



# Annual Report and Accounts

for the year ended 31 December 2018

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## About Us

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries<sup>1</sup> (the "Group") is a United Kingdom ("UK") based real estate investment trust that launched in November 2015. It is managed by London & Scottish Investments Limited ("LSI"), the Asset Manager, and Toscafund Asset Management LLP ("Toscafund"), the Investment Manager.

Regional REIT's commercial property portfolio is comprised wholly of UK assets and comprises, predominantly, offices and industrial units located in the regional centres outside of the M25 motorway. The portfolio is highly diversified, with 150 properties, 1,192 units and 874 tenants as at 31 December 2018, with a valuation of £718.4m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional Core Property and Core Plus Property assets. It aims to deliver an attractive total return to its Shareholders, targeting greater than 10% per annum ("pa"), with a strong focus on income supported by additional capital growth prospects.

### Office



*One & Two Newstead Court, Annesley*

### Industrial



*Juniper Park, Basildon*

### Retail/Other



*The Brunel Centre, Bletchley*

For more information visit the Group's website at [www.regionalreit.com](http://www.regionalreit.com).

<sup>1</sup> 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 (the "Law") 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.



## Headlines

### Financial Highlights

Dividend and NAV increased – driven by buying and selling well, coupled with intensive asset management – securing long-term income

£718.4m

Portfolio Valuation

£67.4m

Total Net Profit

115.2p

IFRS NAV per share

115.5p

EPRA NAV per share

8.05p

Dividend declared per share

38.3%

Net Loan to Value Ratio

3.8%

Weighted Average Cost of Debt  
("WACD")

3.5%

Weighted Average Cost of Debt  
(Excl. ZDPs)

6.4 years

Weighted Average Debt  
Duration

7.1 years

Weighted Average Debt  
Duration (Excl. ZDPs)

### Operational Highlights

Deliberately diversified portfolio by location and tenant – regions remain strong

150

Properties

1,192

Units

874

Tenants

£59.7m

Contracted Rent Roll

#### Diversified portfolio (by value)

82.0%

England & Wales

91.6%

Office & Industrial

#### Transactional activity (by value)

£73.3m

Property acquisitions (before  
costs)

£149.3m

Profitable property disposals  
(net of costs)

16

Number of properties

30

(plus 9 part sales)

Number of properties



## Active management building occupancy

87.3%

by value

85.5%

by area

89.4%

by EPRA ERV

5.4 years

WAULT to expiry

3.4 years

WAULT to first break

## Performance Highlights

The high dividend distributions are a major component of the total return

Dividends declared per share:

8.05p

2018

7.85p

2017

7.65p

2016

EPRA:

15.5%

EPRA NAV since Admission\*  
(Admission: 100p)

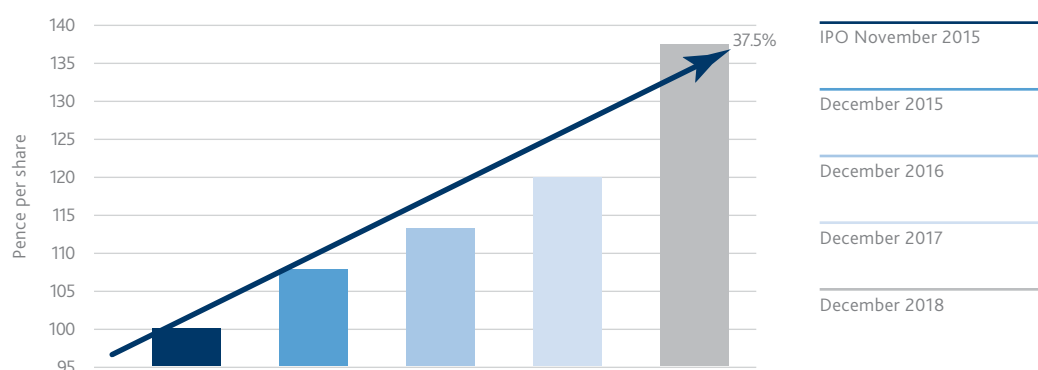
37.5%

EPRA Total Return  
attributable to Shareholders  
since Admission

Member of FTSE All Share Index since March 2016  
Member of FTSE EPRA NAREIT UK Index since June 2016

\* Admission: 6 November 2015

## Total Shareholder Return (from IPO) (EPRA NAV & dividend declared)



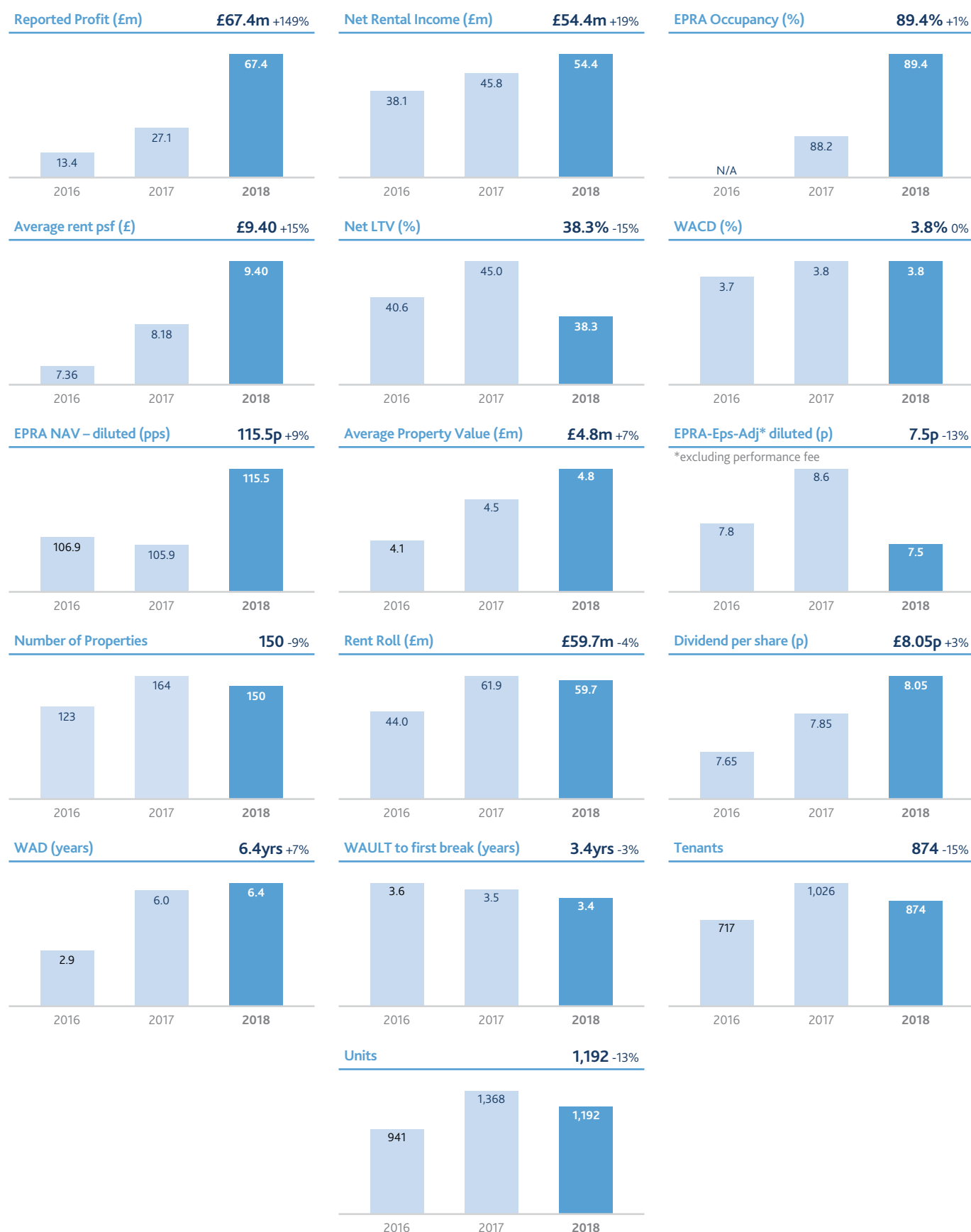


Property Name: 800 Aztec West, Bristol  
Sector: Office





## At a Glance





## A Year in Review

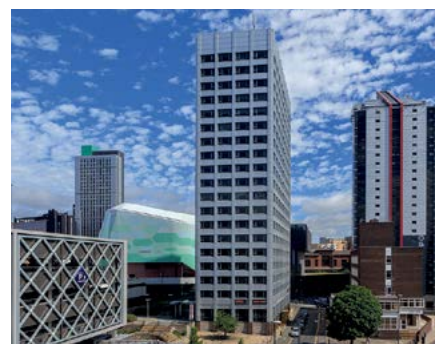
Overview 1 - 9



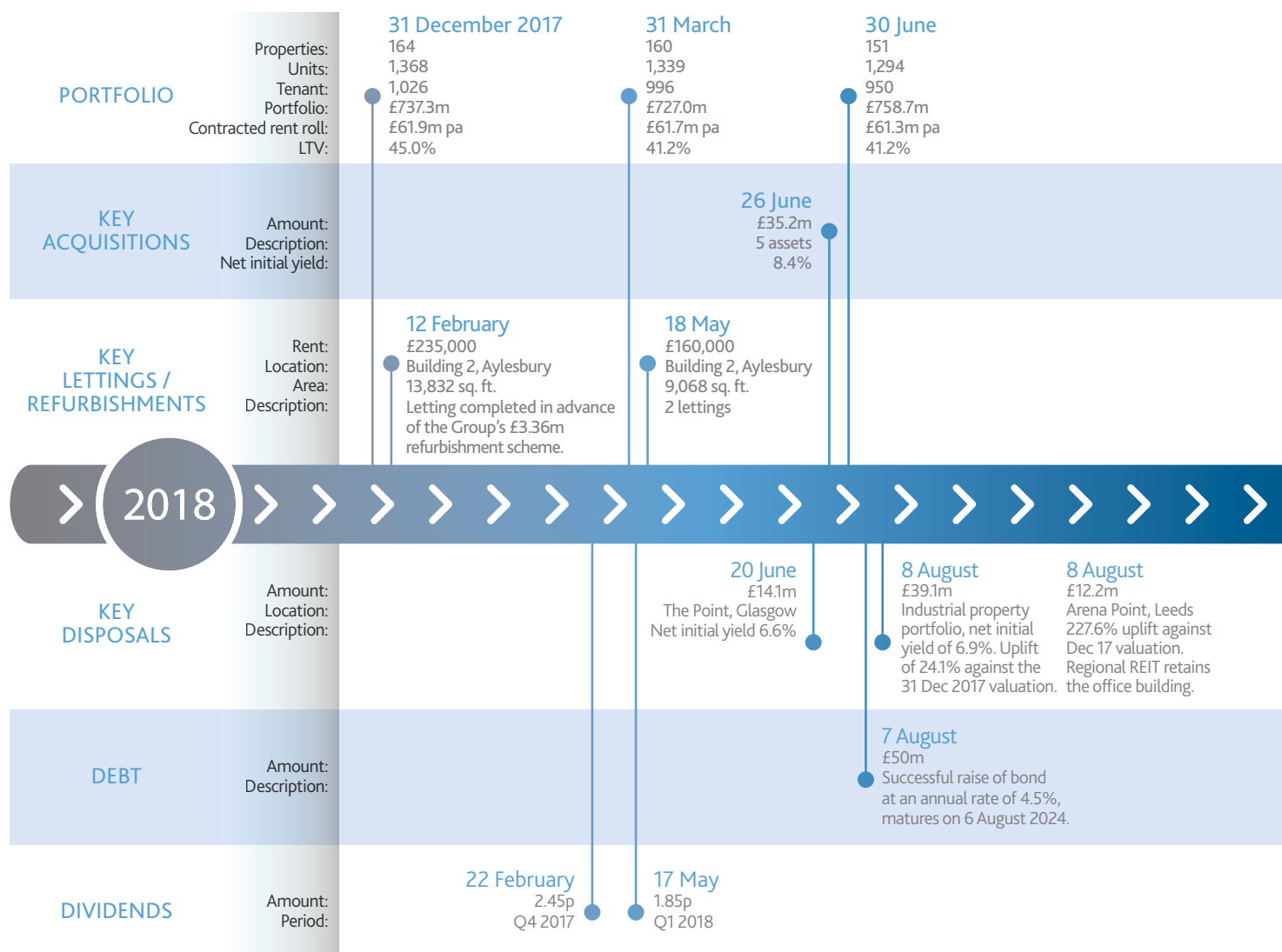
*HBOS Campus  
Aylesbury*



*Clearblue Innovation  
Bedford*



*Arena Point  
Leeds*





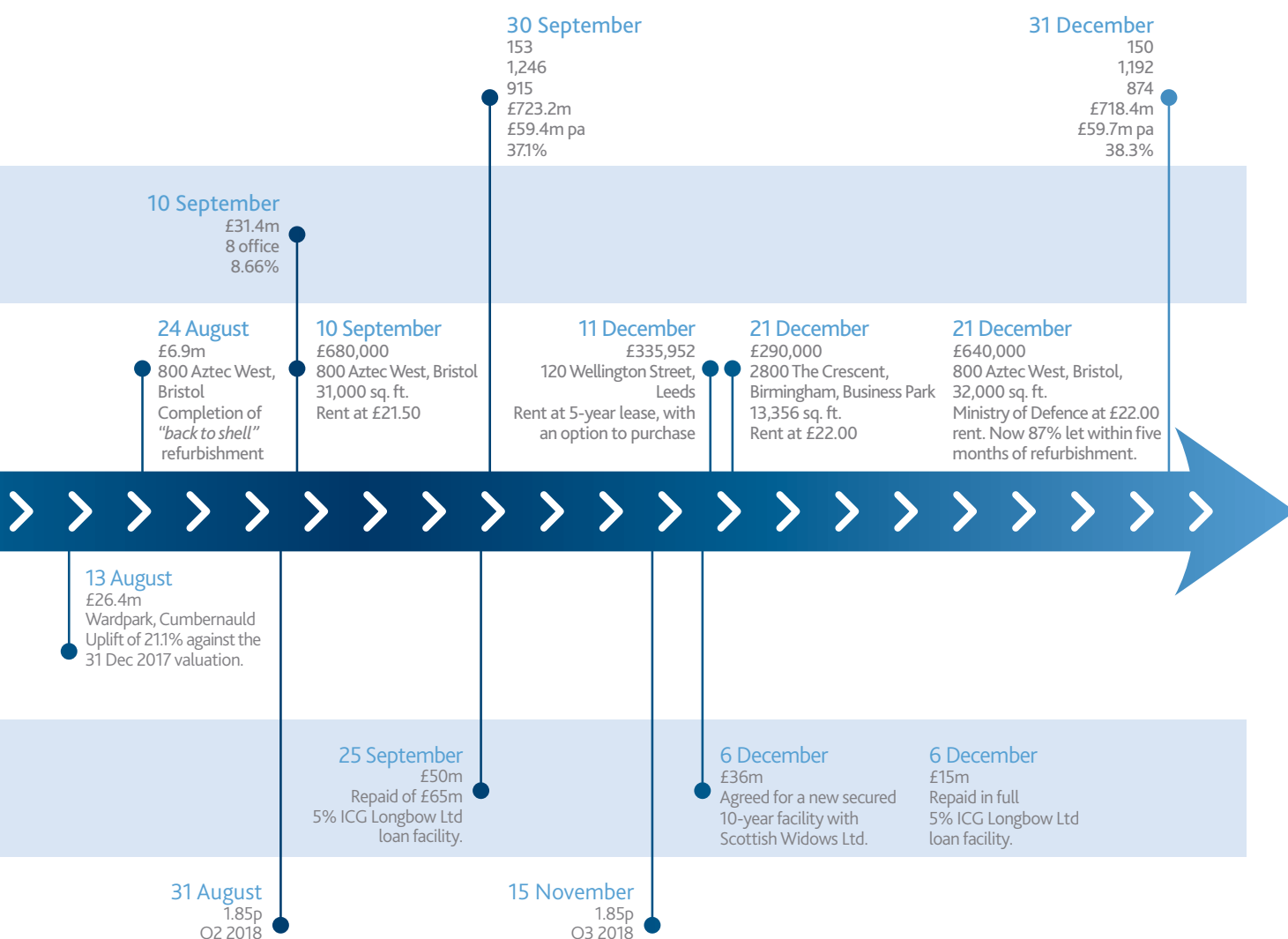
*III Acre, Princeton Drive  
Stockton On Tees*



*2800 The Crescent  
Birmingham*



*800 Aztec West  
Bristol*





Property Name: Portland Street, Manchester  
Sector: Office







9  
FOR RENT  
TO LET  
2,886-  
54,941  
SQ FT  
125K-150K  
WHR  
0201 828 1091

AYTOUN STREET

STUDY  
ENGLISH  
&  
ncg

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ncg



## Chairman's Statement

The Chairman's Statement forms part of the Strategic Report and covers the year ended 31 December 2018.



*"2018 was a good year for Regional REIT, generating a record profit of £67.4m. We have again delivered to our Shareholders a sector leading dividend with an attractive total return. In line with our strategic objectives, we have refreshed the portfolio and further increased occupancy, whilst significantly reducing the loan-to-value figure and the cost of our debt. We have created a strong platform which should underpin our momentum through both the economic and geopolitical uncertainty in the year ahead".*

**Kevin McGrath,**  
**Chairman**

It gives me great pleasure to report that the Group had another very active year and continued to achieve strong positive growth, with Group profit after tax of £67.4m (up 149% on 2017). EPRA company adjusted diluted earnings per share were 7.5 pence per share ("pps") (2017: 8.6pps), IFRS earnings 18.1pps (2017: 9.1pps) with a total dividend for the year of 8.05pps, an increase of c.3% on the 7.85pps dividend for 2017. We have worked closely with our tenants via our unique offering of integrated asset, property and finance teams, which add value to both rental income and capital appreciation.

We have continued to execute our strategy of acquiring properties where our asset management initiatives can be best employed, whilst deliberately ensuring the portfolio remains diversified both geographically and by tenant type. Occupancy rates by value continue to remain steady at 87.3% compared with 85.0% in 2017. During the year, the Group made opportunistic disposals of a substantial portion of its industrial assets and of properties which had met their individual asset management objectives to maximise realised returns. We have also promptly recycled much of the capital that has been generated into high quality income producing assets to minimise any potential cash drag effect going forward.

2018 was a very active year for transactions, with the vast majority completing in the first half of the year as targeted. The Group acquired properties with an aggregate value of £73.3m (before costs), disposed of properties for an aggregate value of £149.3m (net of costs), and undertook £7.0m of capital expenditure.

We executed the latest phase of our borrowing strategy in the earlier part of 2018. This has resulted in a reduction in the average cost of debt; increased and staggered maturity dates; and increased flexibility, whilst mitigating the risk of interest rate increases. In August 2018, the Group further diversified its funding base by the issue of a 4.5% retail eligible bond quoted on the London Stock Exchange Retail Bonds platform. The Group successfully raised £50.0m through the issue of this bond, which is due in August 2024.

The proceeds from the bond issuance have since been deployed in part to settle the £39.9m 6.5% Zero Dividend Preference Shares ("ZDPs") issued by the Company's indirect subsidiary, Regional REIT ZDP PLC, which matured on 9 January 2019, and also the early repayment of the Company's £65m ICG Longbow facility. The remaining £13m balance of the ICG Longbow facility, at a rate of 5.0%, was repaid during the year with a new £36.0m 10-year facility from Scottish Widows at a rate of 3.4% and proceeds from property disposals.

These successful initiatives resulted in a reduction in the Group's weighted average cost of debt including hedging costs, from c.3.8% at 31 December 2018 (31 December 2017: 3.8%) to 3.5% following the repayment of the ZDPs on 9 January 2019.

In line with the Group's strategy for the year, we reduced our overall net borrowings to 38.3% of gross investments properties as at 31 December 2018. This was considerably lower than the year end comparative for 2017 of 45.0% and was predominately as a result of the realised gains on the disposal of properties, coupled with the increase in property valuations. We continue to target a ratio of approximately 40%.

The combination of the above initiatives has positioned the Group well for the next stage of its development over the short to medium term as it continues to successfully execute its proven business model.

### Market Environment

Following a strong start to the year, investment in the regional markets continued at pace in the second half of 2018. In the final quarter of 2018, investment volumes in the regions outside of London reached £5.6 billion, up 8% on the previous quarter and 13% above the quarterly average. This brought total investment in the regional markets in 2018 to £21.3 billion, the highest figure recorded since 2006.

Increased investment has been underpinned by strong occupier fundamentals in both the office and industrial markets, with both markets witnessing record levels of up-take in 2018. Overseas investment in the UK property markets accounted for almost half (49%) of total investment in 2018, according to data from CoStar<sup>2</sup>. Despite ongoing uncertainty surrounding Brexit, overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2018 reaching £8.1 billion, 16% higher than the five-year average.

<sup>2</sup> CoStar UK Commercial Property Investment Review Q4 2018

## Chairman's Statement (continued)

The Asset Manager continues to see robust occupational demand in the regional office markets with high rates of tenant retention as well as good levels of rental growth. The Asset Manager has taken advantage of historically strong pricing for light industrial assets with tactical and opportunistic sales. The proceeds of disposals have been recycled into regional office assets which complement the diversity of the tenant base.

Given the overarching backdrop of the Brexit negotiations, the Board remains supportive of the Asset Manager's vigilant and opportunistic approach to acquisitions and disposals, whilst continuing to grow underlying rental income and responding to the needs of our tenants.

### Dividends

The dividend is the major generator of the total return. The Company declared total dividends of 8.05pps for the year, comprising of three quarterly dividends of 1.85pps each, and a fourth quarterly dividend of 2.50pps, an increase of c.3% on the previous year's total dividend. This represented a yield of 8.7% at a share price of 92.50p on the close of 31 December 2018.

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

### Shareholder Engagement

The Company has continued to develop its relations with investors, engaging closely with its Shareholders. The Company's website ([www.regionalreit.com](http://www.regionalreit.com)) was updated during the latter half of 2018 to further enhance communications with Shareholders.

### Board of Directors

I am grateful to my fellow Directors for their skills and expertise through this very active year, during which we welcomed Frances Daley as an Independent Non-Executive Director on 1 February 2018. Frances has brought extensive financial PLC experience to the Board.

Following an internal review of the Board's effectiveness and as part of a drive to ensure we evolve appropriately with the development of the Group, on 20 June 2018 Frances replaced William Eason as the Chair of the Audit Committee. William was appointed as the Chair of the Company's Management, Engagement and Remuneration Committee and remains the Senior Independent Non-Executive Director. No other significant changes occurred during the year and the view of the Board is that the governance structure of the Group operates effectively with a positive and open culture. Corporate governance remains a key focus of the Board and I am satisfied that we continue to comply with the 2016 edition of the Association of Investment Companies Code of Corporate Governance (the "AIC Code"). Further details on the Company's compliance with the AIC Code can be found in the Corporate Governance Statement on page 68.

The Board, with the assistance of the Company Secretary, will be undertaking a full review of our governance against the 2019 version of the AIC Code, published in February 2019, which applies to our financial year commencing 1 January 2019, and we will report further in due course.

The Board has been pleased with the performance of both the Asset Manager and Investment Manager, as well as the timing and execution of both property transactions and borrowings in an uncertain political and economic environment.

### Strong Relationships

We are a long-term business and ultimately the experience of our tenants, suppliers and the communities in which we operate will influence our performance. Our overriding aim is to meet the needs and expectations of our customers, coupled with endeavouring to maintain strong working relationships with our suppliers, whilst ensuring we are mindful of our environmental impact.

### Performance

The EPRA total accounting return performance since listing on 6 November 2015 has amounted to 37.5%. The Company has generated an annualised total shareholder return of 10.6% with a 2018 total shareholder return of 16.6%. Total shareholder return for 2018 was achieved by our successful individual asset management plans coming to fruition and associated profits being realised, together with unrealised investment property gains.

In accordance with the management arrangements, the Asset Manager and Investment Manager are each entitled to a 50% share of a performance fee of 15% of total shareholder return in excess of an annual hurdle rate of 8%. The initial performance fee period ran from 6 November 2015 to 31 December 2018 resulting in an inaugural performance fee crystallisation of £8.9m. Further details of the performance fee can be found on pages 54 and 55.

### Subsequent Events

On 10 January 2019, the Company announced the repayment of the Regional REIT ZDP Plc 6.5% ZDP shares in full, totalling £39.9m, and in accordance with its Articles of Association has been placed into liquidation. This resulted in a reduction in the weighted average cost of borrowing (including hedging costs) from c. 3.8% to c. 3.5%.

On 4 February 2019, the Company announced the acquisition of Norfolk House in Birmingham for £20.0m, with a net initial yield of 7.9%. The building is 98.8% occupied with a net income of c. £1.69m.

### Outlook

The outlook for the Group remains positive. We are a long-term business and whilst we remain mindful of the uncertain political and economic backdrop, we are also conscious of market cycles and customers' trends, and our confidence is underpinned by the positioning of our diversified asset base and customer orientated business model.

For the remainder of 2019, the Group is confident of achieving good returns for Shareholders, by maintaining the momentum of asset management initiatives and continuing to grow income streams, all of which should provide further opportunities for capital value enhancement. The Group remains alert to the opportunities for potential acquisitions or disposals which may arise in the near future.

### Kevin McGrath

Chairman and Independent  
Non-Executive Director

27 March 2019



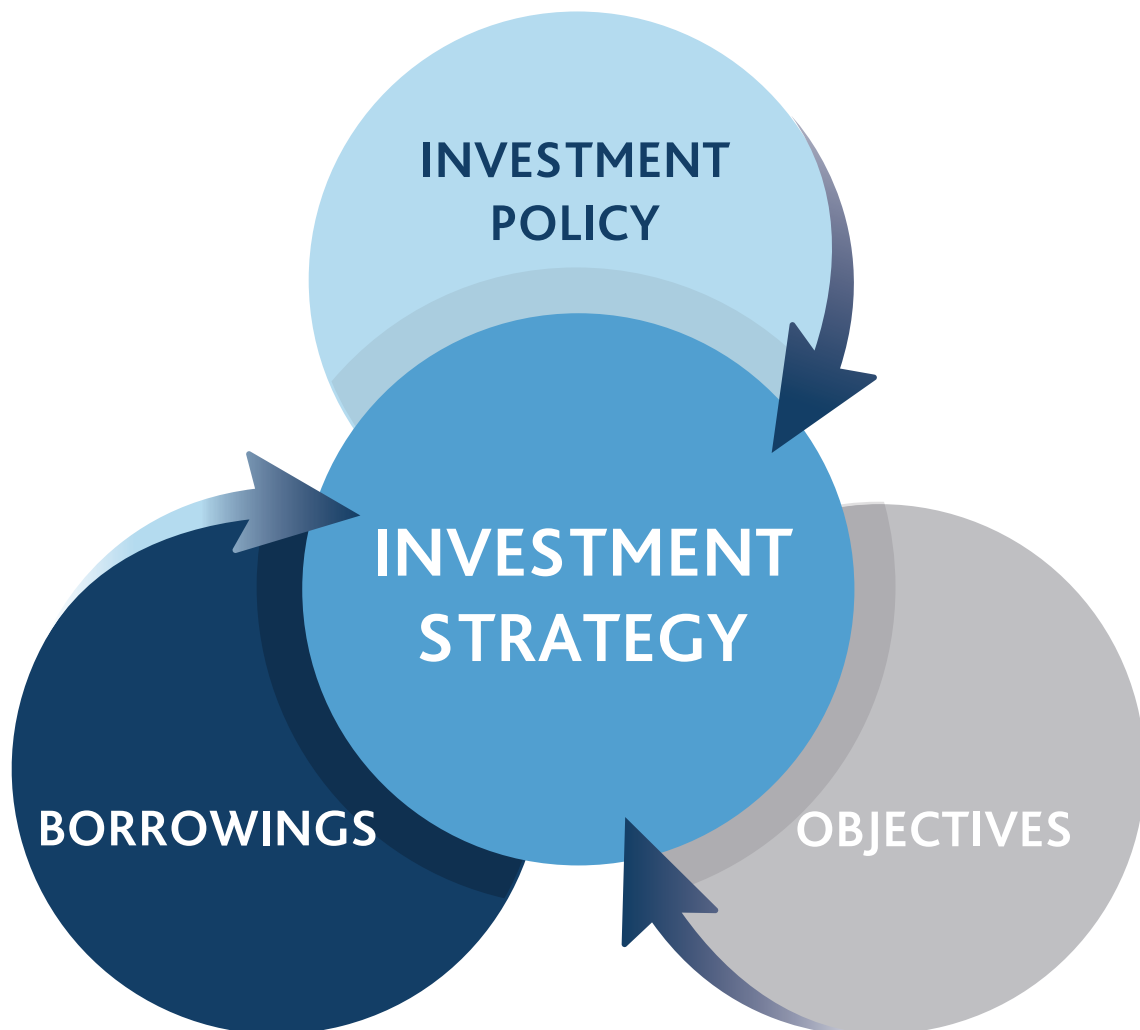






## Investment Strategy and Business Model

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 and Business Model (continued)



### INVESTMENT STRATEGY

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

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

The Investment Objective of the Company is to deliver an attractive total return to Shareholders of greater than 10% 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

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%.

## Investment Strategy and Business Model (continued)



### Regions Remain Strong



#### OUR APPROACH

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

Regional offices have outperformed central London offices, delivering superior returns of 11.5% in 2018 compared to 5.3% – a trend that has been witnessed over the last three years.



#### 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 region's 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 37.5% since IPO and 10.6% annualised in 2018 (8.8% in 2017).**



## Investment Strategy and Business Model (continued)



### Opportunistic Approach to the Property Market



#### OUR APPROACH

A focus on exploiting pricing inefficiencies and mismatches between regional core and core plus 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 2018 totalled £73.3m (before costs) and disposals (net of costs) of £149.3m, with average net initial yields of c. 8.7% and c. 5.7% respectively.**

**During 2018, debt facility payments totalled £101.5m, new borrowings were £102.9m, resulting in total borrowings of £380.3m. The average funding costs (including hedging) remained in line with 2017 at 3.8%.**

## Investment Strategy and Business Model (continued)



### 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 are based on identifying strong underlying fundamentals, including *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 £59.7m as at end 2018 (31 December 2017: £61.9m).**

**Average rents have increased to £9.40 per sq. ft. (31 December 2017: £8.18 per sq. ft.)**

**Declared dividends per share of 8.05p for 2018 (7.85p in 2017).**



### 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 and remains close to its tenants, with an immediate understanding of their requirements and 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 £7.0m in 2018 (£13.4m in 2017); much capital expenditure is recovered through dilapidations, service charges or improved property rental income.**

**Active and intense asset management to improve occupancy: from 85.0% (by value) (31 December 2017) to 87.3% (31 December 2018).**



## Investment Strategy and Business Model (continued)



### 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.

**150 properties, 1,192 units and 874 tenants as at 31 December 2018.**

**The largest single property is only 4.6% of the Gross Investment Properties value and the largest tenant only 2.7% of Gross Rental Income.**

**England & Wales represent 82.0% of the Gross Investment Properties value (31 December 2017: 77.6%); offices and industrial sites are 91.6% (31 December 2017: 90.6%). Scotland represents the remainder.**



### 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 180 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 64 staff employed, as at 31 December 2018, working on Regional REIT.**

Property Name: Ashby Park, Ashby De La Zouch  
Sector: Office









## Asset and Investment Managers' Report

*"Regional REIT has had another strong year. Our strategic decision to sell c.47% of our industrial portfolio into what we identified as an overheated market, together with some non-core assets, has generated substantial profits (c. 21%) over our December 2017 valuation. We continue to identify off-market acquisition targets offering value and have been able to re-invest in quality assets with additional asset management opportunities. We continue to increase the geographic spread of our assets and remain focussed on creating as wide a spread as possible in the quality and diversity of our tenants. We have in the year successfully delivered a number of asset management projects, most notably the refurbishment of the office building at Aztec West, and we have recently announced lettings for c. 86% of the building.*

*We continue to implement our successful approach to intensive asset management with our initiatives again achieving increased occupancy. We have yet to see any notable difference to occupier demand for our assets as a result of the continuing Brexit negotiations but are monitoring events and can react if necessary to maintain and improve occupancy of the Company's assets. Our unique management platform ensures that we will be better placed to deal with any changes resulting from this better than our rivals and peer group. We remain confident that our continuing strategy and the strength of our core regional office and light industrial property markets will continue to deliver strong income and capital growth opportunities for our investor."*

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



### Highlights from 2018:

- Occupancy rate (by value) up 2.7% to 87.3% as at 31 December 2018, an increase from 85.0% from the previous 12 months.
- Average rent by let sq. ft. up by 14.9% from £8.18 per sq. ft. in December 2017 to £9.40 per sq. ft. in December 2018.
- Valuation increase of 4.5% on a like-for-like basis from the prior year, adjusting for capital expenditure and disposals during the period.
- Increase of retention of income to 74% (by value) as at 31 December 2018, up from 64% in December 2017.
- The lease renewals throughout 2018 achieved an uplift in contracted rental income of 4.2%.

2018 has been another incredibly active year for the Company, which has been reflected in a strong set of results. Disposals in 2018 totalled £149.3m (net of costs) at an average net initial yield of c. 5.7% (December 2017: 6.3%). The Group took a countercyclical view regarding our industrial portfolio and continued our proactive sales programme by disposing of 23 industrial properties during the year. We have also continued to redeploy proceeds throughout 2018 and carefully select assets where we can add value and drive yields, with property acquisitions in 2018 of £73.3m (before costs), with a weighted average net initial yield of c. 8.7% (December 2017: 7.9%). As a result, we have demonstrated our ability to identify arbitrage opportunities between disposal yields and acquisition yields, whilst maintaining our income accretive strategy. Our outlook for 2019 is optimistic, despite wider political and economic uncertainty and, looking forward, the Company will continue to identify value in the market with a focus on income.

### Investment Activity in UK Commercial Property

Investment in the UK commercial property market reached £61.8 billion in 2018, according to research from Lambert Smith Hampton ("LSH")<sup>3</sup>, 3% higher than 2017 volumes and 4% above the five-year average, resulting in the second largest annual figure in a decade (after 2015). Although investment in the final quarter of 2018 was slightly lower than Q3 2018 volumes, investment in H2 2018 reached £33.6 billion, indicating an increase of 19% when compared to H1 2018, which helped boost overall investment figures for 2018. 2018 proved to be another strong year for investment in portfolio deals, with investment totalling £14.0 billion in 2018, up 3% on 2017. Investment in portfolios was particularly strong in the final quarter of 2018, reaching £4.0 billion, 10% higher than the five-year quarterly average.

Following a strong start to the year, investment in the regional markets continued at pace in the second half of 2018. In the final quarter of 2018, investment volumes in the regions outside of London reached £5.6 billion, up 8% on the previous quarter and 13% above the quarterly average. This brought total investment in the regional markets in 2018 to £21.3 billion, the highest figure recorded since 2006. LSH research notes that annual investment in 2018 was above the average volume in each of the UK's regional markets, with the largest increase in regional investment occurring in the North East and the East Midlands, with 2018 investment volumes 61% and 52% above average, respectively.

<sup>3</sup> <https://www.lsh.co.uk/-/media/files/lsh/research/2019/2019-01-10584-ukit-q42018.ashx?la=en&hash=818DC1417D4DD899079049E9CFECE3BBFCF19C4C>



## Asset and Investment Managers' Report (continued)

The previous evidence of strong regional investment throughout 2018 has been followed by muted investment at the beginning of 2019. The expected pre-Brexit "rush to market" appears to be followed by the expected period of potential investors taking a "wait and see" position. Provisional figures from Property Data shows a sharp decline of 43% in the volume of UK investment deals in the first two months of 2019 when compared to the same period in 2018<sup>4</sup>. Overall, Property Data recorded £4.29 billion of deals in the first two months of 2019, with the decline in investment volumes more significant in the central London office market. Additionally, data from Calastone reveals that real estate funds saw an outflow of £1.1 billion in the five months ending February 2019<sup>5</sup>.

### Quarterly Investment Volumes

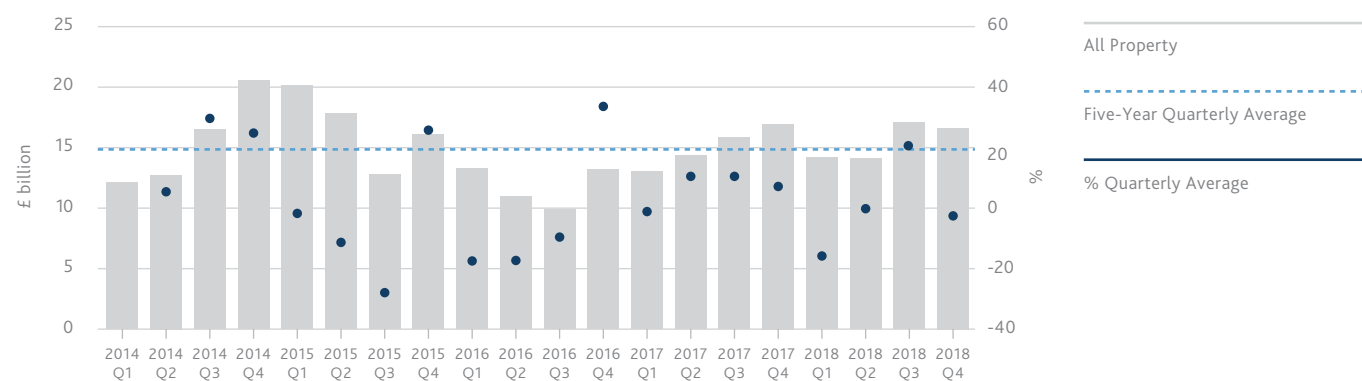


Figure 1: Lambert Smith Hampton (February 2019)

### 2018 Volumes vs Five-year Average

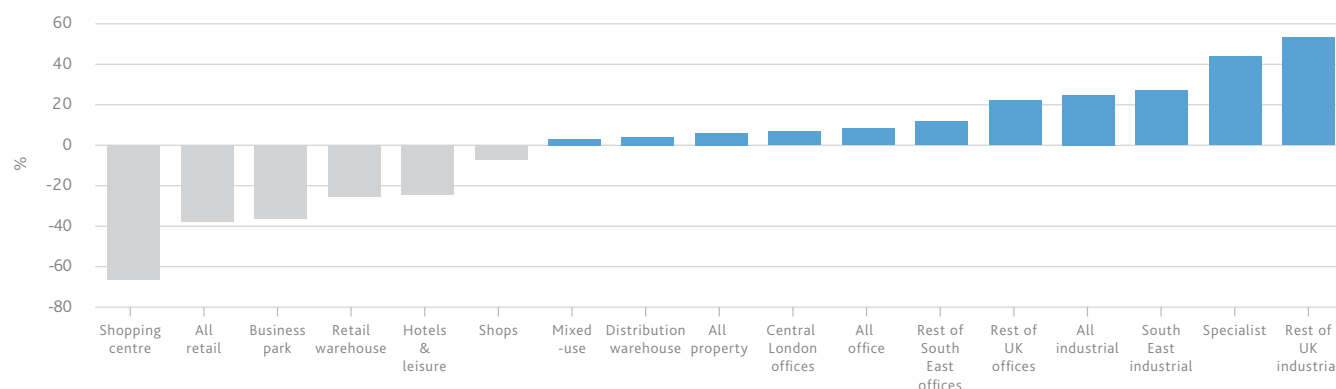


Figure 2: Lambert Smith Hampton (February 2019)

Overseas investment in the UK property markets accounted for almost half (49%) of total investment in 2018, according to data from CoStar<sup>6</sup>. Despite ongoing uncertainty surrounding Brexit, overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2018 reaching £8.1 billion, 16% higher than the five-year average. Figures from CoStar indicate that 2018 was a record year for capital inflows from South Korea and Singapore, which helped support overall Far East investment during the year despite a fall in spend from China/Hong Kong. Conversely, North American investors became net sellers in 2018. LSH estimate that total overseas investment for 2018 reached £27.9 billion, 33% higher than the 10-year average.

Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior returns of 11.5% in 2018 in comparison to central London office returns of 5.3% – a trend that has been witnessed over the past three years. Outperformance reflected better capital returns (driven by rental growth) as well as rental growth of 2.2% in the regions, which was above the 1.1% witnessed in the Central London office market. The Asset Manager expects this trend to continue, enabling Regional REIT to capitalise on greater returns as a result of the Group's size and spread of assets throughout the UK's regional markets.

<sup>4</sup> <https://www.propertyweek.com/news/investment-volumes-plunge-ahead-of-brexit/5101760.article>

<sup>5</sup> <https://www.propertyweek.com/news/real-estate-funds-see-five-consecutive-months-of-capital-outflows-/5101749.article>

<sup>6</sup> CoStar UK Commercial Property Investment Review Q4 2018

## Asset and Investment Managers' Report (continued)

### Central London & Regional Office Returns (12 months to December 2018)

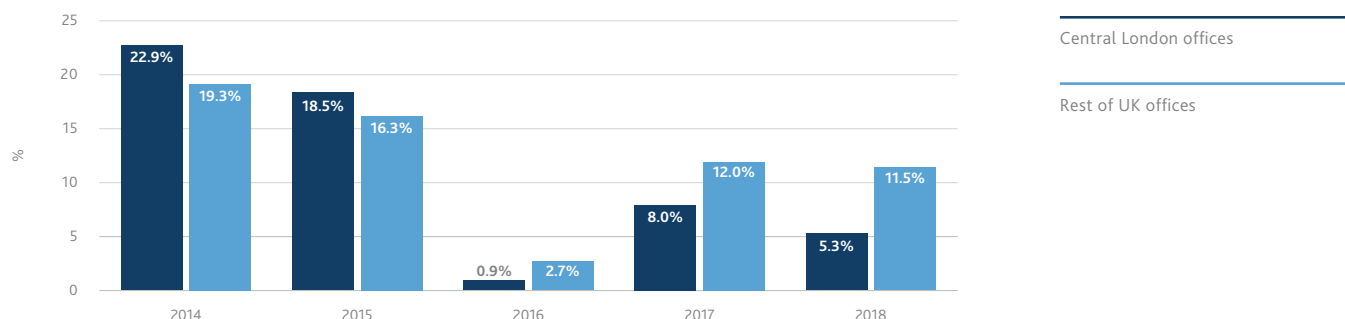


Figure 3: CBRE (February 2019)

### Total Return Relatives: RoUK vs Central London Offices



Figure 4: CBRE (February 2018)

### Occupational Demand in the UK Regional Office Market

Savills estimates that take-up of office space across nine regional office markets<sup>7</sup> reached 7 million sq. ft., 3% higher than the 6.8 million sq. ft. recorded in 2017, and 25% above the 10-year average. Occupational demand was driven by the public sector, with another strong year of take-up from Central Government, which included the final two Government Property Unit (GPU) deals<sup>8</sup>, resulting in the public sector accounting for the highest proportion of take-up at 18%. Following the public sector, the technology, media & telecoms sector and the business & consumer services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 11% and 10% 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 activity<sup>9</sup>. Additionally, GVA predicts that take-up in the flexible workspace sector will be over 0.5 million sq. ft. in 2019 for the third year in a row.

According to Cushman & Wakefield, a lack of quality stock in the regional cities will continue to put a downward pressure on vacancy levels. The supply of offices in the core regional markets remains low. Savills<sup>10</sup> research indicates that occupier demand continues to reduce availability, with total availability falling by 14% in 2018 to 11.5 million sq. ft. across nine regional office markets, 27% below the 10-year average. This marks the fifth consecutive year that supply of office stock has declined.

The most recent Deloitte Crane Survey (January 2019), suggests heightened construction activity in certain regional cities (Birmingham, Manchester, Leeds and Belfast); with a total of approximately 4.7m 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, with Cushman & Wakefield<sup>11</sup> highlighting that the vacancy rate for new and refurbished stock in the regions is only 1.9%, which has driven pre-let activity. The expectation is that demand for pre-lets will increase across the regional markets. According to GVA, build cost inflation and future economic uncertainty are continuing to restrict new development<sup>12</sup>.

<sup>7</sup> Nine regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds and Manchester

<sup>8</sup> <https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf>

<sup>9</sup> <http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/uk/united-kingdom-office-snapshot>

<sup>10</sup> Savills, Regional Office Market Q4 2018

<sup>11</sup> Cushman & Wakefield, UK Pre-Let Report- Race for Space 2019

<sup>12</sup> <https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf>



## Asset and Investment Managers' Report (continued)

The Asset Manager believes that the current supply/demand dynamics within the regional office markets will remain unchanged and that the lack of supply for prime stock will continue to drive demand for recently refurbished and good quality core and core plus office space in good locations throughout the regional markets.

### Demand: Annual Office Take-Up by Region

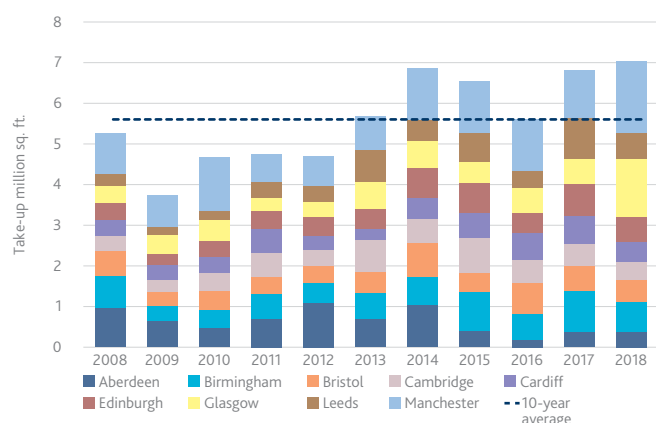


Figure 5: Savills (February 2019)

### Rental Growth in the UK Regional Office Market

A lack of availability in the Big Nine regional markets has put an upward pressure on headline rents as well as a downward pressure on rent incentives, which has led to an increase of 4.1% in city centre net effective rents over the last 12 months, according to GVA<sup>13</sup>.

The CBRE Monthly Index shows that rental value growth for the rest of UK office markets in the 12 months ending December 2018 was 2.2%, higher than the 1.1% rental growth for central London offices. Cushman and Wakefield expect rental growth in the regions to continue to be fuelled by strong demand, but anticipate that rents in core London markets will remain under pressure<sup>14</sup>. Similarly, Colliers International expects the rest of the UK and South East office markets to sustain positive rental growth over the 2019-2022 period<sup>15</sup>. The Asset Manager believes regional office markets will continue to experience rental growth and that supply shortages for Grade A space will result in an uplift in rents for good quality core and core plus properties.

### Regional REIT's Office Assets

Occupancy by value of the Group's regional offices rose to 86.5% (31 December 2017: 83.2%); occupancy by area was 84.4% (31 December 2017: 82.4%). A like-for-like comparison of the Group's regional offices occupancy by value, 31 December 2018 versus 31 December 2017, shows that occupancy increased to 85.3% (31 December 2017: 84.1%). WAULT to first-break was 3.0 years (31 December 2017: 3.1 years); like-for-like WAULT to first break was 2.9 years (31 December 2017: 3.1 years).

### Supply: Annual Office Supply by Region

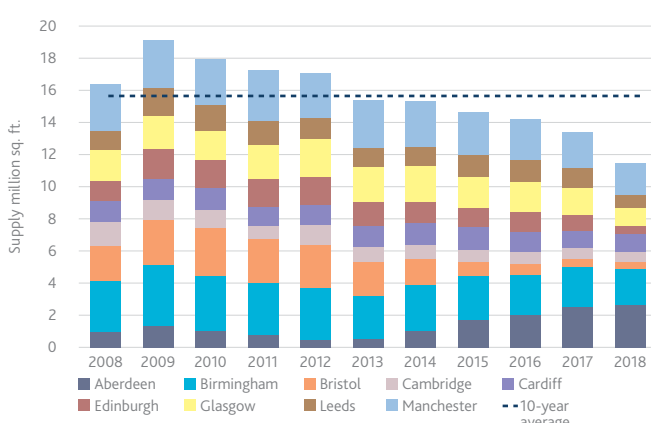


Figure 6: Savills (February 2019)

### Occupier Demand Strengthens in the UK Industrial Market

Take-up in the final quarter of 2018 totalled 11.1 million sq. ft., pushing annual take-up during 2018 to 35.9 million sq. ft., a 30% increase from 2017 levels and the highest annual take-up recorded since 2008. Although the same number of deals took place in both 2018 and 2017, take-up increased by 30% due to a number of large 'built to suit' deals increasing the average deal size to 191,000 sq. ft.. CBRE<sup>16</sup> research shows that 37% of take-up was within the East Midlands – the highest proportion for a region since 2006. Following this, Yorkshire, North East, and South East all recorded a strong performance in terms of take-up throughout 2018.

Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 18.8% of total retail sales in the UK, according to the ONS<sup>17</sup>. Cushman and Wakefield research highlights that eRetailers were the most active in terms of take-up throughout 2018, accounting for 26% of annual take-up.

In terms of development, CBRE indicates that availability levels rose in 2018 due to an increase in speculative development schemes. Cushman & Wakefield research suggests that for 2019, there is approximately 6.9 million sq. ft. of space under construction, 17% above the five-year average.

<sup>13</sup> <https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf>

<sup>14</sup> <http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/uk/united-kingdom-office-snapshot>

<sup>15</sup> [https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers\\_international\\_real\\_estate\\_investment\\_forecasts\\_q4\\_2018.pdf?la=en-GB](https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_real_estate_investment_forecasts_q4_2018.pdf?la=en-GB)

<sup>16</sup> <https://www.cbre.co.uk/research-and-reports/United-Kingdom-Logistics--The-Property-Perspective-H2-2018>

<sup>17</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/january2019#whats-the-story-in-online-sales>

## Asset and Investment Managers' Report (continued)

### Industrial Rental Growth Continues

Research by BNP Paribas Real Estate illustrates that competition for standard industrial space led to rental growth in 2018. The research compared data from the monthly MSCI Index for December 2018, which showed rental growth of 4.6% for the 12 months to the end of December 2018, indicating acceleration from the 1.3% rental growth recorded for the three months to June 2018. Colliers International estimate that further rental growth in the industrial market during 2019 is likely<sup>18</sup>.

The Investment Property Forum UK Consensus Forecast, February 2019, anticipates rental growth in the industrial sector of 2.0% in 2019, providing evidence of sustained growth. Additionally, the IPF UK Consensus Forecast predicts 2.2% and 2.0% average rental growth rates respectively for 2020 and 2021. In comparison, the IPF UK Consensus Forecast predicts that the All Property average annual rental value growth expected for 2019 is 0.2%.

### Regional REIT's Industrial Assets

Occupancy by value of the Group's industrial sites increased to 88.6% (31 December 2017: 87.9%); occupancy by area also increased to 88.0% (31 December 2017: 86.4%). A like-for-like comparison of the Group's industrial sites' occupancy by value, 31 December 2018 versus 31 December 2017, shows that occupancy fell to 87.7% (31 December 2017: 89.1%). In part, this reduction in like-for-like occupancy is due to the Group's sales programme during the year, which included the disposal of some fully let mature assets as well as some vacant properties. The reduction can also be attributed to one lease expiry at Southview/Southstar, Aberdeen (20,825 sq. ft), which was fully anticipated in our projections. WAULT to first break was 5.4 years (31 December 2017: 4.1 years); like-for-like WAULT to first break was 5.1 years (31 December 2017: 5.1 years).

<sup>18</sup> [https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers\\_international\\_property\\_snapshot\\_january\\_2019.pdf?la=en-GB](https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_property_snapshot_january_2019.pdf?la=en-GB)



## Asset and Investment Managers' Report (continued)

### Property Portfolio

As at 31 December 2018, the Group's property portfolio was valued at £718.4m (31 December 2017: £737.3), with contracted rental income of £59.7m (31 December 2017: £61.9m), and an occupancy rate by value of 87.3% (31 December 2017: 85.0%). Occupancy by area amounted to 85.5% (31 December 2017: 84.3%). EPRA occupancy increased to 89.4% (31 December 2017: 88.2%).

On a like-for-like basis, 31 December 2018 versus 31 December 2017, occupancy by value was 86.4% (31 December 2017: 85.5%) and occupancy by area was 84.6% (31 December 2017: 84.4%).

There were 150 properties (31 December 2017: 164), in the portfolio, with 1,192 units (31 December 2017: 1,368) units and 874 tenants (31 December 2017: 1,026). If the portfolio was fully occupied at Cushman & Wakefield's and Jones Lang LaSalle's view of market rents, the contracted rental income would be £70.0m per annum as at 31 December 2018 (31 December 2017: £73.8m).

As at 31 December 2018, the net initial yield on the portfolio was 6.5% (31 December 2017: 6.5%), the equivalent yield was 8.2% (31 December 2017: 8.3%), and the reversionary yield was 8.8% (31 December 2017: 9.2%).

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy			WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
					(by value) (%)	(by area) (%)	(EPRA) (%)						Net initial	Equivalent	Reversionary
Office	106	546.4	76.1	4.32	86.5	84.4	88.2	3.0	46.2	12.66	55.0	126.35	6.6	8.4	9.2
Industrial	17	111.3	15.5	2.46	88.6	88.0	94.5	5.4	7.9	3.63	9.1	45.18	5.1	7.2	7.2
Retail	25	50.8	7.1	0.52	92.1	89.8	92.3	3.9	5.0	10.55	5.1	97.22	8.3	8.5	8.8
Other	2	9.9	1.4	0.12	94.9	59.1	95.0	8.3	0.7	9.85	0.8	80.28	6.3	7.4	7.3
<b>Total</b>	<b>150</b>	<b>718.4</b>	<b>100.0</b>	<b>7.43</b>	<b>87.3</b>	<b>85.5</b>	<b>89.4</b>	<b>3.4</b>	<b>59.7</b>	<b>9.40</b>	<b>70.0</b>	<b>96.64</b>	<b>6.5</b>	<b>8.2</b>	<b>8.8</b>

### Property Portfolio by UK Region

Location	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy			WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
					(by value) (%)	(by area) (%)	(EPRA) (%)						Net initial	Equivalent	Reversionary
Scotland	40	129.0	18.0	1.66	84.6	78.6	84.6	3.4	12.0	9.22	14.6	77.62	7.1	9.3	10.6
South East	30	213.0	29.7	1.55	94.2	94.9	95.8	3.0	17.4	11.83	18.9	137.54	6.9	7.4	7.5
North East	22	98.9	13.8	1.31	82.6	87.6	87.5	3.1	7.9	6.88	10.0	75.36	6.1	8.7	9.4
Midlands	30	111.8	15.6	1.28	90.0	88.9	90.5	3.1	9.6	8.47	10.1	87.55	6.7	8.0	8.2
North West	14	76.4	10.6	0.94	75.1	74.7	82.8	5.6	5.3	7.52	7.8	81.43	5.0	8.8	9.4
South West	12	69.5	9.7	0.45	88.8	89.7	90.0	3.3	5.9	14.66	6.8	154.62	6.0	8.1	9.1
Wales	2	19.7	2.7	0.25	88.5	78.7	87.9	6.5	1.6	8.33	1.7	80.43	7.3	7.5	7.8
<b>Total</b>	<b>150</b>	<b>718.4</b>	<b>100.0</b>	<b>7.43</b>	<b>87.3</b>	<b>85.5</b>	<b>89.4</b>	<b>3.4</b>	<b>59.7</b>	<b>9.40</b>	<b>70.0</b>	<b>96.64</b>	<b>6.5</b>	<b>8.2</b>	<b>8.8</b>

Tables may not sum due to rounding.

## Asset and Investment Managers' Report (continued)

### Top 15 Investments (market value) as at 31 December 2018

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Let by rental value (%)	Annualised gross rent (£m)	% of Gross rental income	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, University of Glasgow	33.2	4.6	156,933	87.7	87.5	2.5	4.2	3.2
Juniper Park, Basildon	Industrial	Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd	29.3	4.1	277,228	98.4	97.0	2.0	3.4	1.3
Genesis Business Park, Woking	Office	Wick Hill Ltd, Alpha Assembly Solutions UK Ltd, McCarthy & Stone Retirement Lifestyles Ltd	24.9	3.5	98,359	100.0	100.0	1.9	3.3	2.7
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd	24.7	3.4	140,676	92.5	92.6	2.2	3.6	4.0
Hampshire Corporate Park, Eastleigh	Office	Aviva Health UK Ltd, The Royal Bank of Scotland Plc, Daisy Wholesale Ltd, Utilita Energy Ltd	19.7	2.7	85,422	99.2	99.5	1.4	2.4	1.7
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	17.2	2.4	73,292	86.7	86.3	1.3	2.2	4.2
One & Two Newstead Court, Annesley	Office	E.ON UK Plc	16.4	2.3	146,262	100.0	100.0	1.4	2.4	1.6
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	15.6	2.2	246,209	100.0	100.0	1.0	1.6	15.7
Columbus House, Coventry	Office	TUI Northern Europe Ltd	13.5	1.9	53,253	100.0	100.0	1.4	2.3	5.0
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd	13.3	1.9	91,752	100.0	100.0	1.1	1.8	1.8
Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd	13.3	1.8	54,959	100.0	96.9	0.8	1.3	2.5
Tokenspire Business Park, Beverley	Industrial	QDOS Entertainment (Pantomimes) Ltd, Sargent Electrical Services Ltd, TAPCO Europe Ltd	11.0	1.5	322,211	97.4	96.7	0.9	1.4	0.9
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Fore Digital Ltd	11.0	1.5	141,320	93.7	92.7	1.2	2.0	4.3
Oakland House, Manchester	Office	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd	10.7	1.5	167,247	77.9	77.1	1.0	1.8	4.1
The Brunel Centre, Bletchley	Retail	Wilkinson Hardware Stores Ltd, Poundland Ltd, Boots The Chemist Ltd, WHSmith Plc	10.4	1.5	98,351	90.8	94.0	1.0	1.6	3.4
<b>Total</b>			<b>264.0</b>	<b>36.7</b>	<b>2,153,474</b>	<b>95.0</b>	<b>94.0</b>	<b>21.0</b>	<b>35.2</b>	<b>3.5</b>

Tables may not sum due to rounding.



## Asset and Investment Managers' Report (continued)

### Top 15 Tenants (share of rental income) as at 31 December 2018

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	Annualised gross rent (£m)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	2.9	78,044	1.6	2.7
Bank of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury High Street, Dumfries	Financial and insurance activities	3.2	92,978	1.5	2.4
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	1.6	146,262	1.4	2.4
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	5.0	53,253	1.4	2.3
The Scottish Ministers	Calton House, Edinburgh Quadrant House, Dundee Templeton On The Green, Glasgow The Courtyard, Falkirk	Public sector	2.5	111,076	1.3	2.2
The Royal Bank of Scotland Plc	Hampshire Corporate Park, Eastleigh Cyan Building, Rotherham	Financial and insurance activities	2.7	88,394	1.2	2.0
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	15.7	246,209	1.0	1.6
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	6.8	58,167	0.8	1.4
Sec of State for Communities & Local Govt	Bennett House, Hanley Cromwell House, Lincoln Oakland House, Manchester	Public sector	0.5	67,882	0.8	1.3
Fluor Limited	Brennan House, Farnborough	Construction	0.4	29,707	0.8	1.3
The Secretary of State for Transport	Festival Court, Glasgow St Brendans Court, Bristol	Public sector	3.0	55,586	0.7	1.2
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Swansea Juniper Park, Basildon	Wholesale and retail trade	5.4	75,791	0.7	1.1
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	3.5	31,549	0.7	1.1
Lloyds Bank Plc	Victory House Meeting House Lane, Chatham	Financial and insurance activities	0.0	48,372	0.7	1.1
Aviva Health UK Ltd	Hampshire Corporate Park, Eastleigh	Financial and insurance activities	0.0	42,612	0.7	1.1
<b>Total</b>			<b>3.6</b>	<b>1,225,882</b>	<b>15.1</b>	<b>25.3</b>

Table may not sum due to rounding.

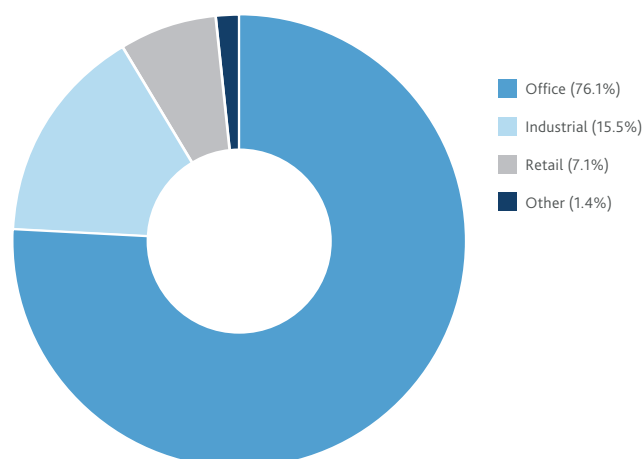
## Asset and Investment Managers' Report (continued)

### Property Portfolio Sector and Region Splits by Valuation and Income

#### By Valuation

As at 31 December 2018, 76.1% (2017: 67.3%) of the portfolio by market value was offices and 15.5% (2017: 23.3%) was industrial. The balance was made up of retail, 7.1%, and other, 1.4% (2017: retail and other 9.4%). By UK region, as at 31 December 2018, Scotland represented 18.0% (2017: 22.4%) of the portfolio and England 79.3% (2017: 74.0%); the balance of 2.7% (2017: 3.6%) was in Wales. In England, the largest regions were the South East, the Midlands and the North East.

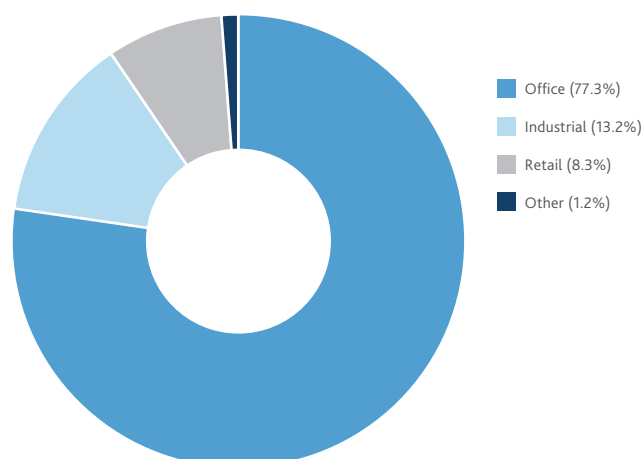
Sector split by valuation 2018



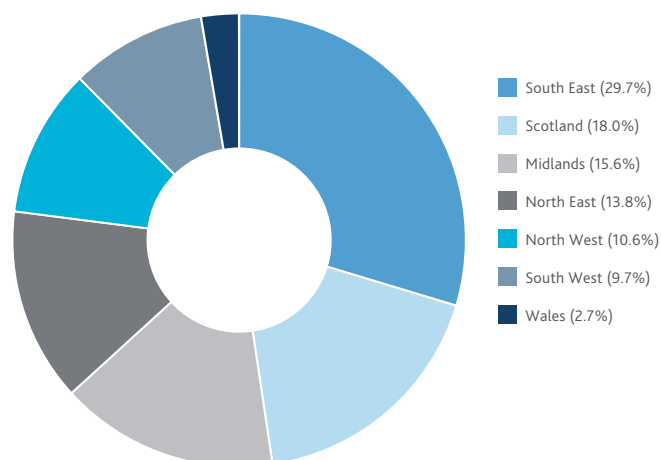
#### By Income

As at 31 December 2018, 77.3% (2017: 66.9%) of the portfolio by income was offices and 13.2% (2017: 23.2%) was industrial. The balance was made up of retail, 8.3%, and other, 1.2% (2017: retail and other 10.0%). By UK region, as at 31 December 2018, Scotland represented 20.1% (2017: 25.7%) of the portfolio and England 77.2% (2017: 70.7%); the balance of 2.7% was in Wales (2017: 3.6%). In England, the largest regions were the South East, the Midlands and the North East.

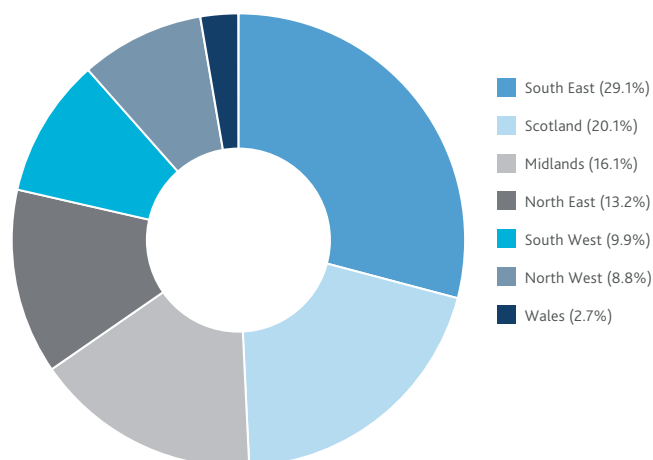
Sector split by income 2018



Regional split by valuation 2018



Regional split by income 2018



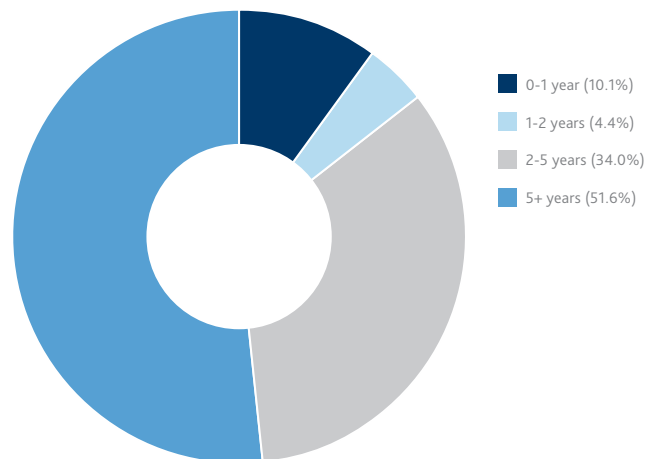
Charts may not sum due to rounding.

## Asset and Investment Managers' Report (continued)

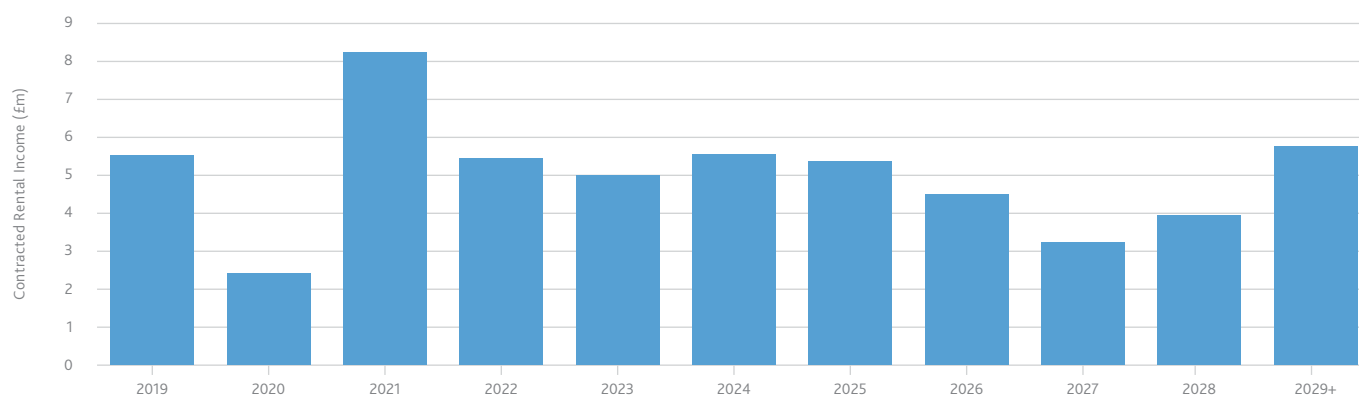
### Lease Expiry Profile

The WAULT on the portfolio is 5.4 years (2017: 5.4 years); WAULT to first break is 3.4 years (2017: 3.5 years). As at 31 December 2018, 10.1% (2017: 14.1%) of income was from leases, which will expire within 1 year, 4.4% (2017: 10.4%) between 1 and 2 years, 34.0% (2017: 29.7%) between 2 and 5 years and 51.6% (2017: 45.8%) after 5 years.

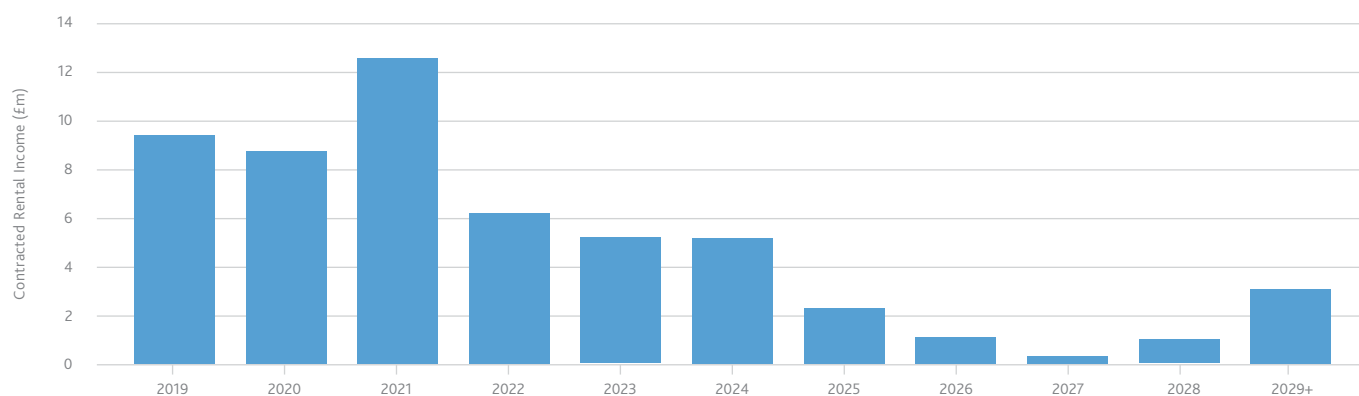
### Lease expiry income profile



### Lease expiry income profile by year



### Lease expiry to first break income profile by year

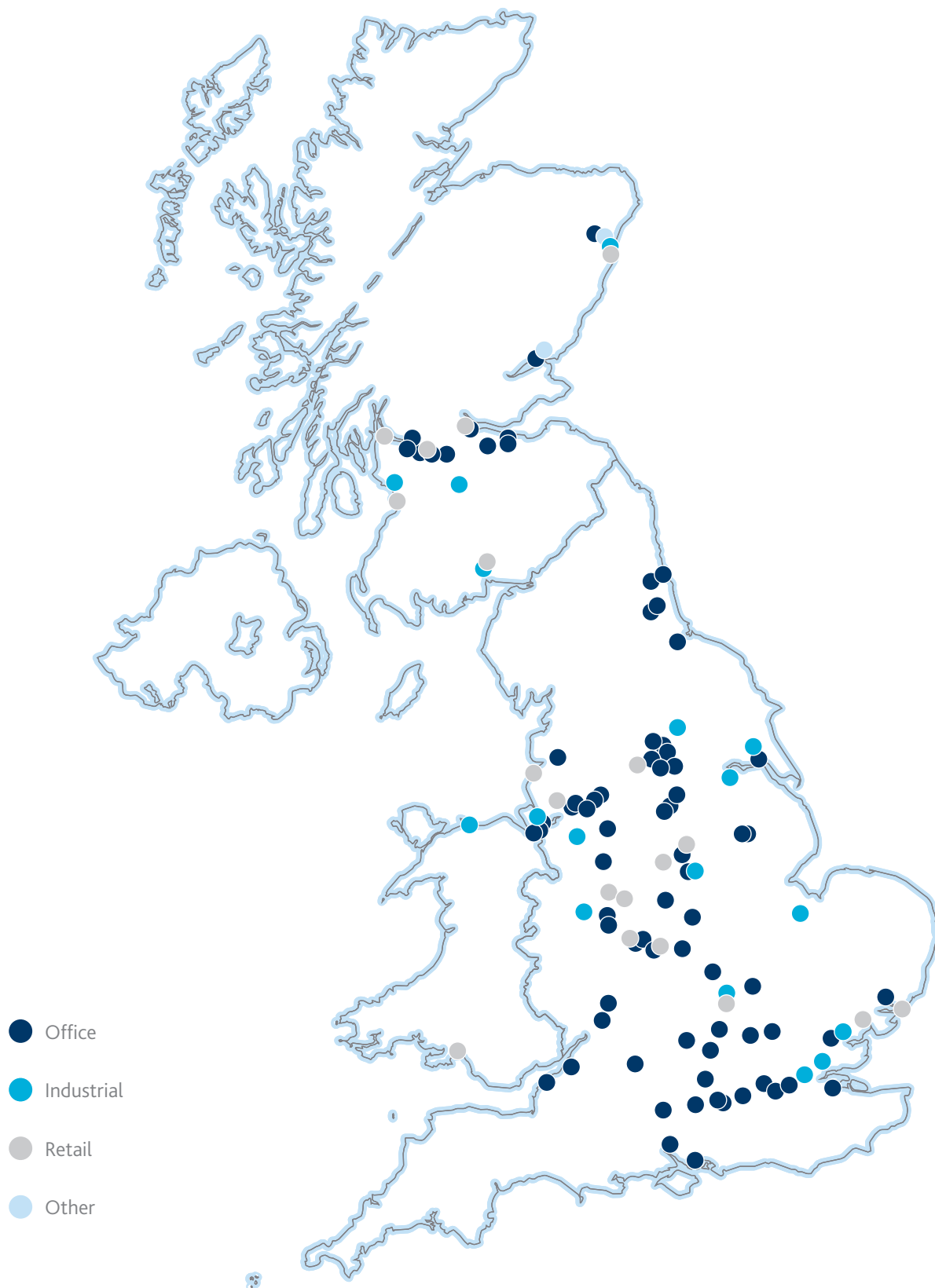


Charts may not sum due to rounding.



## Asset and Investment Managers' Report (continued)

### UK Property Locations as at 31 December 2018



## Asset and Investment Managers' Report (continued)

### Tenants by Standard Industrial Classification as at 31 December 2018

As at 31 December 2018, 11.5% of income was from tenants in the professional, scientific and technical activities sector (2017: 10.6%), 10.4% from the administrative and support service activities sector (2017: 8.7%), 10.1% from the wholesale and retail trade sector (2017: 13.8%), 9.6% from the public sector (2017: 8.9%) and 9.3% from the banking sector (2017: 4.4%). The remaining exposure is broadly spread.

No tenant represents more than 3.0% of the Group's contracted rent roll as at 31 December 2018, the largest being 2.7%.

### Tenants by SIC Codes (% of gross rent)

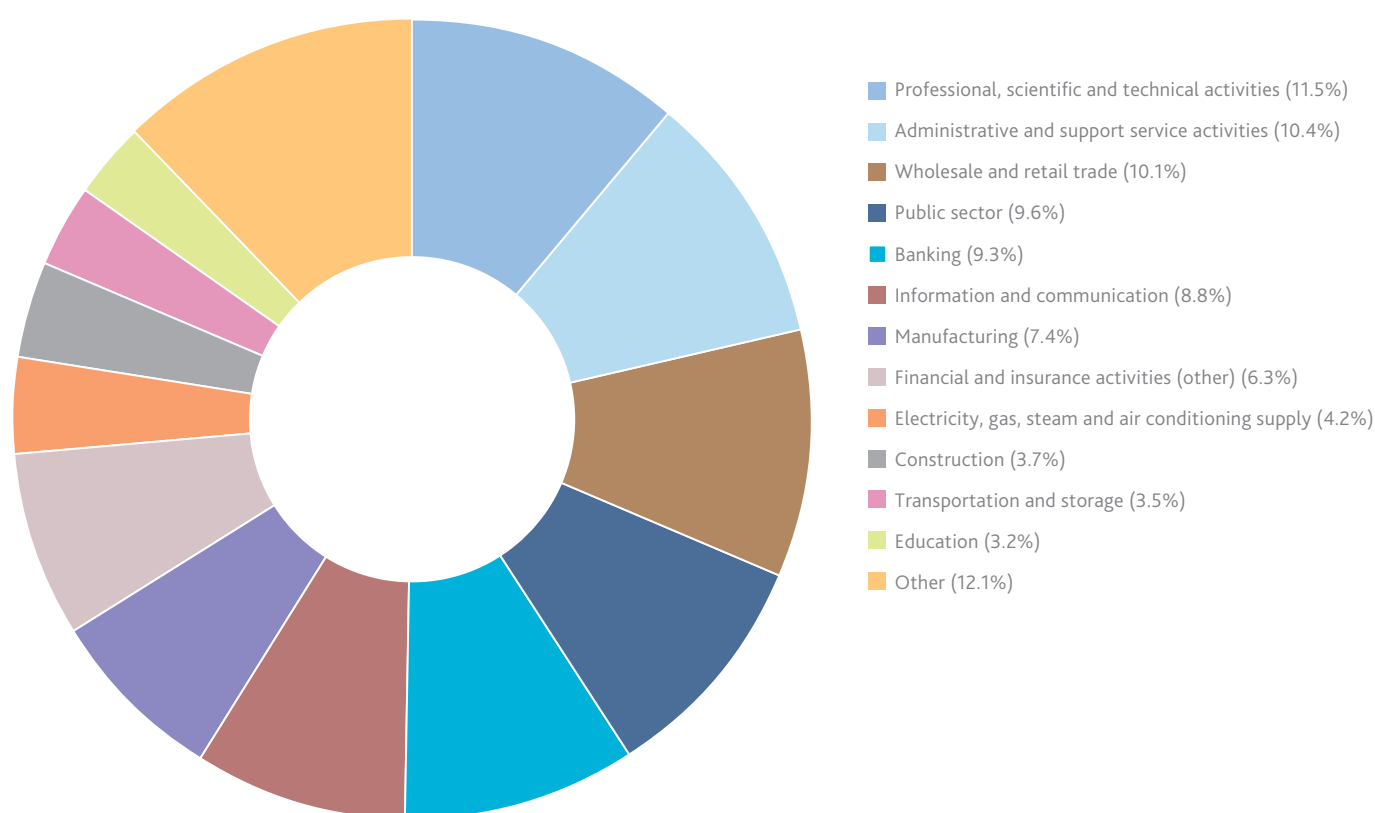


Chart may not sum due to rounding.

\* Other - Human health and social work activities; Not specified; Real estate activities; Other service activities; Arts; Entertainment and recreation; Accommodation and food service activities; Public administration and defence; Compulsory social security; Activities of extraterritorial organisations and bodies; Water supply; Sewerage; Waste management and remediation activities; and Residential.

## Asset and Investment Managers' Report (continued)

### Top 15 Properties by Sector: Office

#### Tay House, Glasgow

<b>Market value (£m)</b>	: 33.2
<b>Sector</b>	: Office
<b>Annualised gross rent (£m)</b>	: 2.5
<b>Lettable area (sq. ft.)</b>	: 156,933
<b>Anchor tenants</b>	: Barclays Bank Plc, University of Glasgow
<b>Let by area (%)</b>	: 87.7
<b>Let by value (%)</b>	: 87.5
<b>WAULT (years) (to first break)</b>	: 6.4 (3.2)



- **Secure Income** – Barclays leases re-gearred in December 2015, securing income until October 2021 at the earliest.
- **Break Option Removed** – Removal of the University of Glasgow's break option in September 2019, securing income until September 2024.
- **Tenant Expansion** – Agreement for lease signed with the University of Glasgow to take 9,791 sq. ft. of additional space within the building (First Floor East Wing) at a gross rental income of £18.50 per square foot ("psf") for a ten-year term.
- **Ongoing Asset Management** – continue to market the remaining space on 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.

#### Genesis Business Park, Woking



<b>Market value (£m)</b>	: 24.9
<b>Sector</b>	: Office
<b>Annualised gross rent (£m)</b>	: 1.9
<b>Lettable area (sq. ft.)</b>	: 98,359
<b>Anchor tenants</b>	: Wick Hill Ltd, Alpha Assembly Solutions UK Ltd, McCarthy & Stone Retirement Lifestyles Ltd
<b>Let by area (%)</b>	: 100.0
<b>Let by value (%)</b>	: 100.0
<b>WAULT (years) (to first break)</b>	: 6.0 (2.7)

- **Established Business Park** – Genesis is the premier out-of-town office park in the town, situated approximately 1 mile from Woking town centre.
- **Improving Rental Tone** – Letting of part of ground floor in Unit 1 to Wick Hill Limited at £22.50 per sq. ft.
- **Asset Management Initiatives** – Let balance of refurbished space. Seek to improve WAULT by removal of future break options.



## Asset and Investment Managers' Report (continued)

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

#### Buildings 2 & 3 HBOS Campus, Aylesbury



**Market value (£m)** : 24.7

**Sector** : Office

**Annualised gross rent (£m)** : 2.2

**Lettable area (sq. ft.)** : 140,676

**Anchor tenants** : Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd

**Let by area (%)** : 92.5

**Let by value (%)** : 92.6

**WAULT (years) (to first break)** : 5.0 (4.0)

- **Adding Value** – Comprehensive refurbishment programme of Building 2 now completed with gross capital expenditure of c. £3.3m and property now the best accommodation in the town.
- **Continued Letting Activity** – Additional lettings on the fourth floor to Prospitalia and Identify Group. These tenancies provide a combined gross rental income c. £160,000pa across 9,068 sq. ft. (Additionally, 5,380 sq. ft. of space is under offer at a gross rental income of £17psf for a 10-year term).
- **Asset Management Initiative** – Exercise underway to re-brand location and re-establish development in the local market as high-quality, cost-effective office space in order to let remaining 10,553 sq. ft. of available space.

#### Hampshire Corporate Park, Eastleigh

**Market value (£m)** : 19.7

**Sector** : Office

**Annualised gross rent (£m)** : 1.4

**Lettable area (sq. ft.)** : 85,422

**Anchor tenants** : Aviva Health UK Ltd, The Royal Bank of Scotland Plc, Daisy Wholesale Ltd, Utilita Energy Ltd

**Let by area (%)** : 99.2

**Let by value (%)** : 99.5

**WAULT (years) (to first break)** : 3.2 (1.7)



- **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** – The local letting market remains strong and the supply of similar suitable properties is limited. (Agreement for lease signed with Aviva Health UK for Chilworth House lease (42,612 sq. ft.) at a gross rental income of £22psf for a three-year term).

## Asset and Investment Managers' Report (continued)

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

#### 800 Aztec West, Bristol

**Market value (£m)** : 17.2

**Sector** : Office

**Annualised gross rent (£m)** : 1.3

**Lettable area (sq. ft.)** : 73,292

**Anchor tenants** : Edvance SAS, The Secretary of State for Defence

**Let by area (%)** : 86.7

**Let by value (%)** : 86.3

**WAULT (years) (to first break)** : 9.8 (4.2)



- **Successful Refurbishment** – Major “back to shell” refurbishment of the whole building completed in August 2018 into active Bristol market with limited city centre supply.
- **Major Lettings Secured** – First floor (31,670 sq. ft.) pre-let to Edvance (EDF) on ten-year lease from August 2018 at a gross rental income of £21.50psf with interest in other space. Following completion of refurbishment works, the Ground Floor (32,007 sq. ft.) has been let to The Secretary of State for Defence on a ten-year lease from December 2018 at a gross rental income of £20.00psf.
- **Asset Management Initiative** – Let balance of space and grow rental value of the property.

#### One & Two Newstead Court, Annesley



**Market value (£m)** : 16.4

**Sector** : Office

**Annualised gross rent (£m)** : 1.4

**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)** : 6.6 (1.6)

- **High Quality Assets** – Two modern office pavilions in an established business park.
- **Securing Income Streams** – 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)** : 13.5

**Sector** : Office

**Annualised gross rent (£m)** : 1.4

**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)** : 5.0 (5.0)



- **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)

#### Ashby Park, Ashby De La Zouch



<b>Market value (£m)</b>	: 13.3
<b>Sector</b>	: Office
<b>Annualised gross rent (£m)</b>	: 1.1
<b>Lettable area (sq. ft.)</b>	: 91,752
<b>Anchor tenants</b>	: Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd
<b>Let by area (%)</b>	: 100.0
<b>Let by value (%)</b>	: 100.0
<b>WAULT (years) (to first break)</b>	: 3.4 (1.8)

- **Fully Let** – Dilapidations on the inherited vacated space agreed. Jigsaw agreed new lease over revised area with Dunwoody Airline Services taking the remaining void.
- **Asset Management Initiatives** – Seek to re-gear the lease with Ceva Logistics to secure longer income.

#### Portland Street, Manchester

<b>Market value (£m)</b>	: 13.3
<b>Sector</b>	: Office
<b>Annualised gross rent (£m)</b>	: 0.8
<b>Lettable area (sq. ft.)</b>	: 54,959
<b>Anchor tenants</b>	: New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd
<b>Let by area (%)</b>	: 100.0
<b>Let by value (%)</b>	: 96.9
<b>WAULT (years) (to first break)</b>	: 3.8 (2.5)



- **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.

#### Templeton On The Green, Glasgow



<b>Market value (£m)</b>	: 11.0
<b>Sector</b>	: Office
<b>Annualised gross rent (£m)</b>	: 1.2
<b>Lettable area (sq. ft.)</b>	: 141,320
<b>Anchor tenants</b>	: The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Fore Digital Ltd
<b>Let by area (%)</b>	: 93.7
<b>Let by value (%)</b>	: 92.7
<b>WAULT (years) (to first break)</b>	: 8.2 (4.3)

- **Diversified Income** – Multi-let to 39 tenants on 48 leases.
- **Reducing Vacancy** – Occupancy by value has increased by 3.6% in the 12 months to 31 December 2018, reaching 92.7%.
- **Further Lettings** – 11 lettings took place during 2018 to ten tenants, providing a combined gross rental income of c. £170,000 across 16,500 sq. ft.



## Asset and Investment Managers' Report (continued)

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

#### Oakland House, Manchester

**Market value (£m)** : 10.7

**Sector** : Office

**Annualised gross rent (£m)** : 1.0

**Lettable area (sq. ft.)** : 167,247

**Anchor tenants** : HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd

**Let by area (%)** : 77.9

**Let by value (%)** : 77.1

**WAULT (years) (to first break)** : 5.7 (4.1)



- **Adding Value** – Front of house works undertaken to improve immediate presentation and installation of high-level external illuminated signage to “landmark” the building.
- **New Letting** – New lease agreed with Optimal Claim Ltd for 5,479 sq. ft. on the third floor for a five year term at a gross rental income of £10psf, with no break option.
- **Ongoing Asset Management** – 10,900 sq. ft. is currently under offer to two tenants, which would provide a gross rental income of £12.50psf.

### Top 15 Properties by Sector: Industrial

#### Juniper Park, Basildon



**Market value (£m)** : 29.3

**Sector** : Industrial

**Annualised gross rent (£m)** : 2.0

**Lettable area (sq. ft.)** : 277,228

**Anchor tenants** : Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd

**Let by area (%)** : 98.4

**Let by value (%)** : 97.0

**WAULT (years) (to first break)** : 2.7 (1.3)

- **Diversified Income** – Multi-let to 11 tenants on 13 leases.
- **Securing Income Streams** – Re-gear of lease to Johnson Controls Building Efficiency UK Limited until 2023 at an increased gross rental income of £60,610pa, an uplift of 3.8%.
- **Asset Management Initiatives** – Various initiatives ongoing with respect to re-gearing or renewal of leases with existing tenants.

#### Road 4 Winsford Industrial Estate, Winsford

**Market value (£m)** : 15.6

**Sector** : Industrial

**Annualised gross rent (£m)** : 1.0

**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)** : 15.7 (15.7)



- **Long-Term Lease** – Let to Jiffy Packaging Limited until 2034.
- **Business Plan** – Seek to sell re-gear low-yielding long lease.

## Asset and Investment Managers' Report (continued)

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

#### Tokenspire Business Park, Beverley



<b>Market value (£m)</b>	: 11.0
<b>Sector</b>	: Industrial
<b>Annualised gross rent (£m)</b>	: 0.9
<b>Lettable area (sq. ft.)</b>	: 322,211
<b>Anchor tenants</b>	: QDOS Entertainment (Pantomimes) Ltd, Sargent Electrical Services Ltd, TAPCO Europe Ltd
<b>Let by area (%)</b>	: 97.4
<b>Let by value (%)</b>	: 96.7
<b>WAULT (years) (to first break)</b>	: 1.9 (0.9)

- **Driving Rental Growth** – Since acquisition 11 new lettings, 6 existing tenants expanding into larger premises/taking additional space and numerous lease re-gears completed. Take-up since acquisition of 93,574 sq. ft., with occupancy by value increasing by c.31% to 96.7% (31 December 2018). The contracted rent has increased by £180,000pa.
- **Strong Investment Market** – Explore potential of selling investment into strong market having improved the rental tone.

### Top 15 Properties by Sector: Retail

#### The Brunel Centre, Bletchley

<b>Market value (£m)</b>	: 10.4
<b>Sector</b>	: Retail
<b>Annualised gross rent (£m)</b>	: 1.0
<b>Lettable area (sq. ft.)</b>	: 98,351
<b>Anchor tenants</b>	: Wilkinson Hardware Stores Ltd, Poundland Ltd, Boots The Chemist Ltd, WHSmith Plc
<b>Let by area (%)</b>	: 90.8
<b>Let by value (%)</b>	: 94.0
<b>WAULT (years) (to first break)</b>	: 3.6 (3.4)



- **Tenant Retention** – Secured four lease re-gears with existing tenants since acquisition which will provide a combined gross rental income of £112,500pa, with c. 54% of this secured until 2027 at the earliest.
- **Asset Management Initiatives** – Various initiatives ongoing with respect to re-gearing or renewal of leases with existing tenants. Opportunities to carry out minor refurbishment works on office space and seek to let vacant space.

## Asset and Investment Managers' Report (continued)

### Environmental Matters

The Asset Manager currently has five main aspects to 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 and equipment 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) will make it unlawful from 1 April 2019 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.

An exercise was undertaken in 2018 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 31 units across eight assets. The cost of undertaking works to allow re-assessment of the EPC to E or higher in practice will be spread over a number of years as leases end and re-letting events occur. In addition, an element of the costs may be included in wider dilapidation and refurbishment works or properties sold. These units represent less than 5% of the portfolio by Estimated Rental Value (ERV) and floor area, representing 3.3% and 3.8%, respectively.



## Asset and Investment Managers' Report (continued)

### Case Studies

#### Buildings 2 & 3 HBOS Campus, Aylesbury

- Original EPC rating: E (120 points)
- New EPC rating: D (80 points)

Buildings 2 & 3 HBOS Campus, Aylesbury comprises two large opposing HQ-style office buildings within a mature landscaped campus-style setting. The buildings are concrete framed structures with concrete floors and flat roofs, elevations have predominately been formed in aluminium glazed curtain walling with red faced cavity brick and blockwork. Building 2 was constructed in 1984 and is arranged over ground and four upper floor levels. The floorplates wrap around a feature central atrium. The external façade walls are formed with full height specialist glazed curtain walling, with east and west-facing facades leaning outward and the north and south-facing facades facing inward. The building was refurbished in 2017/18 to provide feature double glazed reception doors, new reception with café and informal meeting areas, new toilet accommodation and shower block. A new zoned refrigerant VRF air conditioning system has been installed to service the entire ground floor. In addition, works were carried out to improve the performance and efficiency of the building services including replacement of the hot water storage tanks with a new high efficiency single unit, new high efficiency condensing boilers were installed, LED lighting fitted throughout all areas of the building and lighting control modules with sensors installed to reduce energy use.

#### 2800, The Crescent, Birmingham

- Original EPC rating: D (99 points)
- New EPC rating: C (62 points)

2800 The Crescent, Birmingham Business Park, Birmingham is a two storey 'L' shaped property with facing brick façade under a pitched tiled roof with a lettable area of 30,262 sq. ft. The property sits on a self-contained site which provides 150 parking spaces a ratio of 1:200. In terms of location, the property is situated to the east of the city adjacent to the M42 and M6 motorways, the location also benefits from being two miles from Birmingham International Airport and railway stations.

Following the Severn Trent lease expiry in March 2016, the building has been substantially refurbished including a remodelled reception, lift lobby and core at ground floor level, new WC cores on both the ground/ first floor and new entrance with Grade A spec – LED lighting VRF heating and cooling. The design refurbishment included various improvements targeted at improving the energy efficiency of the building and as part of the works included installation of a new HVAC system and LED lights throughout. The refurbishment works completed in January 2018 and resulted in an improved Energy Performance Rating for the building from D (99 points) to C (62 points).

#### Tay House, Glasgow

- Original EPC rating: D (59 points)
- New EPC rating:
  - East Wing: C (45 points)
  - West Wing: C (44 points)

Tay House, Glasgow is a landmark modern Grade A office building. The building is of steel frame construction, comprising a series of circular section columns external to the building fabric which support the steel beams offering a column-free floor plate within the main section of the building. The bridge deck comprises a previously built in situ concrete slab supported by a number of columns spanning the M8 motorway. Subsequently, two office floors have been introduced tying into the second and third floor levels of the main building providing general office accommodation. The internal specification of the building provides modern office accommodation. The property benefits from a double height reception hall. The first floor has been refurbished to provide a new full raised access floor, metal tiled ceiling system incorporating recessed LED lighting, toilet accommodation and a four pipe fan coil air conditioning system with new control grille/ductwork. Following the refurbishment, the floor was split into an east and west wing, both of which had an improved Energy Performance Rating of C (45 points) and C (44 points), respectively.



Property Name: Tokenspire Business Park, Beverley  
Sector: Industrial



## Asset and Investment Managers' Report (continued)

### Financial Review

#### Net Asset Value

In the year ended 31 December 2018, the EPRA NAV of the Group rose to £430.5m (IFRS: £429.5m) from £395.7m (IFRS: £392.9m) as at 31 December 2017, which equates to an increase in diluted NAV of 9.6pps to 115.5pps (31 December 2017: 105.9pps). This is after the payment of dividends in the period amounting to 8.00pps.

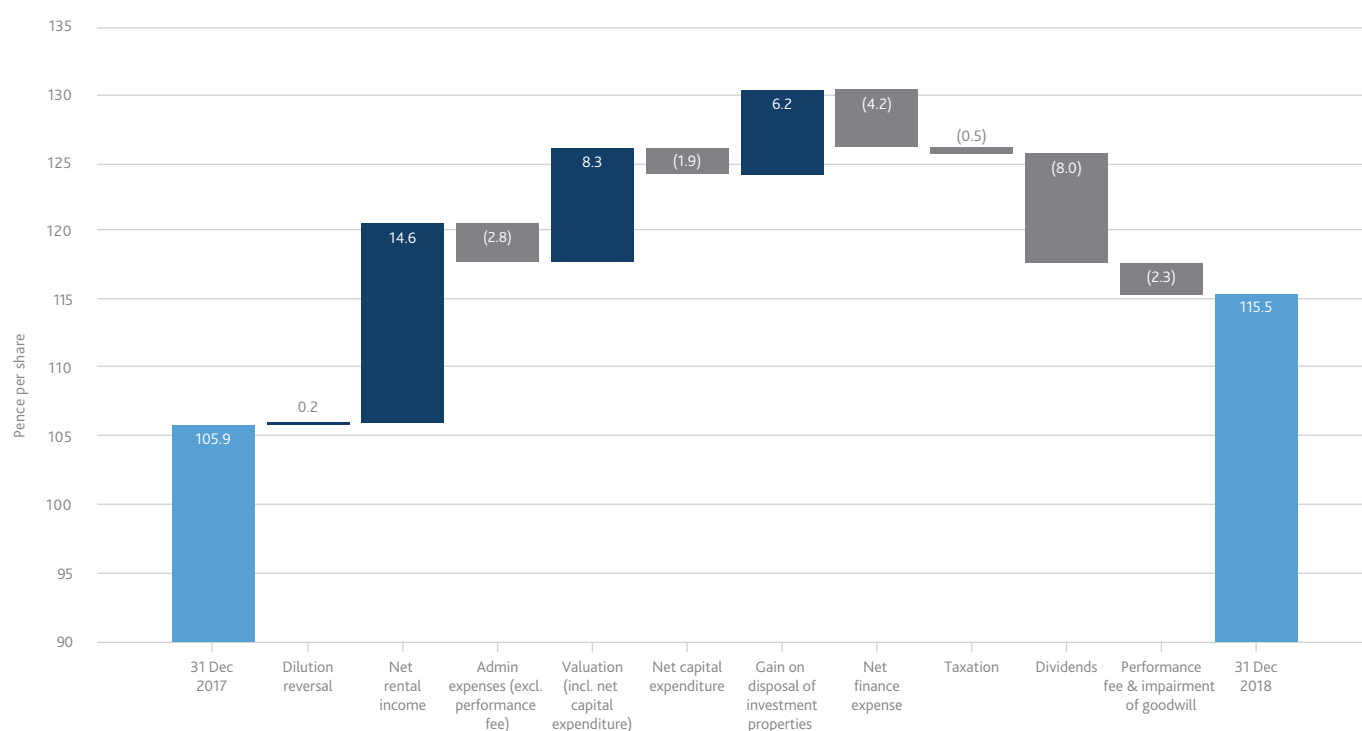
The EPRA NAV increase of some £34.8m since 31 December 2017 is predominately sourced from the revaluation of investment properties held at 31 December 2017 amounting to £23.9m, and the gain on disposal of investment properties of £23.1m.

The investment property portfolio valuation as at 31 December 2018 totalled £718.4m, (31 December 2017: £737.3m). The decrease since the December 2017 year end is largely a reflection of the aforementioned investment property valuations offset by realised property disposals. In the 12 months to 31 December 2018, the valuation increased on a like-for-like basis by 4.5%.

The below table sets out the acquisitions, disposals and capital expenditure for the respective periods:

	Year ended 31 December 2018 (£m)	Year ended 31 December 2017 (£m)
<b>Acquisitions</b>		
Net (after costs)	76.3	231.3
Gross (before costs)	73.3	228.1
<b>Disposals</b>		
Net (after costs)	149.3	16.9
Gross (before costs)	152.5	17.4
<b>Capital Expenditure</b>		
Net (after dilapidations)	7.0	13.4
Gross (before dilapidations)	9.8	14.8

#### EPRA Net Asset Value – diluted Bridge 2018





## Asset and Investment Managers' Report (continued)

The diluted EPRA NAV per share increased to 115.5pps (31 December 2017: 105.9pps). The EPRA NAV is reconciled in the table below:

	Year ending 2018 (£m)	Year ending 2018 (pence per Share)
Opening EPRA NAV	395.7	105.9
31 Dec 2017 dilution reversal		0.2
Opening EPRA NAV	395.7	106.1
Net rental income	54.4	14.6
Administration and other expenses	(17.6)	(4.7)
Gain on the disposal of investment properties	23.1	6.2
Change in the fair value of investment properties	23.9	6.4
EPRA NAV after operating profit	479.5	128.6
Net finance expense	(15.7)	(4.2)
Impairment of goodwill	(0.6)	(0.1)
Taxation	(2.0)	(0.5)
EPRA NAV before dividends paid	461.2	123.7
Dividends paid	(29.8)	(8.0)
Performance Fee Shares	(0.9)	(0.2)
Closing EPRA NAV	430.5	115.5

Table may not sum due to rounding.

### Income Statement

Operating profit before gains and losses on property assets and other investments for the year ended 31 December 2018 amounted to £36.8m (31 December 2017: £36.4m). Profit after finance items and before taxation was £67.9m (31 December 2017: £28.7m). 2018 included a full rent roll for properties held as at 31 December 2017, plus the partial rent roll for properties acquired and disposed of during the period.

Realised gain on disposal of investment properties amounted to £23.1m (31 December 2017: £1.2m). The change in the fair value of investment properties amounted to a gain of £23.9m (31 December 2017: £5.9m). These gains were primarily driven by asset management initiatives, and the opportunistic disposal of a substantial portion of the industrial portfolio, including properties which had met their individual asset plans to maximise returns.

Rental income amounted to £62.1m (31 December 2017: £52.3m); the increase was primarily the result of the enlarged investment property portfolio held in 2018.

Currently more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.4m (31 December 2017: £0.5m).

The EPRA cost ratio, including direct vacancy costs, was 40.1% (31 December 2017: 29.7%), adjusting for ground rent. The increase in the cost ratio is ostensibly a reflection of the realised gains from the disposal of investment properties in the period, coupled with the change in the fair value of the investment properties, resulting in a performance fee of £7.0m (31 December 2017: £1.6m). The EPRA cost ratio, including direct vacancy costs and excluding the performance fee, was 28.6% (31 December 2017: 26.6%).

Non-recoverable property costs amounted to £7.7m (31 December 2017: £6.5m), and the contracted rental income reduced to £59.7m (31 December 2017: £61.9m).

Finance expenses amount to £16.0m (31 December 2017: £14.7m). In part, the increase is a result of the issuance of a £50m 4.5% Retail Eligible Bond 2024 (the "Retail Bond") issued on 6 August 2018 to fund the repayment of the £30m 6.5% zero dividend preference shares ("ZDP shares") on 9 January 2019.

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 period ending 31 December 2018 were 4.4% (31 December 2017: 4.5%). The Total EPRA Return to Shareholders from 6 November 2015 to 31 December 2018 was 37.5% (31 December 2017: 19.9%), an annualised rate of 10.6% pa (31 December 2017: 8.8% pa).

## Asset and Investment Managers' Report (continued)

### Dividend

In relation to the period from 1 January 2018 to 31 December 2018, the Company declared dividends totalling 8.05pps (2017: 7.85pps). Since the end of the period, the Company has declared a dividend for the fourth quarter of 2018 of 2.50pps.

Period Covered	Announcement Date	Ex Date	Payment Date	Pence per Share
1 Jan 2017 to 31 Mar 2017	25 May 2017	8 Jun 2017	14 Jul 2017	1.80p
1 Apr 2017 to 30 Jun 2017	31 Aug 2017	7 Sep 2017	13 Oct 2017	1.80p
1 Jul 2017 to 30 Sep 2017	14 Nov 2017	23 Nov 2017	22 Dec 2017	1.80p
1 Oct 2017 to 31 Dec 2017	22 Feb 2018	1 Mar 2018	12 Apr 2018	2.45p
1 Jan 2018 to 31 Mar 2018	17 May 2018	24 May 2018	13 Jul 2018	1.85p
1 Apr 2018 to 30 Jun 2018	31 Aug 2018	13 Sep 2018	15 Oct 2018	1.85p
1 Jul 2018 to 30 Sep 2018	15 Nov 2018	22 Nov 2018	21 Dec 2018	1.85p
1 Oct 2018 to 31 Dec 2018	21 Feb 2019	28 Feb 2019	11 Apr 2019	2.50p

### Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next one-to-ten years, with a weighted average maturity of 6.4 years (31 December 2017: 6.0 years).

The Group's borrowing facilities are with Scottish Widows Ltd., Royal Bank of Scotland, HSBC and Santander UK, and Aviva Investors Real Estate Finance. In addition to the bank borrowing, the Group had £30m 6.5% ZDP shares in issue as at 31 December 2018, and a £50m 4.5% Retail Eligible Bond 2024. In aggregate the total debt available at 31 December 2018 amounted to £380.4m (31 December 2017: £376.5m).

Total bank borrowing facilities at 31 December 2018 amounted to £290.5m (31 December 2017: £339.1m) (before unamortised debt issuance costs), having been fully drawn down. The total amount payable on the ZDP shares amounted to £39.9m (31 December 2017: £37.4m). The £50.0m Retail Eligible Bond was raised on 6 August 2018 to fund the repayment of the ZDP shares and to part fund early repayment of the 5% £65m ICG Longbow Ltd. facility.

At 31 December 2018, the Group's cash and cash equivalent balances amounted to £104.8m (31 December 2017: £44.6m), which includes proceeds from the aforementioned Retail Bond.

The Group's net loan-to-value ratio stands at 38.3% (31 December 2017: 45.0%) before unamortised costs. The Board continues to target a net loan-to-value ratio of 40%, with a maximum limit of 50%.

### Debt Profile and Loan-to-Value Ratios as at 31 December 2018

Lender	Original Facility (£'000)	Outstanding Debt* (£'000)	Maturity Date	Gross Loan to Value** (%)	Annual Interest Rate
Scottish Widows Ltd	36,000	36,000	Dec-28	38.8	3.37% Fixed
Royal Bank of Scotland	26,458	26,458	Dec-21	45.9	2.00% over 3mth £ LIBOR
HSBC	19,003	19,003	Dec-21	51.4	2.15% over 3mth £ LIBOR
Santander UK	44,026	44,026	Nov-22	36.7	2.15% over 3mth £ LIBOR
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	45.4	3.28% Fixed
	<b>290,487</b>	<b>290,487</b>			
Zero Dividend Preference Shares	39,879	39,820	Jan-19	N/A	6.50% Fixed
Retail Eligible Bond	50,000	50,000	Aug-24	N/A	4.50% Fixed
	<b>380,366</b>	<b>380,307</b>			

\* Before unamortised debt issue costs

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

\*\*\* Table may not sum due to rounding

## Asset and Investment Managers' Report (continued)

Both the Asset and Investment Managers continue to monitor the borrowing requirements of the Group. As at 31 December 2018, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio (net debt to ordinary Shareholders' equity (diluted)) of the Group was 64.1% as at 31 December 2018 (31 December 2017: 84.5%). The decrease is predominantly a result of the reflection of the realised gains from the disposal of investment properties in the period, coupled with the change in the fair value of the investment properties.

Interest cover stands, including amortised costs, at 2.3 times (31 December 2017: 3.0 times) including the ZDP, and 2.7 times excluding the ZDP shares (31 December 2017: 3.5 times). The reduction is due to the temporary increase in borrowing, which reduced on repayment of the ZDP shares on 9 January 2019.

### 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 2018 (%)	31 December 2017 (%)
<b>Borrowings interest rate hedged (incl. ZDP)</b>	<b>102.0</b>	<b>89.8</b>
Thereof:		
Fixed	76.5	71.0
Swap	12.8	9.4
Cap	12.8	9.4
WACD <sup>1</sup>	3.8	3.8
WACD – excluding the ZDPs <sup>2</sup>	3.5	3.5

<sup>1</sup> WACD – Weighted Average Interest Rate including the cost of hedging

<sup>2</sup> Zero Dividend Preference Shares which were assumed on 24th March 2017

The over hedged position has arisen due to the debt repayments during 2018.

### 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 2018, the Group's taxation charge amounted to £0.6m, which comprised of corporation tax of £1.6m for the sale of a property held for trading within the Hamilton Hill Estates Ltd, an offsetting £1.4m of deferred tax raised in the prior year for the same property subsequently released in 2018, and £0.4m of tax on revenue incurred by activity external to the REIT regime.

### Subsequent Events after the Reporting Period

Please see note 36 on page 130.



Property Name: Tay House, Glasgow  
Sector: Office









Property Name: One & Two Newstead Court, Annesley  
Sector: Office



## Principal Risks and Uncertainties

The Board recognises that effective risk management is essential to the Group achieving its strategy and has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity.

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 where possible, rather than eliminating them. The Audit Committee reviews the risk management matrix on a six-monthly basis. 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.

Key to risk trend	 No change	 Trend up	 Trend down
Strategic Risks			
Potential impact	Mitigation	Movement in the period 	
An inappropriate investment strategy could result in lower income and capital returns to Shareholders.	An annual review of the investment strategy.	The property portfolio remains balanced across a range of geographical areas and large number of investment properties.	
	A defined and rigorous investment appraisal process.		
	Acquire portfolios which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of 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 4.6% 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 2.7% of gross rental income, being Barclays Bank PLC.	
	Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	The Group's largest single tenant exposure is 2.7% of gross rental income, being Barclays Bank PLC.	
	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)

### Valuation Risk

Potential impact	Mitigation	Movement in the period	⌄
The valuation of the Group's portfolio affects its profitability and net assets.	<p>External valuers, Cushman &amp; Wakefield and Jones Lang Lasalle, provide independent valuations for all properties.</p> <p>The Audit Committee discuss with the external valuers the basis of their valuations.</p>	There has been no change in the external valuers.	

### 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, could impact the health of the UK economy, resulting in borrowing constraints, change in demand by tenants for suitable properties, the quality of the tenants, and ultimately the portfolio value.	<p>The Group operates with a sole focus on the UK regions, with no foreign currency exchange exposure. It remains well positioned with a deliberately diverse standard industry classification of tenants generating in excess of 800 income streams which are located in areas of expected economic growth.</p> <p>The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.</p>	Following the triggering of Article 50, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.	

### Funding Risk

Potential impact	Mitigation	Movement in the period	⌄
The Group may not be able to secure further debt on acceptable terms, which may impinge upon investment opportunities and the ability to grow the Group.	<p>Borrowings are currently provided by a range of institutions with targeted staggered maturities.</p> <p>Strong relationships with key long-term lenders.</p> <p>Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity.</p> <p>Continual monitoring of loan to value.</p>	<p>Weighted average debt term increased to 6.4 years from 6.0 years in 2017 and increased to 7.1 years following settlement of the ZDPs on 9 January 2019.</p> <p>Weighted average cost of capital, including hedging costs was 3.8% (31 December 2017 3.8%) and following settlement of the ZDPs on 9 January 2019 reduces to 3.5%.</p> <p>Loan to value decreased to 38.3% from 45.0% at 31 December 2017.</p>	
Bank reference interest rates may be set to rise accompanying higher inflation.	<p>Policy of hedging at least 90% of variable interest rate borrowings.</p> <p>Borrowings are currently provided by a range of institutions with targeted staggered maturities.</p>	Continued adherence to the hedging policy.	

## Principal Risks and Uncertainties (continued)

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.	<p>An active asset management programme with a focus on the Asset Manager working with individual tenants to assess any occupational issues and to manage any potential bad debts.</p> <p>Diversified portfolio of properties let, where possible, to a large number of low risk tenants across a wide range of different standard industrial classifications throughout the UK.</p> <p>Potential acquisitions are reviewed for tenant overlap.</p>	The tenant mix and their underlying activity remains diversified, with the number of tenants amounting to 874 (31 December 2017: 1,026).	
A high concentration of lease term maturity and/or break options, could result in a more volatile contracted rent roll.	<p>The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration.</p> <p>There is a focus on securing early renewals and increased lease period.</p> <p>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.</p>	<p>The WAULT to first break as at 31 December 2018 was 3.4 years.</p> <p>The largest tenant is 2.7% of the gross rental income, being Barclays Bank PLC.</p> <p>The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.</p>	
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 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.	
Operational Risk			
Potential impact	Mitigation	Movement in the period	«»»
Business disruption could impinge on the normal operations of the Group.	<p>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.</p> <p>An annual due diligence exercise is carried out on all principal suppliers.</p> <p>As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers.</p>	<p>Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.</p> <p>Annual due diligence visits were undertaken with the Company's principal suppliers.</p> <p>Both the Asset and Investment Manager are viable going concerns.</p>	

## Principal Risks and Uncertainties (continued)

### Operational Risk (continued)

All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk.

The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive buildings, loss of rent and service charge plus terrorism insurance with the exception of a small number of "self-insure" arrangements covered under leases.

The Asset Manager remains vigilant to changes in Health and Safety regulations.

The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.

### Accounting, Legal, and Regulatory

#### Potential impact

Changes to the accounting legal and/or regulatory legislation could result in changes to current operating processes.

#### Mitigation

Robust processes are in place to ensure adherence to accounting, legal, regulatory requirements, and Listing Rules.

All contracts are reviewed by the Group's legal advisors.

The Administrator, in its capacity as Group Accountant, and the Company Secretary attend all Board meetings in order to be aware of all announcements that need to be made.

All compliance issues are raised with the Financial Advisor.

#### Movement in the period



The Group continues to receive advice from its corporate advisors and has incorporated changes where required.

The Administrator continues to attend all Board meetings and advise on Listing Rules in conjunction with the Financial Advisor.

### Environmental and Energy Efficiency Standards

#### Potential impact

Changes to the environment could impact upon the operations of the Group.

#### Mitigation

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.

An Energy Performance Rating of E and below is required for each asset in order to be let or sold.

The Group continues to review each property to ensure adherence with Energy Performance Rating requirements.

The energy efficiency of investment acquisitions is fully considered as part of the buying due diligence.

#### Movement in the period



The rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.

The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.



Property Name: Juniper Park, Basildon  
Sector: Industrial



## Management Arrangements

### Asset Manager

London & Scottish Investments Limited was appointed as the Asset Manager to provide asset management services to the Company (and Regional Commercial Midco Limited ("Midco") and the respective 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 15) 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 served at any time on or before the expiry of an Initial Period (being the period of five 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 and the Asset and Investment Managers 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 ("Toscafund") as the Company's Investment Manager (and to provide certain related services to Midco and the respective 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 served at any time on or before the expiry of an Initial Period (being the period of five 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 Asset and Investment Managers 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 NAV, reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

In addition, the Asset and Investment Managers 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 ran from 6 November 2015 to 31 December 2018. Subsequent Performance Periods are 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). Full details of the Managers' Performance Fee are given on pages 183 to 185 of the IPO Prospectus, published on 3 November 2015.

In accordance with the Financial Conduct Authority's ("FCA") Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. Accordingly, the Management Agreements have been amended to clarify that, in this situation, the Performance Fee will be paid entirely in cash but 50% of that amount will be used to acquire shares in the market on behalf of the Managers within a 20 business day period on an instruction to do so. On this occasion the shares will be paid for entirely in cash and be acquired from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the Performance Fee in shares.

### Initial Performance Fee

As reported in the Chairman's Statement on page 10, the Company has paid an initial Performance Fee of £8.91m to the Asset and Investment Managers.

### Continuing Appointment of Asset Manager and Investment Manager

The Management Engagement and Remuneration Committee ("MERC") recommended to the Board that the continued appointment of each 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 pages 82 and 83.

### 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 £130,180 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

The Administration Agreement was 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

Link Company Matters Limited was appointed to provide company secretarial services 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.

On behalf of the Board

**Kevin McGrath**

Chairman and Independent Non-Executive Director

27 March 2019



Property Name: Hampshire Corporate Park, Eastleigh  
Sector: Office









## Board of Directors



### **Kevin McGrath MRICS DL OBE (Chairman and Independent Non-Executive Director)**

*Appointed: 16 October 2015*

*Length of Service: 3 years, 5 months*

Kevin McGrath is a chartered surveyor who has worked in the property industry for over 35 years. He is a member of the Royal Institution of Chartered Surveyors, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a Trustee of several charities including The Clink Prison Restaurant Charity which he co-founded; The Old Vic Theatre Trust; QPR Community Trust; and London South Bank University.

Kevin was The High Sherriff for Greater London in 2014/15 and is the Representative Deputy Lieutenant for Hammersmith and Fulham.

Kevin is chairman of M&M Property Asset Management and the non-executive chairman of INTCAS, a technology and support service company that assists 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*

*Length of Service: 3 years, 5 months*

William ("Bill") Eason was previously head of charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He has 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 and 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*

*Length of Service: 3 years, 5 months*

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 Office Space Group 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)

### **Frances Daley** **(Independent Non-Executive Director)**

*Appointed: 1 February 2018*

*Length of Service: 1 year, 2 months*

Frances Daley is a chartered accountant who qualified with a predecessor firm to Ernest & Young, 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.



### **Stephen Inglis** **(Non-Executive Director)**

*Appointed: 16 October 2015*

*Length of Service: 3 years, 5 months*

Stephen Inglis is the chief executive officer and co-founder of the Asset Manager, London & Scottish Investments. 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*

*Length of Service: 1 year, 8 months*

Timothy ("Tim") Bee is the chief legal counsel of the Investment Manager. Tim joined Toscafund 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.



## Report of the Directors

The Directors of Regional REIT are pleased to present their report and the consolidated audited financial statements of the Group for the year ended 31 December 2018.

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 57) 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 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 updated their policy and 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 registered for VAT and has recovered VAT incurred since November 2015.

### Corporate Governance Statement

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 Code of Corporate Governance have been applied. This statement may be found on pages 68 to 74 and forms part of this report by reference.

### Directors

All Directors of the Company were in office during the whole of the year ended 31 December 2018, with the exception of Frances Daley, who was appointed on 1 February 2018.

The full biographies of the Directors can be found on pages 58 and 59. All Directors will stand for re-election at the forthcoming Annual General Meeting ("AGM") on Thursday, 23 May 2019 in accordance with the Company's Articles of Incorporation (the "Articles") and the AIC Code of Corporate Governance.

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 gender diversity was a consideration throughout the selection process in respect of the appointment of Frances Daley in February 2018. Notwithstanding this, 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

There is no requirement under the Company's Articles of Incorporation or the terms of their appointment for Directors to hold shares in the Company.

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

Director	At 31 December 2018		At 27 March 2019	
	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	0.08	297,030	0.08
Tim Bee**	150,000	0.04	150,000	0.04
Frances Daley	30,000	0.01	30,000	0.01

\* Held by his minor children.

\*\* Held by his spouse.

### Share Capital

As at 31 December 2018, the Company's total issued share capital was 372,821,136 Ordinary Shares (31 December 2017: 372,821,136). 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 (2017: none) are currently in issue.

### Disapplication of Pre-emption Rights

At the 2018 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 4 April 2018. The Company has not issued any shares under this authority during the year. This authority will expire at the conclusion of the 2019 AGM. Resolutions will be proposed at the 2019 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.

### 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 Company at the last AGM on 17 May 2018 and expires on the date of the next AGM. The Directors are proposing that the authority to buy back shares be renewed at the forthcoming AGM on 23 May 2019.

### 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;



## Report of the Directors (continued)

- 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 FCA 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 2018		At 27 March 2019	
	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	<b>27,154,198</b>	<b>7.28</b>
AXA Investment Managers	18,778,679	5.03	<b>18,778,679</b>	<b>5.03</b>

As a company registered in Guernsey, 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%.

## Dividends

The Directors maintain a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' views 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 2018, the Company declared three quarterly dividends, each of 1.85pps. A fourth quarterly dividend of 2.50pps for the year ended 31 December 2018 was declared on 21 February 2019. This dividend will be paid on 11 April 2019 to Shareholders on the register at the close of business on 1 March 2019. The ex-dividend date was 28 February 2019.

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 23 May 2019. 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.

## Report of the Directors (continued)

In order to maintain REIT status, the Company is 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.

### Issue of 4.5% Sterling Retail Eligible Bonds

Following the successful raise of £50.0m in a retail eligible bond issue, the bonds were admitted to trading on the London Stock Exchange on 7 August 2018. Further details of the bond issue can be found in the Company's prospectus dated 18 July 2018.

### 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.

During the year, a site visit was undertaken for institutional and wealth managers at Portland Street, Manchester. In addition, roadshows were conducted in Jersey, Liverpool and Manchester meeting current and potential Shareholders.

The Company also encourages investors and analysts to utilise its on-line facilities and communications and has developed a comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

The Board receives a regular investor relations report summarising Shareholder contact, sell-side analysts' research, media coverage, and share price movements. 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.

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 including 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 of ways of building on its engagement with Shareholders, sell-side analysts and potential investors in the course of 2019.

### Financial Risk Management

The principal risks and uncertainties faced by the Group and the Group's policies for managing these risks are set out on pages 49 to 55.

The principal financial risks relating to financial instruments, including the Company's retail eligible sterling bonds, and details of the risk mitigation factors relating to these financial instruments are set out in note 30.

### Going Concern

The Board confirms that it has a reasonable expectation that the Group has 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 Group'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.

## Report of the Directors (continued)

### Viability Statement

The Directors have assessed the prospects of the Group and future viability over a four-year period from the 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 be able to operate and meet its liabilities as they fall due over the next four years, taking account of the Group's current position and principal risks as set out in the Chairman's Statement and the principal risks and uncertainties report.

During 2018, 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 four-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believes 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 four-year period based upon the Group's detailed budget covering a rolling four-year period; and the WAULT of 3.4 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 6.4 years as at 31 December 2018.

The Board's expectation is further underpinned by the regular briefings provided by each of the Asset and Investment Manager. These briefings consider market conditions, opportunities, the ability to raise third-party funds and deploy these promptly, and changes in the regulatory landscape, and 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 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 Group has no direct social or community responsibilities, but the environmental impact of our properties is important to the Group. Although the Group is not required by statute to provide reporting on its environmental impact and, as a Company 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 Group. Further details can be found on pages 40 to 42.

### Auditor

RSM UK Audit LLP ("RSM") was appointed as auditor to the Company on listing on 6 November 2015. 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.

### 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 is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is 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 and Investment Managers are set out in note 35.



## Report of the Directors (continued)

### Subsequent Events

Details of significant subsequent events are set out in note 36.

### Annual General Meeting

The Company's AGM will be held at 11am on Thursday, 23 May 2019, 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](http://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

27 March 2019





Property Name: Oakland House, Manchester  
Sector: Office





## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and applicable regulations, including the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules.

The Law requires the Directors to prepare financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the FCA to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

In preparing the Group 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 will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group 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 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 Group'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 58 and 59, 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 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 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 Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 27 March 2019 and signed on its behalf by:

**Kevin McGrath**  
Chairman and Independent Non-Executive Director  
27 March 2019



## 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 its compliance with the code of corporate governance that it has chosen to adopt.

The Listing Rules and the Disclosure Guidance and Transparency Rules of the FCA 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 complied with the principals of 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"), 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 the Company. 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](http://www.theaic.co.uk). A copy of the UK Code can be obtained at [www.frc.org.uk](http://www.frc.org.uk). A copy of the GFSC Code can be obtained via the GFSC website at [www.gfsc.gg](http://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; and
- executive Directors' remuneration.

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 management and administration 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 further in respect of 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 each of the Asset and Investment Manager 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 either 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 Board, led by the Senior Independent Director met and discussed the performance of the Chairman, including his independence without the Chairman being present. The Chairman was deemed independent.</p>
2	The independence of Directors	<p>The Board consists of six Non-Executive Directors; four Independent Directors (Kevin McGrath, Frances Daley, William Eason and Daniel Taylor) who are each independent of each of the Asset and Investment Manager; and two Non-Independent Directors (Stephen Inglis and Timothy Bee) who sit on the Board and report on the activities of each of the Asset and Investment Manager respectively.</p> <p>William Eason and Frances Daley are Directors of separate companies managed by investment manager Janus Henderson. This has been considered by the Board, who are satisfied that they are demonstrably independent and that their independence as Directors of the Company is not affected. Although managed by the same investment manager, these appointments are entirely separate from each other and this Company. Therefore, the other Directors having considered the impact of this relationship, were satisfied that each Director took an impartial and objective approach in their duties as a Director of the Company.</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 AGM of the Company.</p> <p>The individual performance of each Director is evaluated annually by the Chairman, as well as through the annual Board evaluation process. The Senior Independent Director led the evaluation of 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, which is fully described on page 76.</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>The Board acknowledges the AIC Code provisions relating to 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, there is currently 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> <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 of three years, 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>During the year, the Board agreed to extend the appointment period of Kevin McGrath, Daniel Taylor, Stephen Inglis and William Eason for a further three-year term.</p>
5	There should be full disclosure of information about the Board	<p>The biographical details for each Director are set out on pages 58 and 59 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.</p> <p>The Audit Committee report is set out on pages 79 to 81 of this Report. The Audit Committee membership comprises all the Independent Directors and it is now chaired by Frances Daley. The Chairman is a member of the Audit Committee but does not chair it.</p> <p>The MERC report is set out on pages 82 and 83 of this Report. The MERC membership comprises all the Independent Directors and it is now chaired by William Eason.</p> <p>For the period from 1 January 2018 to 20 June 2018, the Chairman of the Board was also Chair of the MERC. Whilst not in compliance with the AIC's recommendation, due to the size and nature of the Company, the Board felt that it was appropriate for the Chairman of the Board to also Chair the MERC, with the caveat that the Chairman's own remuneration was set by the other Independent Directors. The Chairman is a member of the MERC.</p> <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 separate Nomination Committee.</p> <p>As part of the annual Board evaluation process, the effectiveness of the committee structure is considered.</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 experience, skills and knowledge of the Directors is detailed in the biographies of the Directors, set out on pages 58 and 59 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 Board carried out an evaluation of performance during 2018 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. Details of the evaluation for 2018 are shown on page 76.</p> <p>The performance of the Chairman is evaluated by the other Directors on an annual basis using the questionnaires, under the leadership of the Senior Independent Director.</p>
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent	<p>Details of the Directors' remuneration is contained in the Directors' Remuneration Report on page 84 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>
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 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. As reported in the 2017 report, the recruitment process for the appointment of Frances Daley was undertaken by the independent directors. Neither open advertising or an external search consultancy were used in the recruitment process.</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 each of the Asset and Investment Managers, which covers the investment portfolio and the Managers' approach to investment.</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>
11	The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage	<p>Principle 11 applies to the launch of new investment companies and is, therefore, not applicable to the Company.</p>

## Corporate Governance (continued)

AIC Code	Principle	Compliance Statement
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 and Investment Managers.</p> <p>Representatives of each of the Asset and Investment Manager 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 and senior members of the 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 and Investment Managers.</p> <p>The Board is responsible for establishing the investment objectives, strategy, the type of investment 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 NAV 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 Board regularly considers the merits of a share buy back.</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>
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 each of the Asset and Investment Manager and considers the appropriateness of their continued appointments and contractual arrangements (including the structure and level of remuneration).</p> <p>The Audit Chairman, on behalf of the Committee, reviews the Asset and Investment Manager's 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 Depository to ensure that the safeguarding of the Company's assets and security of the Shareholders' investment is being maintained. The Depository provides an Annual Depository Report to the Audit Committee.</p>

## Corporate Governance (continued)

AIC Code	Principle	Compliance Statement
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 disposal of any portfolio property, the value of which exceeds £15m.</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 both the Asset and Investment Managers attend each meeting of the Board to address questions on operational issues and specific matters and to seek approval for specific transaction 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	The 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 by the Investment Manager on a daily basis. 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 in respect of the continuing appointment of these third parties.</p> <p>The Board ultimately considers if a provider should be replaced.</p>
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 brokers. 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. Any feedback is provided to and greatly valued by the Board. During 2018, the Chairman met with two principal Shareholders.</p> <p>Any views expressed by Shareholders on the remuneration being paid to Directors would be taken into consideration by the MERC when reviewing levels of remuneration.</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 AGM. The Asset Manager will make a presentation to Shareholders covering the performance and strategy of the Company at the AGM. The Directors welcome the view of all Shareholders.</p>



## Corporate Governance (continued)

AIC Code	Principle	Compliance Statement
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 matter are discussed by the Board taking into account representations from the Asset and Investment Managers and, as appropriate, the Auditor, Legal Adviser, Broker and Company Secretary. Formal Board approval of any substantive communication is required.
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 Director's assessment of the Principal Risks and their mitigation are set out on pages 49 to 52.</p> <p>The Investment Objective and Policy are set out on page 15.</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 22 to 46. The performance of each of the Asset and Investment Manager is considered on an annual basis by the MERC. Details of the MERC's review of the performance of both the Asset and Investment Manager is set out on pages 82 and 83.</p> <p>Details of the Performance Fees payable to the Asset and Investment Managers are set out on page 55.</p> <p>The ongoing charge is disclosed in the Financial Review section of the Report.</p> <p>The going concern and viability statements of the Group are set out on pages 63 and 64.</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 34 to 39.</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 each of the Asset Manager and the Investment Manager. The set of matters reserved for the Board includes establishing the investment objectives, strategy, raising new capital, major financing facilities and specific risk management policies including treasury policies, hedging, borrowing limits and corporate security.</p> <p>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 45 and 46 and in the notes to the accounts. Details of the Company's banking covenants are disclosed in note 23.</p>

## Corporate Governance (continued)

### 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 58 and 59.

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 has 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 to the start of the AGM.

### Senior Independent Director

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.

### Board Diversity

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 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.

### 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 2018, the number of scheduled Board meetings attended by each Director was as follows:

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

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

The Board follows 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, asset allocation, 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 meets once a year for a whole day to review and focus on the Company's strategy. In June 2018, all of the Directors of the Company attended the strategy meeting held at one of the Company's properties located in Bristol.

### 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.

## Corporate Governance (continued)

### Board Evaluation

The Directors are aware of the need to continually monitor and improve performance and recognise that this can be achieved through undertaking a regular Board evaluation exercise, providing a valuable feedback mechanism for improving Board effectiveness. The Board agreed that the use of an external evaluation service provider was not necessary at this stage; however, this would be kept under review.

The Directors have opted to undertake an internal performance evaluation specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its committees. The evaluation was conducted using tailored questionnaires and was structured to analyse the focus of Board composition and effectiveness, the efficiency of Board and Committee meetings, and to assess whether the operation of such meetings was appropriate, as well as whether any additional information may be required to facilitate better Board discussions. The Board was also asked to consider Board support, strategic operational oversight, shareholder engagement and succession planning.

Overall, the results of the evaluation were positive, with Director engagement and preparation for meetings, and combined knowledge of the property sector viewed as strengths. There were no significant concerns amongst the Directors relating to the effectiveness of the Board.

The results of the 2019 Board evaluation process were reviewed and discussed by the Board as a whole.

As evidenced by the result of the evaluation, the Board considers that all the current Directors contribute effectively and have the skills and experience relevant to foster the effective leadership and direction of the Company.

The Chairman's review was positive, and the other Directors considered that the Chairman remained independent and that he continued to strongly and effectively lead the Board of the Company. In addition, post the year end, the Senior Independent Director led a separate discussion with the other Directors (in the absence of the Chairman) to discuss the evaluation results and provide a forum for open discussion. There were no concerns to report.

### 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.

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

### Audit Committee

Throughout 2018, the Audit Committee comprised the four Independent Directors. Frances was appointed as a member on 1 February 2018 and subsequently became chairman of the Audit Committee in June 2018. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman.

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.

Any individual who is not a member of the Audit Committee is not entitled to attend or to vote at its meetings. However, the Audit Committee may invite anyone to attend Committee meetings at its discretion and representatives of the external auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 79 to 81.

### Management Engagement and Remuneration Committee ("MERC")

Throughout 2018, the MERC comprised the four Independent Directors and is now chaired by William Eason. Kevin McGrath stepped down as Chairman of the MERC in June 2018 but remains a member of the Committee.

Although an individual who is not a member of the MERC is not entitled to attend and vote on matters at its meetings, the Committee may invite anyone to attend at its discretion. A MERC Report is set out on pages 82 and 83.

### Management of Risk and Internal Controls

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 and Investment Managers. 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 principal 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 £15m 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.



## Corporate Governance (continued)

### Management of Risk and Internal Controls (continued)

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 every six months.

The principal risks that have been identified by the Board are set out on pages 49 to 52.

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 principal third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the Company's material third parties, excluding LSI and Toscafund, provides a copy of its report on internal controls each year, which is reviewed by the Audit Committee.

The Audit Chairman, on behalf of the Audit Committee, meets with representatives of LSI and Toscafund to discuss and review their internal controls. The Depository provides depository services under the AIFMD to the Company and reports on an annual basis to the Company, in addition to quarterly reports, on its specific monitoring of cash transactions and asset verification.

Taking into account the principal risks provided on pages 49 to 52 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 controls systems and no significant failings were identified.

By order of the Board

**Kevin McGrath**

Chairman and Independent Non-Executive Director

27 March 2019

Property Name: Columbus House, Coventry  
Sector: Office





## Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 December 2018, this being my first report as Chairman of the Audit Committee (the "Committee") having taken over the chairmanship from William Eason. I am a Chartered Accountant and have chaired an audit committee previously.

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. The Committee is to meet at least twice annually and its quorum is two members. None of the members of the Committee are connected to either the Asset or Investment Manager or to the Auditor. Whilst Kevin McGrath is an independent Director he is also Chairman of the Company. The Committee have considered it beneficial to have Kevin and his experience.

### Role of the Audit Committee

The principal duties of the Audit Committee are:

#### Financial Reporting

- to monitor the integrity of the half-yearly financial statements, full-year financial statements and preliminary results announcement of the Company;
- to review and report to the Board on any significant financial reporting issues and judgments, having regard to any matters communicated to it by the Auditor; and
- 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 position and performance, business model and strategy.

### Risk Management and Control

- to keep under review the adequacy of the Company's third-party service providers' internal controls and risk management systems; and
- 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, re-appointment, terms of engagement, objectivity and independence and performance. The committee makes recommendations to the Board as appropriate;
- to review the policy on the engagement of the Auditor to supply non-audit services;
- to safeguard the Auditor's independence and objectivity; and
- to regularly review the need for an internal audit function.





## Audit Committee Report (continued)

### External Property Valuation

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

### Other

- to review the Committee's terms of reference and performance effectiveness; and
- to report to the Board on how it has discharged its responsibilities.

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

During the year ended 31 December 2018, the Audit Committee met on three occasions and once post the year end. At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of key 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 half-year and annual 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 49 to 55.

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

Attendance at these meetings was as follows:

Member	Scheduled Audit Committee Meetings	
	Number of meetings entitled to attend	Number attended
Frances Daley (Chairman)	3	3
William Eason	3	3
Kevin McGrath	3	3
Daniel Taylor	3	3

### 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.

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. The Audit Committee were satisfied with the valuation reports.

The performance of the valuers is assessed on an annual basis by the MERC, as set out in their report on pages 82 and 83.

### 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.

Each year, the Audit Committee meets with the Auditor before the 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.

The Audit Committee has undertaken a review of the effectiveness of the external audit process and considered the reappointment of the Auditor. The review comprised, amongst other factors, the quality of the staff including the performance of the lead audit partner, the competence and expertise of the audit team, the resources, and communication between the audit team and the Asset and Investment Managers.

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 and the Audit Committee concluded that the quality of the external Auditor's work, and the knowledge and competence of the audit team, had been maintained at an appropriate standard during the year.

Following the consideration of the above matters and its detailed review, the Audit Committee is 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 Committee Report (continued)

### Audit Fees and Non-Audit Services

An audit fee of £77,500 has been agreed in respect of the audit of the Company for the year ended 31 December 2018 (31 December 2017: £75,000). The Group's audit fees for the year ended 31 December 2018 totalled £222,500 (31 December 2017: £246,000).

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. 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 2018 was £26,000 (31 December 2017: £122,998). 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. In line with the mandatory rotation of the Company's audit partner every five years, Mr Banks will rotate as audit partner after the financial year ending 31 December 2019. 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, taking consideration of the 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 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 2018, 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 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 an appropriate standard.

**Frances Daley**  
Audit Committee Chairman

27 March 2019

## Management, Engagement and Remuneration Committee Report

As newly appointed Chairman, I am pleased to present the Management Engagement and Remuneration Committee Report for the year ended 31 December 2018.

### 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 twice during the year and once post year end. It considered the continued appointment and remuneration of the Asset and Investment Managers and the continued appointment of all of the Company's corporate advisers and principal service providers. The MERC also considered the remuneration of the independent non-executive Directors.

The Asset Manager, on behalf of the MERC, is currently undertaking a re-tender of the position of valuer to the Company's property portfolio, with a view of engaging the successful party in advance of the Company's portfolio valuation as at 30 June 2019. This re-tender includes the current incumbents. The Asset Manager will make recommendations to the MERC as to a preferred party to enable the MERC to subsequently recommend to the Board the party to be appointed.

The MERC conducted its annual comprehensive review of the performance of the Managers and the Company's key service providers. It assessed the performance, quality of service and ongoing requirement for the provision of such services, the fees paid to and the additional added value given by the Managers and the Company's service providers. The MERC also reviews the resourcing at the Managers.

On a regular basis, the Board reviews the investment and disposal decisions made by the Asset Manager. To ensure open and regular communication between the Managers and the Board, representatives of both Managers attend all Board meetings, to update the Board on the Company's investments and discuss the market generally and to discuss the financial performance and strategy of the Company.

The Board keeps the performance of both Managers under continual review.

On the basis of the review undertaken by the MERC, the MERC was satisfied with the performance of each of the Asset Manager and Investment Manager and their ability to support the Company's Investment Objective, and agreed to recommend to the Board that the continued appointment of each of 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 MERC was satisfied that the Company was benefiting from added value in respect of the services it procures from third parties. Subject to the result of the tender, details of which are set out above, the Committee recommends that all other third-party service providers should be retained.





## Management, Engagement and Remuneration Committee Report (continued)

Attendance at these meetings was as follows:

Member	Scheduled MERC Meetings	
	Number of meetings entitled to attend	Number attended
Bill Eason (Chairman)	2	2
Kevin McGrath	2	2
Daniel Taylor	2	2
Frances Daley	2	2

### 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 MERC Committee continued to operate at a high standard.

#### William Eason

MERC Committee Chairman

27 March 2019

## Remuneration Report

### Statement from the Chairman

I am pleased to present the Directors' remuneration report for the year ended 31 December 2018.

As at 31 December 2018 and the date of this report, the Board consists entirely of non-executive Directors and the Company has no employees. Annually, the MERC reviews Directors remuneration, considering the level of activity of the Company, its financial results, market rates generally and the time commitment and responsibilities required of each Director. As a result of this review, with effect from 1 April 2019, fees will be increased by 5% to £73,500 (previously £70,000) per annum for the Chairman and £52,500 (previously £50,000) per annum for other Directors. No additional increase in fees would be payable to the Chairman of the Audit Committee and the Senior Independent Director.

Each Director abstained from voting on their own individual remuneration. Directors' fees have not been increased since the Company's inception in 2015. The increase in Directors' fees remains within well within the approved maximum aggregate set out in the Company's Articles of Association of £300,000 per annum.

### Directors' Remuneration

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).

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

Stephen Inglis receives no remuneration from the Company due to his position as chief executive officer of the Asset Manager. Tim Bee receives 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.

### 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.

### 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 2018	Fees paid to 31 December 2017
Kevin McGrath	£70,000	£70,000
William Eason	£50,000	£50,000
Daniel Taylor	£50,000	£50,000
Frances Daley*	£45,833	–
Stephen Inglis	–	–
Tim Bee	–	–
<b>Aggregate:</b>	<b>£215,832</b>	<b>£170,000</b>

\* Appointed on 1 February 2018

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

Any views expressed by Shareholders on the fees being paid to Directors would be taken into consideration by the MERC when reviewing levels of remuneration.

By order of the Board

**William Eason**  
MERC Chairman

27 March 2019





Property Name: Buildings 2 & 3 HBOS Campus, Aylesbury  
Sector: Office



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

### Opinion

We have audited the financial statements of Regional REIT Limited and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law 2008 (the "Law") and Article 4 of the IAS Regulation.

### Basis for opinion

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

### Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 49 to 52 that describe the principal risks and explain how they are being managed or mitigated;

- the Directors' confirmation set out on page 64 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 63 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'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 set out on page 64 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 group 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 group 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

#### Risk of material misstatement

This is detailed in the Audit Committee report on pages 79 to 81; the significant accounting judgements and estimates on pages 96 to 98; significant accounting policies on pages 98 to 102 and note 14 to the financial statements on pages 107 to 109.

The group owns or controls through a portfolio of Special Purpose Vehicles (SPVs) a portfolio of investment properties which include industrial, office and retail. The total value of the portfolio at 31 December 2018 was £718.4m (2017: £737.3m). These properties are diversified 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.

### Audit approach adopted

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 the valuation of these large properties and significant movements with the property manager and valuer, who demonstrated a detailed knowledge of each property, the geographical location, the tenant status and the overall asset desirability.

We audited the additions and disposals made in the year and agreed a sample of these to completion statements, we also confirmed the appropriate funds were transacted through the group's bank accounts. Where disposals were materially higher than the prior period valuation, we challenged the valuer to understand the reasons for these movements and the resultant profit on disposal.

We tested the inputs used by the valuer and ensured these reflected the correct inputs for a sample of properties.

We tested ownership for a sample of properties by reference to land registry documents.

### Key observations

We concluded that the fair values of the investment properties being adopted by the group were appropriate.

### 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. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £8m, which was not significantly 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 that threshold 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 auditing as noted above.

### Other information

The other information comprises the information included in the annual report set out on pages 1 to 84, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 67** – 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 79 to 81** – 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 pages 68 to 74** – 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.

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

### 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 Law 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 knowledge and belief, are necessary for the purposes of our audit.

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 67, 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 to this auditor's report. This description, which is located on page 89, 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 audit committee 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 four years, covering the years ending 31 December 2015 to 31 December 2018.

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.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Law. 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

27 March 2019



## 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 as applied to listed public interest entities, 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.

Property Name: 800 Aztec West, Bristol  
Sector: Office



## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 (restated) £'000
<b>Continuing Operations</b>			
Revenue			
Rental income	5	74,019	61,610
Property costs	6	(19,644)	(15,763)
<b>Net rental income</b>		<b>54,375</b>	<b>45,847</b>
Administrative and other expenses	7	(17,586)	(9,429)
<b>Operating profit before gains and losses on property assets and other investments</b>		<b>36,789</b>	<b>36,418</b>
Gain on disposal of investment properties	14	23,127	1,234
Change in fair value of investment properties	14	23,881	5,893
<b>Operating profit</b>		<b>83,797</b>	<b>43,545</b>
Finance income	9	268	215
Finance expense	10	(15,983)	(14,728)
Impairment of goodwill	16	(557)	(557)
Net movement in fair value of derivative financial instruments	26	415	217
<b>Profit before tax</b>		<b>67,940</b>	<b>28,692</b>
Taxation	11	(567)	(1,632)
<b>Total comprehensive income for the year (attributable to owners of the parent company)</b>		<b>67,373</b>	<b>27,060</b>
Total comprehensive income arises from continuing operations.			
Earnings per share – basic	12	18.1p	9.1p
Earnings per share – diluted	12	18.1p	9.1p

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



## Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	31 December 2018 £'000	31 December 2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	14	718,375	737,330
Goodwill	16	1,115	1,672
Non-current receivables on tenant loan	17b	1,396	1,926
		<b>720,886</b>	<b>740,928</b>
<b>Current assets</b>			
Trade and other receivables	18	22,163	21,947
Cash and cash equivalents	19	104,823	44,640
		<b>126,986</b>	<b>66,587</b>
<b>Total assets</b>		<b>847,872</b>	<b>807,515</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	(30,663)	(26,941)
Deferred income	21	(11,043)	(12,667)
Taxation liabilities	22	(1,763)	(2,636)
Bank and loan borrowings	23	(400)	(400)
Zero dividend preference shares	24	(39,816)	–
		<b>(83,685)</b>	<b>(42,644)</b>
<b>Non-current liabilities</b>			
Bank and loan borrowings	23	(285,199)	(333,981)
Zero dividend preference shares	24	–	(37,239)
Retail eligible bonds	25	(49,136)	–
Derivative financial instruments	26	(337)	(752)
		<b>(334,672)</b>	<b>(371,972)</b>
<b>Total liabilities</b>		<b>(418,357)</b>	<b>(414,616)</b>
<b>Net assets</b>		<b>429,515</b>	<b>392,899</b>
<b>Equity</b>			
Stated capital	27	370,316	370,318
Retained earnings		59,199	22,581
<b>Total equity attributable to owners of the parent</b>		<b>429,515</b>	<b>392,899</b>
<b>Net asset value per share – basic</b>	28	<b>115.2p</b>	<b>105.4p</b>
<b>Net asset value per share – diluted</b>	28	<b>115.2p</b>	<b>105.1p</b>

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 27 March 2019 and signed on its behalf by:

**Kevin McGrath**

Chairman and Independent Non-Executive Director

27 March 2019

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	Attributable to owners of the parent company		
		Stated capital £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2018</b>		370,318	22,581	392,899
Total comprehensive income		–	67,373	67,373
Share based payments	35	–	(930)	(930)
Share issue costs	27	(2)	–	(2)
Dividends paid	13	–	(29,825)	(29,825)
<b>Balance at 31 December 2018</b>		<b>370,316</b>	<b>59,199</b>	<b>429,515</b>

For the year ended December 2017

	Notes	Attributable to owners of the parent company		
		Stated capital £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2017</b>		274,217	17,518	291,735
Total comprehensive income		–	27,060	27,060
Share based payments	35	–	814	814
Issue of share capital	27	98,687	–	98,687
Share issue costs	27	(2,586)	–	(2,586)
Dividends paid	13	–	(22,811)	(22,811)
<b>Balance at 31 December 2017</b>		<b>370,318</b>	<b>22,581</b>	<b>392,899</b>

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

## Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Cash flows from operating activities</b>		
Profit for the year before taxation	67,940	28,692
– Change in fair value of investment properties	(23,881)	(5,893)
– Change in fair value of financial derivative instruments	(415)	(217)
– Gain on disposal of investment properties	(23,127)	(1,234)
Impairment of goodwill	557	557
Finance income	(268)	(215)
Finance expense	15,983	14,728
Share based payments	(930)	814
Increase in trade and other receivables	(7)	(5,479)
Increase in trade and other payables	5,323	8,617
Decrease in deferred income	(2,358)	(119)
<b>Cash generated from operations</b>	<b>38,817</b>	<b>40,251</b>
Financial income	250	988
Finance costs	(12,173)	(10,155)
Taxation paid	(1,467)	(236)
<b>Net cash flow generated from operating activities</b>	<b>25,427</b>	<b>30,848</b>
<b>Investing activities</b>		
Purchase of investment properties	(48,675)	(25,188)
Sale of investment properties	149,276	16,921
Interest received	220	25
Acquisition of subsidiaries, net of cash acquired	(32,629)	(51,866)
<b>Net cash flow generated from/(used in) investing activities</b>	<b>68,192</b>	<b>(60,108)</b>
<b>Financing activities</b>		
Proceeds from the issue of shares	–	72,654
Share issue costs	(1,190)	(1,398)
Dividends paid	(29,429)	(23,321)
Net costs paid on the disposal of derivatives	–	(441)
Bank borrowings advanced	50,959	179,540
Bank borrowings repaid	(101,506)	(165,619)
Bank borrowing costs paid	(1,345)	(3,714)
Proceeds from Bond issue	50,000	–
Bond issue costs paid	(925)	–
<b>Net cash flow (used in)/generated from financing activities</b>	<b>(33,436)</b>	<b>57,701</b>
<b>Net increase in cash and cash equivalents</b>	<b>60,183</b>	<b>28,441</b>
<b>Cash and cash equivalents at the start of the year</b>	<b>44,640</b>	<b>16,199</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>104,823</b>	<b>44,640</b>

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

### 1. Corporate information

The Group's consolidated financial statements for the year ended 31 December 2018 comprise the results of the Company and its subsidiaries (together constituting "the Group") and were approved by the Board and authorised for issue on 27 March 2019.

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 Strategic Report on pages 10 to 57.

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 financial statements have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA 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.

Comparative information in the Group's Consolidated Statement of Comprehensive Income for revenue income and property costs have been restated due to the adoption of IFRS 15 'Revenue from contracts with customers'. Details are given in note 2.4, note 5 and note 6. There is no overall impact on net rental income.

#### 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 (£'000) 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. The Regional REIT ZDP PLC zero dividend preference shares matured on 9 January 2019 and, as detailed in note 36 on page 130, zero dividend preference shareholders were paid after the year end. No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of not less than 12 months. The Directors have satisfied themselves that the Group 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 Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 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 2018 have had an impact on the financial statements as follows:

**IFRS 9, 'Financial Instruments'**, effective for annual periods beginning on or after 1 January 2018. The Group now applies an expected credit loss model when calculating impairment losses on its trade and other receivables. Rental guarantees included with trade and other receivables are classified as a financial asset and valued at fair value.

A review of comparative figures has taken place and it has been determined that the accounting policy change has not had a material impact on the impairment of debtors at 31 December 2017.

**IFRS 15, 'Revenue from contracts with customers'**, is effective for accounting periods beginning on or after 1 January 2018. Income arising from renting a property is not within the scope of this standard and the accounting treatment is unchanged. Income arising from expenses recharged to tenants is now recognised in net rental income as the Directors consider that the Group acts as principal in this respect. Rental income and property costs have been grossed up for recoverable service charge income and expenditure and comparative figures have been updated.

This has resulted in an increase in rental income of £9,216,000 and a corresponding increase in non-recoverable property costs of £9,216,000 for the year ended 31 December 2017. As a result there has been no impact to the profit position for the year ended 31 December 2017 and no changes to opening reserves at 1 January 2017.

#### 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 2019, and have not been applied in preparing these financial statements. These are:

**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.

As detailed in note 33, the Group has a number of operating leases concerning the long-term lease of land associated with its long leasehold investment properties. At 31 December 2018, there was £50,614,000 ground rent committed under these leases. Under IFRS16, the Group will recognise the right-to-use-asset (classified as an investment property) in the Consolidated Statement of Financial Position and this will be valued at fair value. Changes in fair value will be recognised in the Consolidated Statement of Comprehensive Income. In addition, a financial liability will be recognised in the Consolidated Statement of Financial Position which will be valued at the present value of future lease payments. Lease payments (also known as ground rent) which are currently recognised within non-recoverable property costs will instead reduce the financial liability and any further changes to the value of the financial liability will be recognised as finance costs. Under IFRS16, comparative information is not required to be restated upon adoption if the "modified retrospective" approach is applied.

The Directors anticipate that the value of the right to use asset and the financial liability at 31 December 2018 are £7,614,000 and £7,614,000 respectively so the overall impact on net assets will be negligible. The overall impact on profits will also be negligible. However, instead of costs of approximately £618,000 per annum being recognised in non-recoverable property costs, equivalent amounts will instead be recognised within unrealised gains and finance costs.

### 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

#### 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 £718,375,000 (31 December 2017: £737,330,000), 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.

In relation to Brexit, the ongoing negotiations with regards to the terms of the UK's exit from the EU has meant that property market uncertainty has increased. The independent property valuation experts are comfortable that, despite the property market uncertainty, there is sufficient transactional market evidence at the reporting date to support the fair value of investment property.

##### 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 £337,000 (31 December 2017: £752,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

##### 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 £1,115,000 (31 December 2017: £1,672,000).

#### 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 calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183 to 185 of the IPO Prospectus.



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

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

Management considered that up until 9 November 2018, the Group had de facto control of View Castle Limited (previously known as Credential Investment Holdings Limited), and its 27 subsidiaries (the "Credential Sub Group") by virtue of the amended and restated Call Option Agreement dated 3 November 2015. Following a restructure of the Credential Sub Group, the majority of properties held within the Credential Sub Group were transferred into two new SPVs with two additional properties to be transferred into these SPVs at a later date. A new call option was entered into dated 9 November 2018 with View Castle Limited and 5 of its subsidiaries (the "View Castle Group"). As per the previous amended and restated Call Option Agreement, under this new option the Group may acquire any of the properties held by the View Castle Group for a nominal consideration. Despite having no equity holding, the Group controls the View Castle Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the View Castle Group through its power to control. The View Castle 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. Acquisitions of subsidiary companies

During the year, the Group has made two purchases of subsidiary companies which own investment properties. For each acquisition, the Directors consider whether the 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 companies acquired in the year have comprised portfolios of investment properties and existing leases with multiple tenants over varying periods, with little in the way of processes acquired. It has therefore concluded in each case that the acquisitions did not meet the criteria for the acquisition of a business as outlined IFRS 3 above.

### 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 2017 and have been consistently applied for the year ended 31 December 2018. There are no significant changes arising from accounting standards adopted, effective for the first time this year, as summarised in note 2.4. As detailed in note 2.4 rental income and property expenses have been grossed up for service charge income and expenditure; however, there is no overall impact on profits or assets of the Group.

#### 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.

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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

#### 4.2. Subsidiaries (continued)

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.

##### 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.

#### 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 amount 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

#### 4.6 Derivative financial instruments (continued)

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 as at fair value through profit or loss or at amortised cost, depending on the purpose for which the asset was acquired. Currently the Group does not have any financial assets which it has classified at fair value through profit or loss.

Assets held at amortised cost arise principally from the provision of goods and services (e.g. trade receivables), but also incorporate other financial assets where the objective is to hold these assets in order to collect contractual cash flows which comprise the payment of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for impairment.

The Group's financial assets comprise 'trade and other receivables', 'tenant loan', 'surrender premium' and 'cash and cash equivalents'.

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.

#### 4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost less provision for impairment. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. Impairment provisions are recognised based on the expected credit loss model detailed within IFRS 9.

The Group recognises a loss allowance for expected credit losses (ECL) on trade receivables. The loss allowance is based on lifetime expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Impaired balances are reported net, however, impairment provisions are recorded within a separate provision account with the loss being recognised within administration costs within the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable the gross carrying value of the asset is written off against the associated provision.

Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

#### 4.9. Cash and cash equivalents

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

#### 4.10. Trade payables

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

#### 4.11. Bank and other borrowings

All bank and other borrowings (comprising bank loans and retail eligible bonds) 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.



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

#### 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.

Income arising from expenses recharged to tenants is recognised in the year in which the compensation becomes receivable. Service charges and other similar receipts are included in net rental income gross of the related costs as the Directors consider the Group acts as principal in this respect.

#### 4.15. Property costs

Non-recoverable property costs contain service and management charges related to empty properties and ground rents charges.

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

Recoverable service charges and other similar costs are recognised in the accounting period in which the services are rendered.

Ground rents are payments made under operating leases associated with the ownership of long leasehold investment properties. Payments made under these operating leases are expensed in the Consolidated Statement of Comprehensive Income over the term of the lease on a straight-line basis. Future commitments under these operating leases are detailed in note 33.

#### 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.

#### 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

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

#### 4.19. Taxation (continued)

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. If circumstances change and the fee is no longer settled by the issue of shares then the amounts previously credited to Equity reserves are reversed.

In accordance with the FCA's Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. Accordingly, the Management Agreements have been amended to clarify that, in this situation, the Performance Fee will be paid entirely in cash but 50% of that amount will be used to acquire shares in the market on behalf of the Managers within a 20 business day period on an instruction to do so. On this occasion the shares will be paid for entirely in cash and be acquired from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the Performance Fee in shares.

### 5. Rental income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 (restated) £'000
Rental income – freehold property	54,107	44,505
Rental income – long leasehold property	7,968	7,844
Recoverable service charge income and other similar items	11,944	9,261
<b>Total</b>	<b>74,019</b>	<b>61,610</b>

Comparative figures have been updated as detailed in note 2.4

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 6. Non-recoverable property costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 (restated) £'000
Operating lease expenses	618	563
Other property expenses and irrecoverable costs	7,082	5,939
Recoverable service charge income and other similar costs	11,944	9,261
<b>Total</b>	<b>19,644</b>	<b>15,763</b>

Non-recoverable property costs represent direct operating expenses which arise on investment properties that generate rental income. Comparative figures have been updated as detailed in note 2.4

### 7. Administrative and other expenses

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Investment management fees	2,405	1,732
Property management fees	2,264	1,972
Performance fees	7,046	1,610
Asset management fees	2,405	1,739
Directors' remuneration (see note 8)	235	190
Administration fees	663	702
Legal and professional fees	1,714	1,493
Marketing and promotion	87	68
Other administrative costs (including bad debts)	595	689
Bank charges	172	28
VAT recoverable for previous periods	–	(794)
<b>Total</b>	<b>17,586</b>	<b>9,429</b>

VAT recoverable for previous periods represents amounts recovered following the Company's VAT registration in 2018.

The number of persons employed by the Group in the year was six, 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 2018 £'000	Year ended 31 December 2017 £'000
Audit of the consolidated and parent company financial statements	78	70
Audit related services in respect of the half year financial statements	26	30
Audit of the subsidiaries for their respective periods of account	171	140
Fees associated with share issue	–	108
<b>Total</b>	<b>275</b>	<b>348</b>



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 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 2018 £'000	Year ended 31 December 2017 £'000
Directors' fees	216	170
Employer's National Insurance contributions	19	20
<b>Total</b>	<b>235</b>	<b>190</b>

### 9. Finance income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest income	224	25
Unwinding of the discount on financial assets	44	190
<b>Total</b>	<b>268</b>	<b>215</b>

### 10. Finance expense

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest payable on bank borrowings	11,267	9,550
Accrued capital entitlement on ZDP shares	2,430	1,769
Amortisation of loan arrangement fees	1,172	722
Amortisation of ZDP share acquisition costs	147	114
Break costs associated with refinancing	–	605
Loan arrangement fees recognised early due to refinancing	–	1,968
Bond interest	906	–
Bond issue costs amortised	61	–
<b>Total</b>	<b>15,983</b>	<b>14,728</b>

### 11. Taxation

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Corporation tax charge	1,983	208
(Decrease)/increase in deferred tax creditor	(1,416)	1,424
<b>Total</b>	<b>567</b>	<b>1,632</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 11. Taxation (continued)

The current tax charge is reduced by the UK REIT tax exemptions. The tax charge for the year can be reconciled to the profit in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit before taxation	<b>67,940</b>	28,692
UK corporation tax rate	19.00%	19.25%
Theoretical tax at UK corporation tax rate	12,909	5,523
Effects of:		
Revaluation gain on investment properties	(4,537)	(1,134)
Adjustments to tax charge in respect of previous periods	25	–
Permanent differences	1,592	461
Profits from the tax exempt business	(8,006)	(4,642)
Deferred tax movement	(1,416)	1,424
<b>Total</b>	<b>567</b>	<b>1,632</b>

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 UK corporation tax and UK income tax.

As a REIT, Regional REIT 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.

UK corporation tax and UK income tax 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.

### 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 were dilutive instruments outstanding at 31 December 2018, 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 35, a Performance Fee for the period from commencement of trading to 31 December 2017 was recognised in the financial statements. An estimate was 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 12. Earnings per share (continued)

In accordance with the FCA's Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. Accordingly, the Management Agreements have been amended to clarify that, in this situation, the Performance Fee will be paid entirely in cash but 50% of that amount will be used to acquire shares in the market on behalf of the Managers within a 20 business day period on an instruction to do so. On this occasion the shares will be paid for entirely in cash and be acquired from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the Performance Fee in shares.

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Calculation of Earnings per share</b>		
Net profit attributable to Ordinary Shareholders	67,373	27,060
Adjustments to remove:		
Changes in value of investment properties	(23,881)	(5,893)
Changes in fair value of interest rate derivatives and financial assets	(459)	(407)
Gain on disposal of investment property	(23,127)	(1,234)
Impairment of goodwill	557	557
Deferred tax charge	(1,416)	1,424
Income tax charge on disposal profits	1,416	–
Close out costs on borrowings and derivatives	430	2,507
<b>EPRA Net profit attributable to Ordinary Shareholders</b>	<b>20,892</b>	<b>24,014</b>
Add performance fee	7,046	1,610
<b>Company specific adjusted earnings figure</b>	<b>27,938</b>	<b>25,624</b>
 Weighted average number of Ordinary Shares	 372,821,136	 296,807,647
Dilutive instruments	–	875,752
<b>Adjusted weighted average number of Ordinary Shares</b>	<b>372,821,136</b>	<b>297,683,399</b>
 Earnings per share – basic	 18.1p	 9.1p
Earnings per share – diluted	18.1p	9.1p
EPRA Earnings per share – basic	5.6p	8.1p
EPRA Earnings per share – diluted	5.6p	8.1p
Company specific adjusted earnings per share – basic	7.5p	8.6p
Company specific adjusted earnings per share – diluted	7.5p	8.6p



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 13. Dividends

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Dividend of 2.45 (2017: 2.40) pence per Ordinary Share for the period 1 October 2017 – 31 December 2017	9,134	6,581
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 January 2018 – 31 March 2018	6,897	5,410
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 April 2018 – 30 June 2018	6,897	5,410
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 July 2018 – 30 September 2018	6,897	5,410
	<b>29,825</b>	<b>22,811</b>

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 payment was made on 12 April 2018 to shareholders on the register as at 2 March 2018.

On 17 May 2018, the Company announced a dividend of 1.85 pence per share in respect of the period 1 January 2018 to 31 March 2018. The dividend payment was made on 13 July 2018 to shareholders on the register as at 25 May 2018.

On 31 August 2018, the Company announced a dividend of 1.85 pence per share in respect of the period 1 April 2018 to 30 June 2018. The dividend payment was made on 15 October 2018 to shareholders on the register as at 14 September 2018.

On 15 November 2018, the Company announced a dividend of 1.85 pence per share in respect of the period 1 July 2018 to 30 September 2018. The dividend payment was made on 21 December 2018 to shareholders on the register as at 22 November 2018.

On 21 February 2019, the Company announced a dividend of 2.50 pence per share in respect of the period 1 October 2018 to 31 December 2018. The dividend will be paid on 11 April 2019 to shareholders on the register as at 1 March 2019. The financial statements do not reflect this dividend.

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

### 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 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 14. Investment properties (continued)

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
<b>Movement in investment properties for the year ended 31 December 2018</b>			
Valuation at 1 January 2018	636,600	100,730	737,330
Property additions – acquisitions	76,334	–	76,334
Property additions – subsequent expenditure	6,735	244	6,979
Property disposals	(142,505)	(6,771)	(149,276)
Gain/(loss) on the disposal of investment properties	23,856	(729)	23,127
Change in fair value during the year	24,000	(119)	23,881
<b>Valuation at 31 December 2018</b>	<b>625,020</b>	<b>93,355</b>	<b>718,375</b>

The net book value of properties disposed of during the year amounted to £126,149,000.

#### 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/(loss) on the disposal of investment properties	1,234	–	1,234
Change in fair value during the period	3,201	2,692	5,893
<b>Valuation at 31 December 2017</b>	<b>636,600</b>	<b>100,730</b>	<b>737,330</b>

The net book value of properties disposed of during the year amounted to £15,687,000.

The historic cost of the properties is £675,808,000 (31 December 2017: £628,723,000).

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
<b>31 December 2018</b>	<b>718,375</b>	<b>–</b>	<b>–</b>	<b>718,375</b>
<b>31 December 2017</b>	<b>737,330</b>	<b>–</b>	<b>–</b>	<b>737,330</b>

The hierarchy levels are defined in note 26.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 14. Investment properties (continued)

It has been determined that the entire investment properties portfolio should be classified under the level 3 category. The table below shows the movement in the year on the level 3 category:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Balance at the start of the year	737,330	–
Assets transferred from level 2	–	502,425
Additions	83,313	244,699
Disposals	(149,276)	(16,921)
Gain on the disposal of investment properties	23,127	1,234
Change in fair value during the year	23,881	5,893
<b>Balance at the end of the year</b>	<b>718,375</b>	<b>737,330</b>

The determination of the fair value of the investment properties held by each consolidated subsidiary requires unobservable inputs, such as the use of the estimated 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.

### 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: £1,500–£3,092,226 per annum (2017: £2,860–£3,092,125 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: 0.00%–26.98% (2017: 0.00%–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 Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 15. Investment in subsidiaries

#### 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 Limited	United Kingdom	100%
RR Sea Hannover St. Limited	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 Limited	United Kingdom	100%
RR Sea Stafford Limited	United Kingdom	100%
RR Sea Strand Limited	United Kingdom	100%
RR Sea TAPP Limited	Guernsey	100%
RR Sea TOPP Bletchley Limited	Guernsey	100%
RR Sea TOPP I Limited	Guernsey	100%
RR Skylar Limited	Jersey	100%
RR UK (Central) Limited	Jersey	100%
RR UK (Cheshunt) Limited	Jersey	100%
RR UK (Port Solent) Limited	Jersey	100%
RR UK (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Regional REIT ZDP PLC (in liquidation)	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%
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%

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 15. Investment in subsidiaries (continued)

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

	Country of incorporation	Ownership %
Tosca Scotland Limited	Jersey	100%
RR Star 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 an Amended and Restated Call Option Agreement dated 3 November 2015, the Directors consider that the Group had control of View Castle Limited (previously Credential Investment Holdings Limited) and its 27 subsidiaries (the "Credential Group").

Under this option, the Group has the ability to 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 will be obliged to convey its title within one month after receipt of the option notice.

Despite having no equity holding, the Group controls the Credential Group as the option agreement has the effect that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 15. Investment in subsidiaries (continued)

The companies which make up the View Castle 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 (in liquidation)	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 Charing Cross Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Muirhouse Limited (in liquidation)	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Credential SHOP Limited (in liquidation)	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
Douglas Shelf Seven Limited (in liquidation)	United Kingdom	100%
Dumbarton Road Limited (in liquidation)	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 (in liquidation)	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%
View Castle (Properties) Limited	United Kingdom	100%
View Castle (Milton Keynes) Limited	United Kingdom	100%
View Castle Limited	United Kingdom	100%

All of the above entities have been included in the Group's consolidated financial statements up to 31 December 2018.

On 9 November 2018, the Credential Group was restructured. All but two properties held within the Credential Group were transferred into View Castle (Properties) Limited and View Castle (Milton Keynes) Limited, both subsidiaries of View Castle Limited, with the two outstanding properties to be transferred at a later date. The entities from which the properties were transferred are to be placed into liquidation in 2019.

An updated call option was put in place to include View Castle (Properties) Limited and View Castle (Milton Keynes) Limited.



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 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 two 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 combination. For further details see note 3.4. The fair value of investment properties acquired through the purchase of subsidiary companies totalled £36,300,000. Total consideration paid was £33,740,000. The assets and liabilities of the companies acquired included the investment properties, mentioned above, net current liabilities totalling £600,000 (principally comprising debtors, cash, creditors and deferred income) and bank borrowings of £1,960,000.

### 16. Goodwill

	31 December 2018 £'000	31 December 2017 £'000
Group		
At start of year	1,672	2,229
Impairment	(557)	(557)
<b>At end of year</b>	<b>1,115</b>	<b>1,672</b>

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 4.8%, 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 2018 £'000	31 December 2017 £'000
At start of year	206	1,004
Movement in year	(250)	(988)
Unwinding of discount	44	190
<b>At end of year</b>	<b>–</b>	<b>206</b>
Asset due within 1 year	–	206
Asset due after 1 year	–	–
	<b>–</b>	<b>206</b>

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 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 Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 17. Non-current receivables (continued)

#### 17b. Non-current receivables on tenant loans

	31 December 2018 £'000	31 December 2017 £'000
At start of year	1,926	1,926
Amounts loaned in the year	–	–
<b>At end of year</b>	<b>1,926</b>	<b>1,926</b>
Asset due within 1 year	530	–
Asset due after 1 year	1,396	1,926
	<b>1,926</b>	<b>1,926</b>

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 2018 £'000	31 December 2017 £'000
Gross amount receivable from tenants	7,294	8,171
Less provision for impairment	(1,115)	(1,033)
Net amount receivable from tenants	<b>6,179</b>	<b>7,138</b>
Current receivables – surrender premium (note 17a)	–	206
Current receivables – tenant loans (note 17b)	530	–
Other receivables	3,256	4,715
Prepayments	12,198	9,888
	<b>22,163</b>	<b>21,947</b>

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.

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

	31 December 2018 £'000	31 December 2017 £'000
< 30 days	3,974	6,926
30-60 days	720	859
> 60 days	2,600	1,959
	<b>7,294</b>	<b>9,744</b>
Less provision for impairment	(1,115)	(1,033)
	<b>6,179</b>	<b>8,711</b>

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

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 18. Trade and other receivables (continued)

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 2018 £'000	31 December 2017 £'000
<b>At start of year</b>	<b>1,033</b>	<b>258</b>
Provision for impairment in the year	928	607
Upon acquisition of subsidiary companies	–	225
Receivables written off as uncollectable	(452)	–
Unused provision reversed	(394)	(57)
<b>At end of year</b>	<b>1,115</b>	<b>1,033</b>

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

### 19. Cash and cash equivalents

Group	31 December 2018 £'000	31 December 2017 £'000
Cash held at bank	79,616	33,433
Restricted cash held at bank	25,207	11,207
<b>At end of year</b>	<b>104,823</b>	<b>44,640</b>

Restricted cash balances of the Group comprise:

- £20,259,000 (2017: £2,499,000) 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.
- £2,780,000 (2017: £4,198,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £900,000 (2017: £2,144,000) of funds which represent tenants' rental deposits.
- £1,268,000 (2017: £1,957,000) 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 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. £1,256,000 of this balance will be released to free cash before 31 March 2019.
- £0 (2017: £409,000) 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 2019.



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 20. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Withholding tax due on dividends paid	1,302	906
Trade payables	2,462	3,739
Other payables	9,905	9,493
Value added tax	939	298
Accruals of incidental costs for fund raise and acquisitions	27	2,593
Accruals	16,028	9,912
<b>At end of year</b>	<b>30,663</b>	<b>26,941</b>

Other payables principally includes rent deposits held and service charge costs.

### 21. Deferred income

Deferred rental income represents rent received in advance from tenants.

### 22. Taxation liabilities

	31 December 2018 £'000	31 December 2017 £'000
Income tax	1,129	586
Deferred tax	634	2,050
	<b>1,763</b>	<b>2,636</b>

The movement on deferred tax liability is shown below:

At start of year	2,050	626
Deferred tax on the valuation of investment properties	(1,416)	1,424
<b>At end of year</b>	<b>634</b>	<b>2,050</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 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 2018 £'000	31 December 2017 £'000
Bank borrowings drawn at start of year	339,074	220,060
Bank borrowings drawn	52,919	284,633
Bank borrowings repaid	(101,506)	(165,619)
Bank borrowings drawn at end of year	290,487	339,074
Less: unamortised costs at start of year	(4,693)	(2,618)
Less: loan issue costs incurred in the year	(1,367)	(4,765)
Add: loan issue costs amortised in the year	1,172	2,690
<b>At end of year</b>	<b>285,599</b>	<b>334,381</b>
<b>Maturity of bank borrowings</b>		
Repayable within 1 year	400	400
Repayable between 1 to 2 years	400	65,400
Repayable between 2 to 5 years	88,687	108,274
Repayable after more than 5 years	201,000	165,000
Unamortised loan issue costs	(4,888)	(4,693)
	<b>285,599</b>	<b>334,381</b>

As detailed in notes 24 and 25 the Group also has 30,000,000 ZDP shares in issue and £50,000,000 Retail Eligible Bond in issue.

The table below lists the Group's borrowings.

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross Loan to Value** %	Annual Interest Rate %	Amortisation
Scottish Widows Ltd	36,000	36,000	Dec '28	38.8	3.37 Fixed	none
Royal Bank of Scotland	26,458	26,458	Dec '21	45.9	2.00 over 3mth £ LIBOR	MP
HSBC	19,003	19,003	Dec '21	51.4	2.15 over 3mth £ LIBOR	MP
Santander UK	44,026	44,026	Nov '22	36.7	2.15 over 3mth £ LIBOR	MP
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	45.4	3.28 Fixed	MP
<b>Total bank borrowings</b>	<b>290,487</b>	<b>290,487</b>				
ZDP shares	39,879	39,820	Jan '19	n/a	6.50 Fixed	none
Retail Eligible Bond	50,000	50,000	Aug '24	n/a	4.50 Fixed	none
<b>Total</b>	<b>380,366</b>	<b>380,307</b>				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

\* Before unamortised debt issue costs

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

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 23. Bank and loan borrowings (continued)

The weighted average term to maturity of the Group's debt at the period end was 6.4 years (31 December 2017: 6.0 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 2017: 3.7%).

The Group weighted average interest rate, including the ZDP shares, Retail Eligible Bond and hedging costs at the period end amounted to 3.8% per annum (31 December 2017: 3.8% per annum).

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 2018 £'000	31 December 2017 £'000
At start of year	37,239	–
Fair value arising on the acquisition of subsidiaries	–	35,620
Acquisition costs	–	(264)
Amortisation of acquisition costs	147	114
Accrued capital entitlement	2,430	1,769
<b>At end of year</b>	<b>39,816</b>	<b>37,239</b>

The Group entity Regional REIT ZDP PLC, 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, resulting in a final capital entitlement of 132.9 pence per share. The ZDP shares are listed on the London Stock Exchange (LSE: RGLZ). As detailed in note 36, the repayment of the Regional REIT ZDP Plc 6.5% ZDP shares in full took place after the year end.

During the period, the Group accrued £2,430,000 (31 December 2017: £1,769,000) of 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. Retail Eligible Bonds

During the year, the Company launched £50,000,000 4.5% Retail eligible bonds with a maturity date of 6 August 2024. The Bonds are listed on the London Stock Exchange ORB platform.

	31 December 2018 £'000	31 December 2017 £'000
Bonds issued in the period	50,000	–
Issue costs	(925)	–
Amortisation of issue costs	61	–
<b>At end of year</b>	<b>49,136</b>	<b>–</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 26. 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 2018 £'000	31 December 2017 £'000
Fair value at start of year	(752)	(1,513)
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	415	217
<b>Fair value at end of year</b>	<b>(337)</b>	<b>(752)</b>

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 and discounted.

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	Annual Interest rate %	Notional Amount £'000	Rate %
Scottish Widows Ltd	36,000	36,000	Dec '28	3.37 Fixed	n/a	n/a
Royal Bank of Scotland	26,458	26,458	Dec '21	2.00 over 3mth £ LIBOR	Swap 13,229 Cap 13,229	1.32 1.32
HSBC	19,003	19,003	Dec '21	2.15 over 3mth £ LIBOR	nil	n/a
Santander UK	44,026	44,026	Nov '22	2.15 over 3mth £ LIBOR	Swap 35,350 Cap 35,350	1.605 1.605
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	3.38 Fixed	n/a	n/a
<b>Total</b>	<b>290,487</b>	<b>290,487</b>				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2018, the swap notional arrangements were £48.58m (31 December 2017: £35.35m).

The Group weighted average effective interest rate was 3.5% (31 December 2017: 3.5%) 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.

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 102.6% (31 December 2017: 88.5%), as shown below. The over hedged position has arisen due to debt repayments during 2018.

	31 December 2018 £'000	31 December 2017 £'000
Total bank borrowings	290,487	339,074
Notional value of interest rate caps and swaps	97,158	70,700
Value of fixed rate debts	201,000	230,000
	<b>298,158</b>	<b>300,700</b>
<b>Proportion of hedged debt</b>	<b>102.6%</b>	<b>88.7%</b>



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 26. Derivative financial instruments (continued)

#### 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				
<b>31 December 2018</b>	<b>(337)</b>	–	<b>(337)</b>	–
31 December 2017	(752)	–	(752)	–

The fair value of these contracts is 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.

### 27. Stated capital

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

Group	31 December 2018 £'000	31 December 2017 £'000
Issued and fully paid shares of no par value		
At start of the year	370,318	274,217
Shares issued 24/03/2017	–	25,687
Shares issued 21/12/2017	–	73,000
Share issue costs	(2)	(2,586)
<b>At end of the year</b>	<b>370,316</b>	<b>370,318</b>
Number of shares in issue		
At start of the year	372,821,136	274,217,264
Shares issued 24/03/2017	–	26,326,644
Shares issued 21/12/2017	–	72,277,228
<b>At end of the year</b>	<b>372,821,136</b>	<b>372,821,136</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 28. 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 were dilutive instruments outstanding at 31 December 2017, both basic and diluted earnings 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 35, a Performance Fee for the period from commencement of trading to 31 December 2017 was recognised in the financial statements. An estimate was 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.

In accordance with the FCA's Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. Accordingly, the Management Agreements have been amended to clarify that, in this situation, the Performance Fee will be paid entirely in cash but 50% of that amount will be used to acquire shares in the market on behalf of the Managers within a 20 business day period on an instruction to do so. On this occasion the shares will be paid for entirely in cash and be acquired from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the Performance Fee in shares.

At 31 December 2017, only 50% of the Performance Fee was recognised within accruals and as there was the intention to pay the remainder of the fee through the issue of shares, dilutive instruments were outstanding at that date.

EPRA 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.

Net asset values have been calculated as follows:

Group	31 December 2018 £'000	31 December 2017 £'000
Net asset value per Consolidated Statement of Financial Position	429,515	392,899
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	337	752
Deferred tax liability	634	2,050
<b>EPRA net assets</b>	<b>430,486</b>	<b>395,701</b>
Number of Ordinary Shares in issue	372,821,136	372,821,136
Dilutive instruments	–	875,752
<b>Adjusted number of Ordinary Shares</b>	<b>372,821,136</b>	<b>373,696,888</b>
Net asset value per share – basic	115.2p	105.4p
Net asset value per share – diluted	115.2p	105.1p
EPRA net asset value per share – basic	115.5p	106.1p
EPRA net asset value per share – diluted	115.5p	105.9p

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 29. Notes to the Statement of Cash Flows

#### 29.1. Non-cash transactions

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

- During the year ended 31 December 2018, the reversal of share-based payment adjustments made in previous years as it has now been determined that the Performance Fees will be fully paid by cash. (see note 35)
- During the year ended 31 December 2017, the value of Performance Fees expensed within the Group where Ordinary Shares will be issued for the consideration prior to the subsequent reversal of that transaction.

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

31 December 2018	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Total £'000
Balance at 1 January 2018	334,381	37,239	–	752	372,372
Changes from financing cash flows:					
Bank and Bond borrowings advanced	50,959	–	50,000	–	100,959
Bank borrowings repaid	(101,506)	–	–	–	(101,506)
Bank and Bond borrowing costs paid	(1,345)	–	(925)	–	(2,270)
<b>Total changes from financing cash flows</b>	<b>(51,892)</b>	<b>–</b>	<b>49,075</b>	<b>–</b>	<b>(2, 817)</b>
Arising from subsidiary acquisitions	1,960	–	–	–	1,960
Costs from subsidiary acquisitions	(22)	–	–	–	(22)
Amortisation of issue costs	1,172	147	61	–	1,380
Accrued capital entitlement	–	2,430	–	–	2,430
Change in fair value	–	–	–	(415)	(415)
<b>Total other changes</b>	<b>3,110</b>	<b>2,577</b>	<b>61</b>	<b>(415)</b>	<b>5,333</b>
<b>Balance at 31 December 2018</b>	<b>285,599</b>	<b>39,816</b>	<b>49,136</b>	<b>337</b>	<b>374,888</b>
Balances are included in the Statement of Financial Position as follows:					
Current liabilities	400	39,816	–	–	40,216
Non-current liabilities	285,199	–	49,136	337	334,672
<b>Balance at 31 December 2018</b>	<b>285,599</b>	<b>39,816</b>	<b>49,136</b>	<b>337</b>	<b>374,888</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 29. Notes to the Statement of Cash Flows (continued)

#### 29.2 Reconciliation of changes in liabilities to cash flows arising from financing activities (continued)

31 December 2017	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Retail Eligible Bonds £'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)
<b>Total changes from financing cash flows</b>	<b>10,207</b>	<b>–</b>	<b>–</b>	<b>(441)</b>	<b>9,766</b>
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)
<b>Total other changes</b>	<b>106,732</b>	<b>37,239</b>	<b>–</b>	<b>(320)</b>	<b>143,651</b>
<b>Balance at 31 December 2017</b>	<b>334,381</b>	<b>37,239</b>	<b>–</b>	<b>752</b>	<b>372,372</b>
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
<b>Balance at 31 December 2017</b>	<b>334,381</b>	<b>37,239</b>	<b>–</b>	<b>752</b>	<b>372,372</b>



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 30. Financial risk management

#### 30.1. 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:

Group	31 December 2018		31 December 2017	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial assets – measured at amortised cost</b>				
Trade and other receivables	11,891	11,891	13,985	13,985
Cash and short-term deposits	104,823	104,823	44,640	44,640
<b>Financial liabilities – measured at amortised cost</b>				
Trade and other payables	(29,361)	(29,361)	(26,035)	(26,035)
Bank and loan borrowings	(285,599)	(285,599)	(334,381)	(334,381)
Zero dividend preference shares	(39,816)	(39,150)	(37,239)	(38,550)
Retail Eligible Bonds	(49,136)	(50,038)	–	–
<b>Financial liabilities – measured at fair value through profit or loss</b>				
<b>Interest rate derivatives</b>	<u>(337)</u>	<u>(337)</u>	<u>(752)</u>	<u>(752)</u>

#### 30.2. 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.

#### 30.3. 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 2018 £'000	31 December 2017 £'000
0.00%	–	–
0.25%	102	184
0.50%	24	368
0.75%	307	552
1.00%	409	737

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 30. Financial risk management (continued)

#### 30.4. Credit risk

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

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

#### 30.5. 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.

#### 30.6. 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 Negative
Royal Bank of Scotland	A+ Rating Watch Negative
Santander UK	A+ Rating Watch Negative
HSBC	AA- Rating Watch Negative
Aviva	A+ Stable
Scottish Widows*	A+ Stable

\* rating relates to parent entity – Lloyds Banking Group plc

#### 30.7. 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 30. Financial risk management (continued)

#### 30.7 Liquidity risk (continued)

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

Group at 31 December 2018	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	(29,361)	–	–	–	(29,361)
Bank borrowings	(8,926)	(8,959)	(113,026)	(228,717)	(359,628)
Interest rate derivatives	(264)	(244)	(418)	–	(926)
Zero Dividend Preference Shares	(39,879)	–	–	–	(39,879)
Retail eligible bonds	(2,250)	(2,250)	(6,750)	(52,250)	(63,500)
	<u>(80,680)</u>	<u>(11,453)</u>	<u>(120,194)</u>	<u>(280,967)</u>	<u>(493,294)</u>

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>

### 31. 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 and Asset Managers, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion, deliver a quarterly dividend distribution 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 Group'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.

The optimal debt financing structure for the Group will have consideration for the key metrics including: fixed or floating interest rate charged, debt type, maturity profile, substitution rights, covenant and security requirements, lender type, diversity, and the lender's knowledge and relationship with the property sector.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 32. Operating leases

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

Group	31 December 2018 £'000	31 December 2017 £'000
Receivable within 1 year	38,109	49,621
Receivable between 1–2 years	37,365	38,678
Receivable between 2–5 years	106,408	66,437
Receivable after 5 years	275,529	47,979
	<b>457,411</b>	<b>202,715</b>

The Group has in excess of 889 operating leases. The number of years remaining on these operating leases varies between 1 and 80 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.

### 33. Operating lease commitments

The Group's operating lease commitments at the year end were spread across 13 separate operating leases with the two largest leases at Basingstoke and Witham making up 41% of the balance.

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

Group	31 December 2018 £'000	31 December 2017 £'000
Payable within 1 year	618	471
Payable between 1–2 years	618	471
Payable between 2–5 years	1,854	1,414
Payable after 5 years	51,337	36,001
	<b>54,427</b>	<b>38,357</b>

### 34. 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.



## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 35. 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 interests 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 or minor children) on the holdings:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Kevin McGrath	24	–
William Eason	16	10
Daniel Taylor	28	16
Stephen Inglis	60	49
Frances Daley	2	–
Timothy Bee	12	11
<b>Total</b>	<b>142</b>	<b>86</b>

#### 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, 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 2018 £'000	Year ended 31 December 2017 £'000
Asset management fees charged*	2,405	1,739
Property management fees charged*	2,264	1,972
Performance fees charged	3,523	814
<b>Total</b>	<b>8,192</b>	<b>4,525</b>

	31 December 2018 £'000	31 December 2017 £'000
Total fees outstanding *	5,263	1,882

\* Including irrecoverable VAT charged where appropriate

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 35. Transactions with related parties (continued)

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

Martin McKay was a non-executive Director of the Company 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 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, reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

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 2018 £'000	Year ended 31 December 2017 £'000
Investment management fees charged	2,405	1,732
Performance fees charged	3,523	814
<b>Total</b>	<b>5,928</b>	<b>2,546</b>

	31 December 2018 £'000	31 December 2017 £'000
Total fees outstanding	5,044	1,378

#### *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 calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183 to 185 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 one year.

In accordance with the FCA's Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. Accordingly, the Management Agreements have been amended to clarify that, in this situation, the Performance Fee will be paid entirely in cash but 50% of that amount will be used to acquire shares in the market on behalf of the Managers within a 20 business day period on an instruction to do so. On this occasion the shares will be paid for entirely in cash and be acquired from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the Performance Fee in shares.

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 one year and 50% of the shares locked-in for two years.

Based on the EPRA NAV of the Group as at 31 December 2018, the Performance Fee liability, for the period from commencement of trading to 31 December 2018 was estimated at £8,905,000 (31 December 2017: £1,859,000). This fee has been accrued in the consolidated financial statements.

In the comparative period, it was assumed that market conditions would prevail so that the future payment of the Performance Fee charge would be met 50% by cash and 50% by the issue of shares. Therefore, at 31 December 2017, 50% of the fee was accrued as a liability totalling £930,000 and the 50% of the fee, payable by the issue of Ordinary Shares was reflected as a share based payment in the Consolidated Statement of Changes in Equity.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

### 36. Subsequent events

On 10 January 2019, the Company announced the repayment of the Regional REIT ZDP Plc 6.5% ZDP shares in full totalling £39.9m. This resulted in a reduction in the weighted average cost of borrowing (including hedging costs) from c. 3.8% to c. 3.5%. Regional REIT ZDP Plc has now been placed into liquidation.

On 4 February 2019, the Company announced the acquisition of Norfolk House in Birmingham for £20m, with a net initial yield of 7.92%. The building is 98.75% occupied with a net income of c. £1.69m

## 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 2018	31 December 2017
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings	£20,892,000	£24,014,000
		EPRA Earnings per share (basic)	5.6p	8.1p
		EPRA Earnings per share (diluted)	5.6p	8.1p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the Performance Fee charged in the accounts	Adjusted Earnings	£27,938,000	£25,624,000
		EPRA Earnings per share (basic)	7.5p	8.6p
		EPRA Earnings per share (diluted)	7.5p	8.6p
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	£430,486,000	£395,701,000
		EPRA NAV per share (diluted)	115.5p	105.9p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNAV	£427,966,000	£391,588,000
		EPRA NNNAV per share (diluted)	115.1p	104.8p
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%	6.5%
EPRA 'TOPPED- UP' NIY	This measure incorporates an adjustment to the ERA NIY in respect of the expiration of rent-free-periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	EPRA 'Topped-up' Net Initial Yield	6.6%	6.6%



## EPRA Performance Measures (continued)

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2018	31 December 2017
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio	EPRA Vacancy Rate	10.6%	11.8%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy divided by gross rental income)	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	40.1% 29.9%	29.7% 19.0%

## EPRA 2018 Awards



## 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

	31 December 2018 £'000	31 December 2017 £'000
NAV per the financial statements	429,515	392,899
Effect of dilutive instruments	–	–
Diluted NAV	429,515	392,899
Fair value of derivative financial instruments	337	752
Deferred tax liability	634	2,050
<b>EPRA NAV</b>	<b>430,486</b>	<b>395,701</b>
Dilutive number of shares	372,821,136	373,696,888
<b>EPRA NAV per share</b>	<b>115.5p</b>	<b>105.9p</b>

## EPRA Performance Measures (continued)

### 3. EPRA NNNAV

	31 December 2018 £'000	31 December 2017 £'000
EPRA NAV	430,486	395,701
Fair value of derivative financial instruments	(337)	(752)
Adjustment for the fair value of debt:		
Bank and loan borrowings	–	–
Zero Dividend Preference Shares	666	(1,311)
Retail eligible bonds	(902)	–
Deferred tax liability	(634)	(2,050)
EPRA NNNAV	429,279	391,588
Dilutive number of shares	372,821,136	373,696,888
EPRA NAV per share	115.5p	104.8p

### 4. EPRA Net Initial Yield

Calculated as the value of investment properties divided by annualised net rents:

	31 December 2018 £'000	31 December 2017 £'000
Investment properties	718,375	765,288
Annualised cash passing rental income	54,710	57,011
Property outgoings	(4,650)	(4,468)
Annualised net rents	50,060	52,543
Add notional rent expiration of rent free periods or other lease incentives	443	639
Topped-up net annualised rent	50,503	53,182
EPRA NIY	6.5%	6.5%
EPRA topped up NIY	6.6%	6.6%

### 5. EPRA Vacancy Rate

	31 December 2018 £'000	31 December 2017 £'000
Estimated Market Rental Value (ERV) of vacant space	7,128	8,247
Estimated Market Rental value (ERV) of whole portfolio	67,042	70,034
EPRA Vacancy Rate	10.6%	11.8%

## EPRA Performance Measures (continued)

### 6. EPRA Cost Ratios

	31 December 2018 £'000	31 December 2017 £'000
Operating costs	19,644	15,763
Less ground rent	(662)	(563)
Less recoverable service charge income and other similar costs	(11,944)	(9,261)
Add administrative and other expenses	17,586	9,429
<b>EPRA costs (including direct vacancy costs)</b>	<b>24,624</b>	<b>15,368</b>
Direct vacancy costs	(6,240)	(5,522)
<b>EPRA costs (excluding direct vacancy costs)</b>	<b>18,384</b>	<b>9,846</b>
Gross rental income	74,019	61,610
Less recoverable service charge income and other similar items	(11,944)	(9,261)
Less ground rent	(661)	(563)
<b>Gross rental income less ground rents</b>	<b>61,414</b>	<b>51,786</b>
<b>EPRA Cost Ratio (including direct vacancy costs)</b>	<b>40.1%</b>	<b>29.7%</b>
<b>EPRA Cost Ratio (excluding direct vacancy costs)</b>	<b>29.9%</b>	<b>19.0%</b>

It should be noted that the EPRA Costs in the above calculations include the performance fee cost for the period of £7,046,000 (year ended 31 December 2017: £1,610,000). The EPRA cost ratio excluding the Performance Fee from costs would be as follows:

EPRA Cost Ratio (including direct vacancy costs)	28.6%	26.6%
EPRA Cost Ratio (excluding direct vacancy costs)	18.5%	15.9%

The Group has not capitalised any overhead or operating expenses in the accounting years disclosed above – LSI to confirm

### Property Related Capital Expenditure Analysis

	31 December 2018 £'000	31 December 2017 £'000
Acquisitions	76,334	231,326
Subsequent capital expenditure	6,979	13,373
<b>Total capital expenditure</b>	<b>83,313</b>	<b>244,699</b>

Acquisitions – this represents the purchase cost of investment properties and associated incidental purchase expenses such as stamp duty land tax, legal fees, agents' fees, valuations and surveys.

Subsequent capital expenditure – this represents capital expenditure which has taken place post the initial acquisition of an investment property.

## Glossary of Terms

**AIC** – Association of Investment Companies. A trade body for closed-end investment companies ([www.theaic.co.uk](http://www.theaic.co.uk))

**AIF** – Alternative Investment Fund.

**AIFMD** – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires the Company to appoint an Alternative Investment Fund Manager (AIFM). The Board of Directors of a closed-ended investment company nevertheless remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

**AIFM** – Alternative Investment Fund Manager. The entity which ensures the Company complies with the AIFMD. The Company's AIFM is Toscafund Asset Management LLP.

**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 (Company Number 60527).

**Contracted Rent** – annualised rent, adjusting for the inclusion of rent-free periods and rental guarantees. See also Passing Rent.

**Core property** – stable income properties with low risk.

**Core Plus property** – growth and income properties with the ability to increase cash flows through asset management initiatives.

**Directors** – the Directors of the Company whose names are set out on page 58 and 59.

**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.

**EPRA Total Return** – The movement in EPRA NAV plus the dividend distributions paid during the period expressed as a percentage of the EPRA NAV at the beginning of the period.

**EPRA Vacancy Rate** – occupancy expressed as a percentage being the ERV of vacant space divided by ERV of the whole portfolio. Vacancy Rate should only be calculated for all completed properties, but excluding those properties which are under development.

**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 Asset Value** – the aggregate value of the total assets of the Company as determined in accordance with the accounting principles adopted by the Company from time to time.

**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 the London Stock Exchange was on 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.



## Glossary of Terms (continued)

**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 Shareholders' 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.

**Net Debt** – Total cash and cash equivalents less short and long term debt.

**Net Gearing** – (Borrowings – cash and cash equivalents)/(Total Issued Shares + Retained Earnings).

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

**Net Loan-to-Value (LTV) Ratio** – (Borrowings – less cash)/(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. ERV/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)** – (Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three "nets"))/(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](http://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 net asset value up to £500m and 0.9% above £500m. 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 2018 to 31 December 2018 was £3,027,376 (2017: £1,864,542).

### 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 30 on pages 124 to 126 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 £339.1m 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 2018, this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	190	214

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, Management Engagement and Remuneration Committee Chairman)

**Daniel Taylor** (Independent Non-Executive Director)

**Frances Daley** (Independent Non-Executive Director, Audit Committee Chairman)

**Stephen Inglis** (Non-Executive Director)

**Timothy Bee** (Non-Executive Director)

### 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

### 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

### Financial Adviser and Joint Broker

**Peel Hunt LLP**

Moor House  
120 London Wall  
London  
EC2Y 5ET

### Joint Broker

**Cenkos Securities plc**

6.7.8 Tokenhouse Yard  
London  
EC2R 7AS

### 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  
GY2 4LH

### 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

### Public Relations

**Buchanan Communications Limited**

107 Cheapside  
London  
EC2V 6DN

### 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](http://www.regionalreit.com)



## Forthcoming Events

Q1 2019 Trading Update, AGM Statement and Dividend Announcement	23 May 2019
2019 Annual General Meeting	23 May 2019
Q2 2019 Dividend Announcement	29 August 2019
2019 Interim Results Announcement	10 September 2019
Q3 2019 Trading Update and Dividend Announcement	14 November 2019

Note: all future dates are provisional and subject to change.

## Shareholder Information

### Share Register Enquiries:

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 and 17:30 Monday to Friday (excluding public holidays in England and Wales). For shareholder enquiries please email [shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk).

## Dividend History

Period	Announcement Date	Ex-Date	Record Date	Payment Date	Total Dividend Pence per share (pps)
Q4 2018	21 February 2019	28 February 2019	1 March 2019	11 April 2019	<b>2.50pps</b> of which PID: 2.50pps
Q3 2018	15 November 2018	22 November 2018	23 November 2018	21 December 2018	<b>1.85pps</b> of which PID: 1.85pps
Q2 2018	31 August 2018	13 September 2018	14 September 2018	15 October 2018	<b>1.85pps</b> of which PID: 1.85pps
Q1 2018	17 May 2018	24 May 2018	25 May 2018	13 July 2018	<b>1.85pps</b> of which PID: 1.85pps
Q4 2017	22 February 2018	1 March 2018	2 March 2018	12 April 2017	<b>2.45pps</b> 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	<b>1.80pps</b> 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	<b>1.80pps</b> 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	<b>1.80pps</b> 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	<b>2.40pps</b> 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	<b>1.75pps</b> 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	<b>1.75pps</b> 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	<b>1.75pps</b> 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	<b>1.00pps</b> of which PID: 0.6572pps of which non-PID: 0.3428pps

## Notes



## Notes

# Share Price Performance



Source: Bloomberg Data



Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH  
[www.regionalreit.com](http://www.regionalreit.com)