	6.7%

EPRA Performance Measures *(continued)*

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2017	31 December 2016
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio.	EPRA Vacancy Rate	15.0%	17.8%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy divided by gross rental income	EPRA Costs Ratio	29.7%	29.6%
		EPRA Costs Ratio (excluding direct vacancy costs)	19.0%	20.3%

Notes to the calculation of EPRA performance measures

1. EPRA Earnings

For calculations, please refer to note 12 to the financial statements

2. EPRA NAV

For calculations please refer to note 27 to the financial statements

3. EPRA NNNAV

This is equivalent to the IFRS NAV and calculations are detailed in note 27 to the financial statements.

4. EPRA Costs Ratios

	31 December 2017 £'000	31 December 2016 £'000
Operating costs	6,502	4,866
Less ground rent	(563)	(490)
Add administrative and other expenses	9,429	8,217
EPRA costs (including direct vacancy costs)	15,368	12,593
Direct vacancy costs	(5,522)	(3,951)
EPRA costs (excluding direct vacancy costs)	9,846	8,642
Gross rental income	52,349	42,994
Less ground rent	(563)	(490)
Gross rental income less ground rents	51,786	42,504
EPRA Cost Ratio (including direct vacancy costs)	29.7%	29.6%
EPRA Cost Ratio (excluding direct vacancy costs)	19.0%	20.3%

Glossary of Terms

AIF – Alternative Investment Fund.

AIFM – Alternative Investment Fund Manager.

Board – the Board of Directors of the Company

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.

Capex – Capital expenditure relates to spend used by the organisation to maintain or upgrade physical assets.

Company – Regional REIT Limited.

Contracted Rent – annualised rent, adjusting for the inclusion of rent free periods. See also Passing Rent.

Directors – the Directors of the Company whose names are set out on page 54 and 55.

EPC – Energy Performance Certificate.

EPRA Cost Ratio – ratio of overheads and operating expenses against gross rental income. Net overheads and operating expenses relate to all administrative and operating expenses including the share of joint ventures' overheads and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA – European Public Real Estate Association, a real estate industry body, which has issued Best Practice Recommendations to provide consistency and transparency in real estate financial reporting across Europe.

EPRA Earnings – profit after taxation excluding investments and development property revaluations and gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA Net Asset Value (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) or Market Rent (MR) – external valuers' opinion as to what the open market rental value of the property is on the valuation date and which could reasonably be expected to be the rent obtainable on a new letting of that property on the valuation date.

External Valuer – independent external valuer of a property. The Company's External Valuers are Cushman & Wakefield and Jones Lang LaSalle.

Fair Value Adjustment – accounting adjustment to change the book value of an asset or liability to its market value.

Gross Property Assets – investment properties encompassing the entire property portfolio of freehold and leasehold assets.

Gross Rental Income – accounting based rental income under IFRS. When the Group provides lease incentives to its tenants the lease incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is the cash Passing Rent as adjusted for the spreading of these incentives.

Gross Loan-to-Value (LTV) Ratio – (Borrowings) / (Investment Properties Value), expressed as percentage.

Group – Regional REIT Limited and its subsidiaries.

IAS – an international accounting standard established by the International Accounting Standards Board.

IPO – Initial Public Offering. The Company's Admission to London Stock Exchange was 6 November 2015.

Lease – 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 – payment used to encourage a tenant to take on a new lease, for example 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 – 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.

Mark-to-Market (MTM) – difference between the book value of an asset or liability and its market value.

Manager – the Company's external Asset and Property Manager is London & Scottish Investments Limited. Its external Investment Manager is Toscafund Asset Management LLP.

Net Asset Value (NAV) (or Shareholder' Funds) – 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.

Glossary of Terms *(continued)*

Net Gearing – $(\text{Borrowings} - \text{cash and cash equivalents}) / (\text{Total Issued Shares} + \text{Retained Earnings})$.

Net Initial Yield – $(\text{Annualised current passing rent less non-recoverable property expenses, such as empty rates}) / (\text{Investment Properties Value})$. This phrase is regularly used for Triple Net Initial Yield (NNNIY).

Net Loan-to-Value (LTV) Ratio – $(\text{Borrowings} - \text{less cash}) / (\text{Investment Properties Value})$ expressed as percentage.

Ordinary Resolution – a resolution passed by more than 50 per cent. Majority in accordance with the Companies Law

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.

Passing Rent – the rent that is payable at any particular time, allowing for lease incentives. This phrase is often used for Contracted Rent.

Property Income Distributions (PIDs) – profits from property related business distributed to shareholders which are subject to tax in the hands of the shareholders as property income. PIDs are normally paid net of withholding tax, currently at 20%, which the REIT pays to the tax authorities on behalf of the shareholder. Certain types of shareholder (i.e., pension funds) are tax exempt and receive PIDs without withholding tax. Property companies also pay out normal dividends, called non-PIDs, which are treated as not subject to withholding tax.

Prospectus – the Company's prospectus issued on 5 December 2017.

REIT – a qualifying entity which has elected to be treated as Real Estate Investment Trust for tax purposes. In the UK such entities must be listed on a recognised stock exchange, must be predominantly engaged in property investments activities and must meet certain ongoing qualifications 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 – expected increase in rent estimated by the Company's External Valuers, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

Reversionary Yield – anticipated yield, excluding lease expiry, to which the Net Initial Yield will rise (or fall) once the rent reaches the Estimated Rental Value. $\text{ERV} / \text{Investment Properties Value}$ expressed as a percentage.

Shares – ordinary shares issued by the Company.

Shareholder – a holder of shares in the Company

Triple Net Initial Yield (NNNIY) – $(\text{Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three "nets")}) / (\text{Investment Properties Value})$.

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees). The calculation excludes residential leases and development properties where relevant.

Weighted Average Debt to Maturity (WAD) – each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted Average Effective Interest Rate – the Group's loan interest and hedging derivative costs per annum divided by total Group debt in issue at the period end.

Yield Compression – occurs when the net equivalent yield of a property decreases, measured in basis points.

AIFMD Disclosure

The Alternative Investment Fund Managers' Directive ("AIFMD"), requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within the Initial Public Offering ("IPO") Prospectus, which can be found on the Group's website at: www.regionalreit.com. There have been no material changes to the disclosures contained within the IPO document since its publication on 3 November 2015.

Management Agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited ("LSI") as Asset Manager and Toscafund Asset Management LLP ("Toscafund" or the "AIFM") as Investment Manager. LSI and Toscafund each receive half of an annual management fee on a scaled rate of 1.1 % of the European Public Real Estate Association ("EPRA") net asset value (NAV) up to £500 million and 0.9% above £500 million. A Performance Fee will also be paid to LSI and Toscafund.

The investment management agreement between the Company and Toscafund (the "Management Agreement") may be terminated by either party giving 12 months' written notice. No additional compensation is payable to the AIFM on the termination of this agreement other than the fees payable during the notice period.

Toscafund was authorised as an Alternative Investment Fund Manager ("AIFM"), by the UK's Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy ("the Policy"), which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Regional REIT Limited during the period 1 January 2017 to 31 December 2017 was £1,864,542 (2016: £2,338,044).

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM and LSI. The Board, through its Audit Committee and Management Engagement and Remuneration Committee (the "Committees"), has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. This is because of the good performance of the Group and because the remuneration of the AIFM is fair both in absolute terms and compared to that of managers of similar investment companies. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

Risk management by the AIFM

The AIFM has established and maintains a permanent and independent risk management function to ensure that there is a comprehensive and effective risk management policy in place and to monitor compliance with risk limits. The risk policy applicable to the Group covers the risks associated with the management of the investment portfolio and the AIFM reviews and approves the adequacy and effectiveness of the policy on at least an annual basis, including the risk management processes and controls and limits for each risk area. The AIFM sets risk limits that take into account the risk profile of the Group's investment portfolio, as well as its investment objectives and strategy. The AIFM monitors the risk limits, including leverage, and periodically assesses the portfolio's sensitivity to key risks. The AIFM reviews risk limit reports at regular meetings of its risk committee.

Principal risks and uncertainties

The Board considers that the following are the principal risks associated with investing in the Group: investment risk, market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 29 on pages 46 to 48 of the Financial Statements.

AIFMD Disclosure *(continued)*

Leverage

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. The Group has entered into five separate banking facilities during the period, drawing on £339.1 million of secured debt. All available debt facilities have been fully drawn.

Leverage has been measured in terms of the Group's exposure, and is expressed as a ratio of net asset value. The AIFMD requires this ratio to be calculated in accordance with both the Gross Method and the Commitment Method. Details of these methods of calculation can be found by referring to the AIFMD. In summary, these methods express leverage as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. The principal difference between the two methods is that the Commitment Method enables derivative instruments to be netted off to reflect hedging arrangements and the exposure is effectively reduced, while the Gross Method aggregates the exposure.

The AIFMD introduced a requirement for the AIFM to set maximum levels of leverage for the Group. The Company's AIFM has set a maximum limit of 400 for both the Gross and Commitment Methods of calculating leverage.

At 31 December 2017 this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	266	272

In accordance with the AIFMD, any changes to the maximum level of leverage set by the Group will be communicated via the Group's website to the Shareholders.

Company Information

Directors

Kevin McGrath (Chairman and Independent Non-Executive Director)
William Eason (Senior Independent Non-Executive Director, Audit Committee Chairman)
Daniel Taylor (Independent Non-Executive Director)
Frances Daley (Independent Non-Executive Director)
Stephen Inglis (Non-Executive Director)
Timothy Bee (Non-Executive Director)

Asset Manager

London & Scottish Investments Limited
 Venlaw
 349 Bath Street
 Glasgow
 G2 4AA

Investment Manager

Toscafund Asset Management LLP
 7th Floor
 90 Long Acre
 London
 WC2E 9RA

Company Secretary

Link Company Matters Limited
 Beaufort House
 51 New North Road
 Exeter
 Devon
 EX4 4EP

Registered office

Regional REIT Limited
 Mont Crevelt House
 Bulwer Avenue
 St. Sampson
 Guernsey
 GY2 4LH

Financial Adviser and Broker

Peel Hunt LLP
 Moor House
 120 London Wall
 London
 EC2Y 5ET

Legal Adviser to the Company

Macfarlanes LLP
 20 Cursitor Street
 London
 EC4A 1LT

Administrator

Jupiter Fund Services Limited
 Mont Crevelt House,
 Bulwer Avenue,
 St. Sampson,
 Guernsey
 GY1 3US

Sub-Administrator

Link Alternative Fund Administrators Limited
 Beaufort House
 51 New North Road
 Exeter
 Devon
 EX4 4EP

Auditor

RSM UK Audit LLP
 25 Farringdon Street
 London
 EC4A 4AB

Registrar

Link Market Services (Guernsey) Limited
 The Registry
 34 Beckenham Road
 Beckenham
 Kent
 BR3 4TU

Depository

Estera Depository (UK) Limited
 Innovation Centre
 Northern Ireland Science Park
 Queens Road
 Belfast
 County Antrim
 BT3 9DT

Valuers

Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield)
 125 Old Broad Street
 London
 EC2N 2BQ

Jones Lang LaSalle
 30 Warwick Street
 London
 W1B 5NH

Regional REIT Limited;

ISIN:
 GG00BYV2ZQ34

SEDOL:
 BYV2ZQ3

Legal Entity Identifier:
 549300D8G4NKLRIKBX73

Company Website

www.regionalreit.com

Forthcoming Events

Q1 2018 Trading Update, AGM Statement and Dividend Announcement	17 May 2018
2018 Annual General Meeting	17 May 2018
Q2 2018 Dividend Announcement	31 August 2018
2018 Interim Results Announcement	11 September 2018
Q3 2018 Trading Update and Dividend Announcement	16 November 2018

Note: all future dates are provisional and subject to change.

Shareholder Information

Share Register Enquires:

Phone: 0871 664 0300

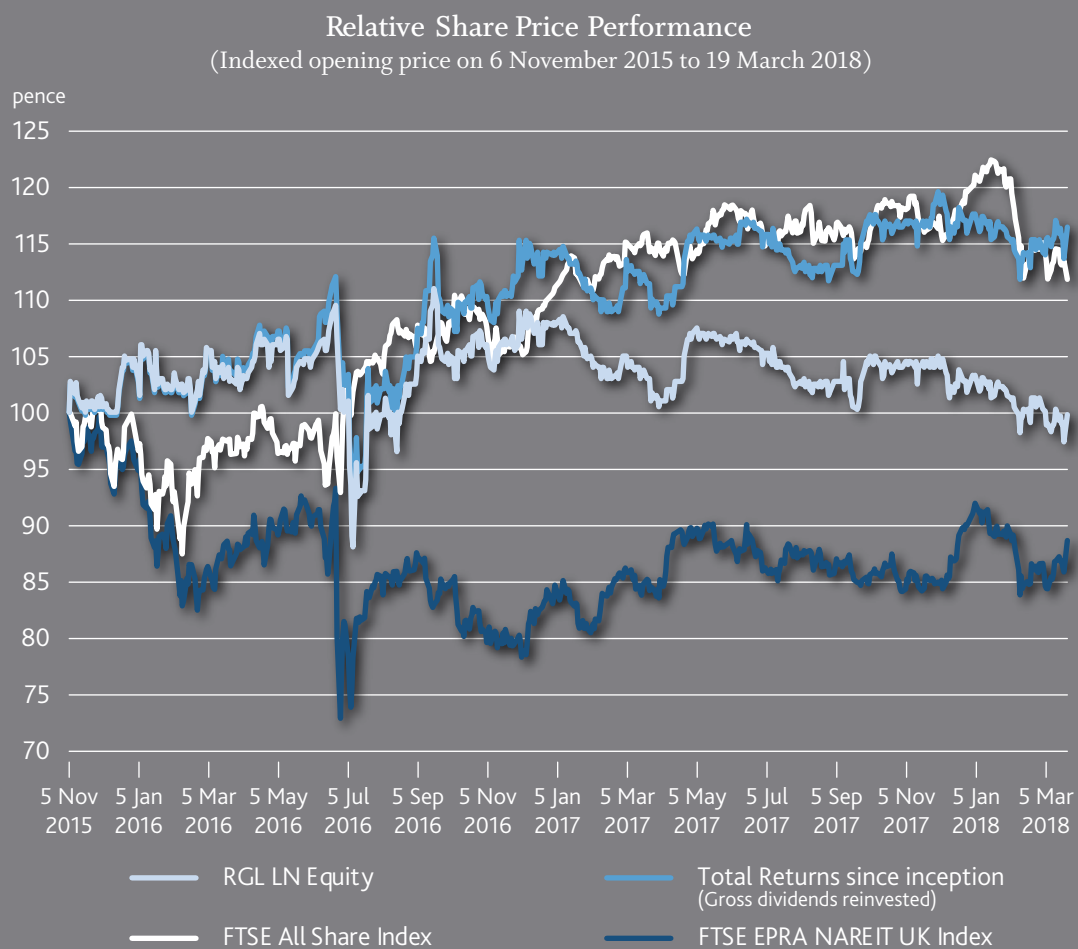
Calls cost 12p per minute plus your provider's access charge. If outside the United Kingdom call +44 371 664 0300. Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00–17:30 Monday to Friday (excluding public holidays in England and Wales). For shareholder enquiries please email shareholderenquiries@linkgroup.co.uk.

Dividend History

Period	Announcement Date	Ex-Date	Record Date	Payment Date	Total Dividend Pence per share (pps)
Q4 2017	22 February 2018	1 March 2018	2 March 2018	12 April 2017	2.45pps of which PID: 2.205pps of which non-PID: 0.245pps
Q3 2017	14 November 2017	23 November 2017	24 November 2017	22 December 2017	1.80pps of which PID: 1.62pps of which non-PID: 0.18pps
Q2 2017	31 August 2017	7 September 2017	8 September 2017	13 October 2017	1.80pps of which PID: 1.08pps of which non-PID: 0.72pps
Q1 2017	25 May 2017	8 June 2017	9 June 2017	14 July 2017	1.80pps of which PID: 1.26pps of which non-PID: 0.54pps
Q4 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	2.40pps of which PID: 2.1600pps of which non-PID: 0.2400pps
Q3 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	1.75pps of which PID: 1.6345pps of which non-PID: 0.1155pps
Q2 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	1.75pps of which PID: 1.5013pps of which non-PID: 0.2487pps
Q1 2016	27 May 2016	9 June 2016	10 June 2016	8 July 2016	1.75pps of which PID: 1.3579pps of which non-PID: 0.3921pps
Full Year 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	1.00pps of which PID: 0.6572pps of which non-PID: 0.3428pps

Notes

Share Price Performance



Source: Bloomberg data



Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH
www.regionalreit.com