



Annual Report and Accounts

for the year ended 31 December 2019

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Overview

About Us

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries¹ (the "Group") is a United Kingdom ("UK") based real estate investment trust that launched in November 2015. It is managed by London & Scottish Property Investment Management Limited², the Asset Manager, and Toscafund Asset Management LLP ("Toscafund"), the Investment Manager (together the "Managers").

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 160 properties, 1,251 units and 904 tenants as at 31 December 2019, with a valuation of £787.9m.

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.

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

Our Purpose

The purpose of the Company is to deliver long-term returns for Shareholders with income generated from investment in UK commercial property outside of the M25 motorway.

Our Values

- Integrity, reliability and good governance
- Fostering collaborative long-term relationships
- Focus on opportunities and challenges
- Openness and transparency

Our Culture

- Openness, transparency and integrity
- Constructive debate and relationships
- Collaborative atmosphere
- Ongoing dialogue and engagement with stakeholders

For more details on the Company's values, culture and strategy, please refer to pages 18 to 20 and 61.

European Public Real Estate Association ("EPRA") Gold Award



The Company was pleased to be recognised by the EPRA for a second year and be granted its first EPRA BPR Gold Award in respect of the Company's exceptional compliance with EPRA's Best Practice Recommendations for financial reporting of listed property companies.



¹ Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law 2008, as amended (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.

² Following an internal restructure at London and Scottish Investments Limited, the Asset Manager agreement has been assigned to London and Scottish Property Investment Management Limited ("LSPIM").



INDUSTRIALS: Juniper Park, Basildon



RETAIL/OTHER: The Brunel Centre, Bletchley

What is a REIT?

A real estate investment trust ("REIT") is a specialist tax-efficient investment vehicle built around real property assets, most specifically property rental/letting activities. REITs are quoted companies, or groups of companies, that own and manage property with the aim of generating a rental income. The rental income, after costs, is paid to Shareholders as a dividend distribution so that, over time, dividends will represent a significant proportion of the Shareholders' total return. REITs are a well-established and globally recognised holding structure for property assets.

UK REITs are exempt from UK corporation tax on profits and gains of their qualifying property rental business. However, in consequence, UK REITs are required to distribute a minimum of 90% of their qualifying profits to Shareholders as dividends (known as property income distributions, or "PIDs"). As Shareholders receive higher pay-outs than they would if the REIT were subject to UK corporation tax on its property profits and gains, Shareholders are thus required to pay tax on the PIDs. The effect, in general terms, is that taxation is moved from the REIT to the investor and the investor is then liable for taxation as if they owned the property directly.

Regional REIT Limited and its subsidiaries are a United Kingdom REIT group under UK tax legislation, having elected to enter the REIT regime with effect from 7 November 2015. Remaining in the regime is subject to meeting various conditions imposed by the legislation.

ISA, SSAS and SIPP Status

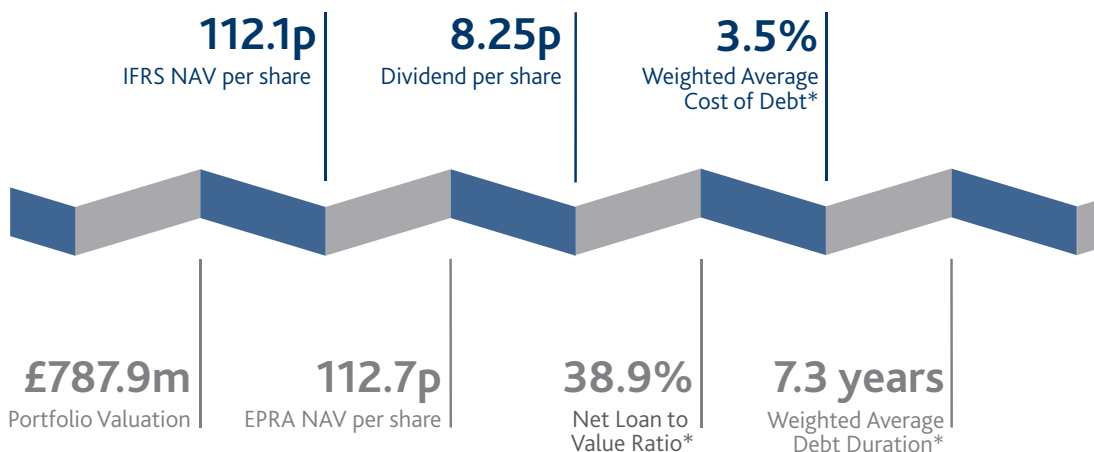
The Company's shares should be eligible to be held in an Individual Savings Account ("ISA").

Subject to the rules of the trustees of the relevant scheme, the Ordinary Shares should generally be eligible for inclusion in a small self-administered scheme ("SSAS") or self-invested personal pension ("SIPP") provided: (a) no member of the SSAS or SIPP (or person connected with such a member) occupies or uses any residential property held by the Group; and (b) the SSAS or SIPP, alone or together with one or more associated persons, does not directly or indirectly hold 10% or more of any of the Ordinary Shares, voting rights in the Company, rights to income of the Company, rights to amounts on a distribution of the Company or rights to assets on a winding up of the Company.

Headlines

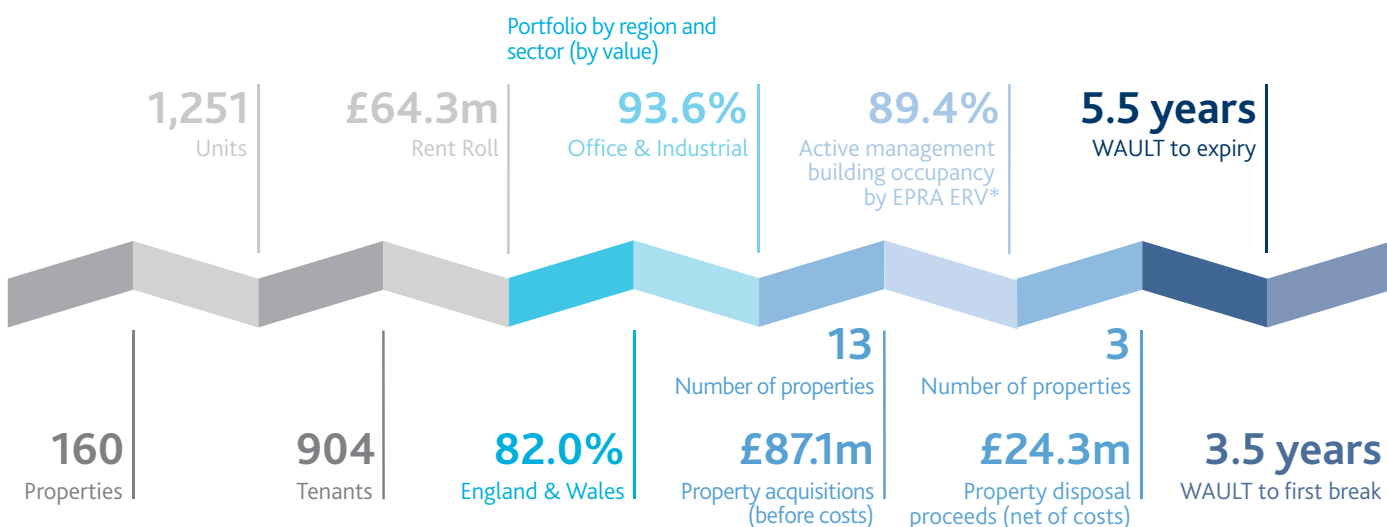
Financial Highlights

Income focused – opportunistic buying and strategic selling, coupled with intensive asset management, continues to secure long-term income



Operational Highlights

Deliberately diversified portfolio by location and tenant – regions remain strong

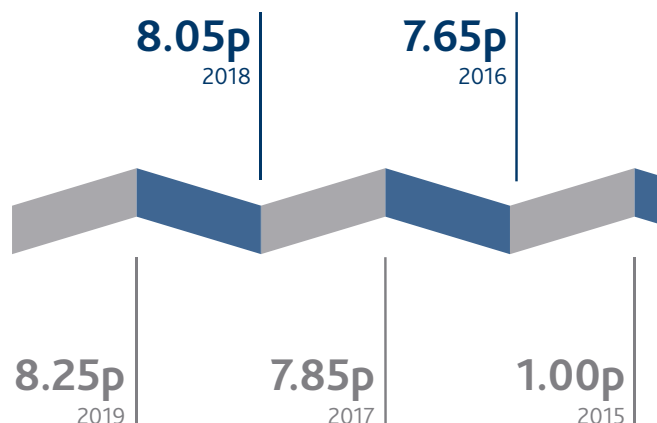


* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 140 and 141 and the EPRA Performance Measures on pages 136 to 139.

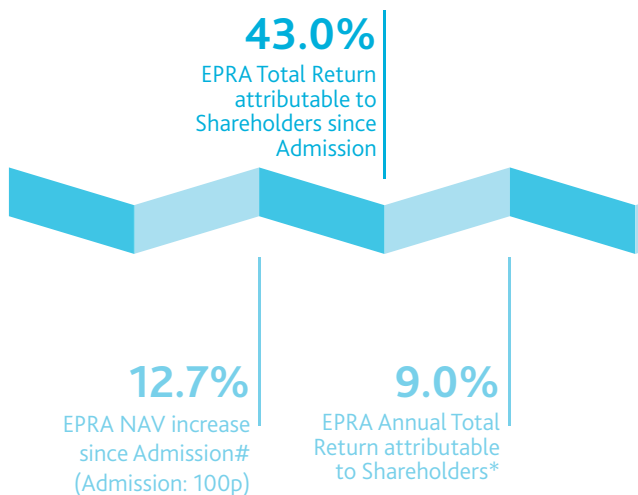
Performance Highlights

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

Dividends declared per share:



EPRA

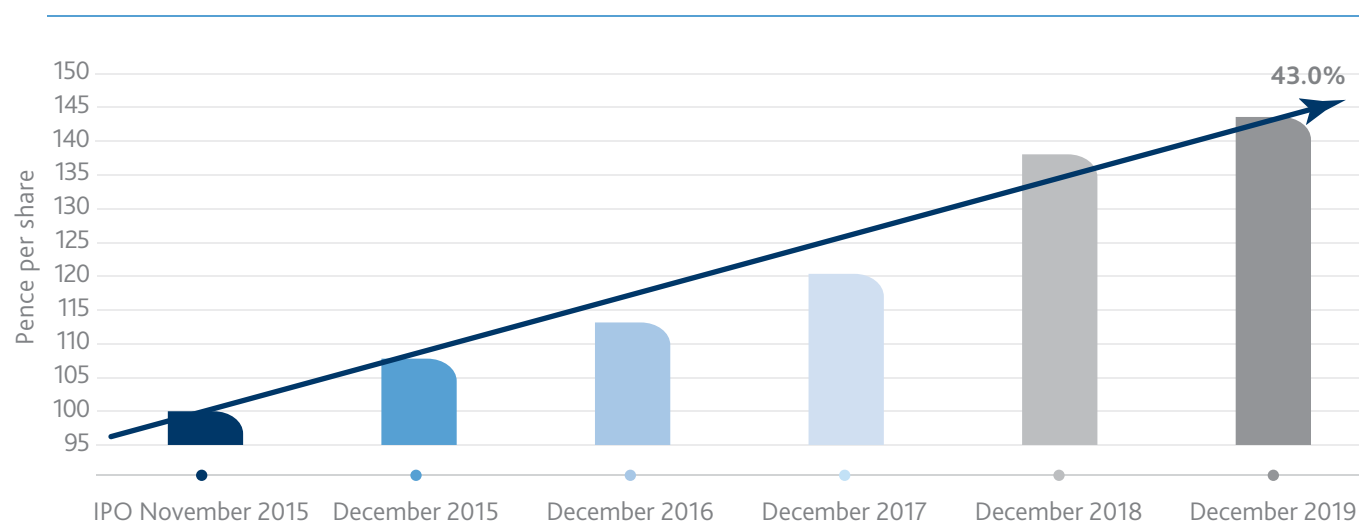


Admission: 6 November 2015

Member of FTSE All-Share Index since March 2016

Member of FTSE EPRA NAREIT UK Index since June 2016

Total EPRA Return* (from IPO) (EPRA NAV and dividend declared)

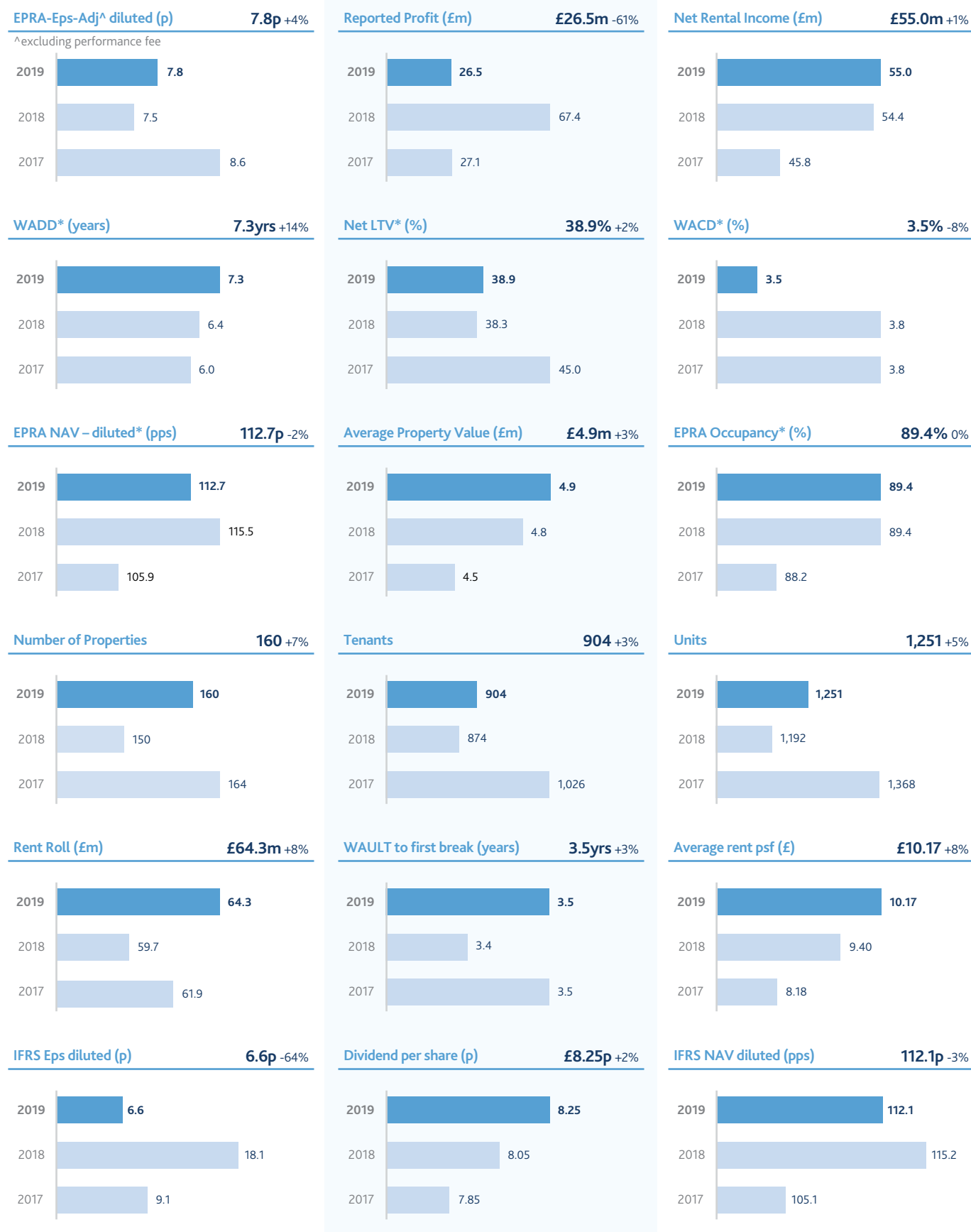


* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 140 and 141 and the EPRA Performance Measures on pages 136 to 139. Terms are defined in the Glossary of Terms on pages 140 and 141.

Property Name: Tay House, Glasgow
Sector: Office



At a Glance



* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 140 and 141 and the EPRA Performance Measures on pages 136 to 139. Terms are defined in the Glossary of Terms on pages 140 and 141.

A Year in Review

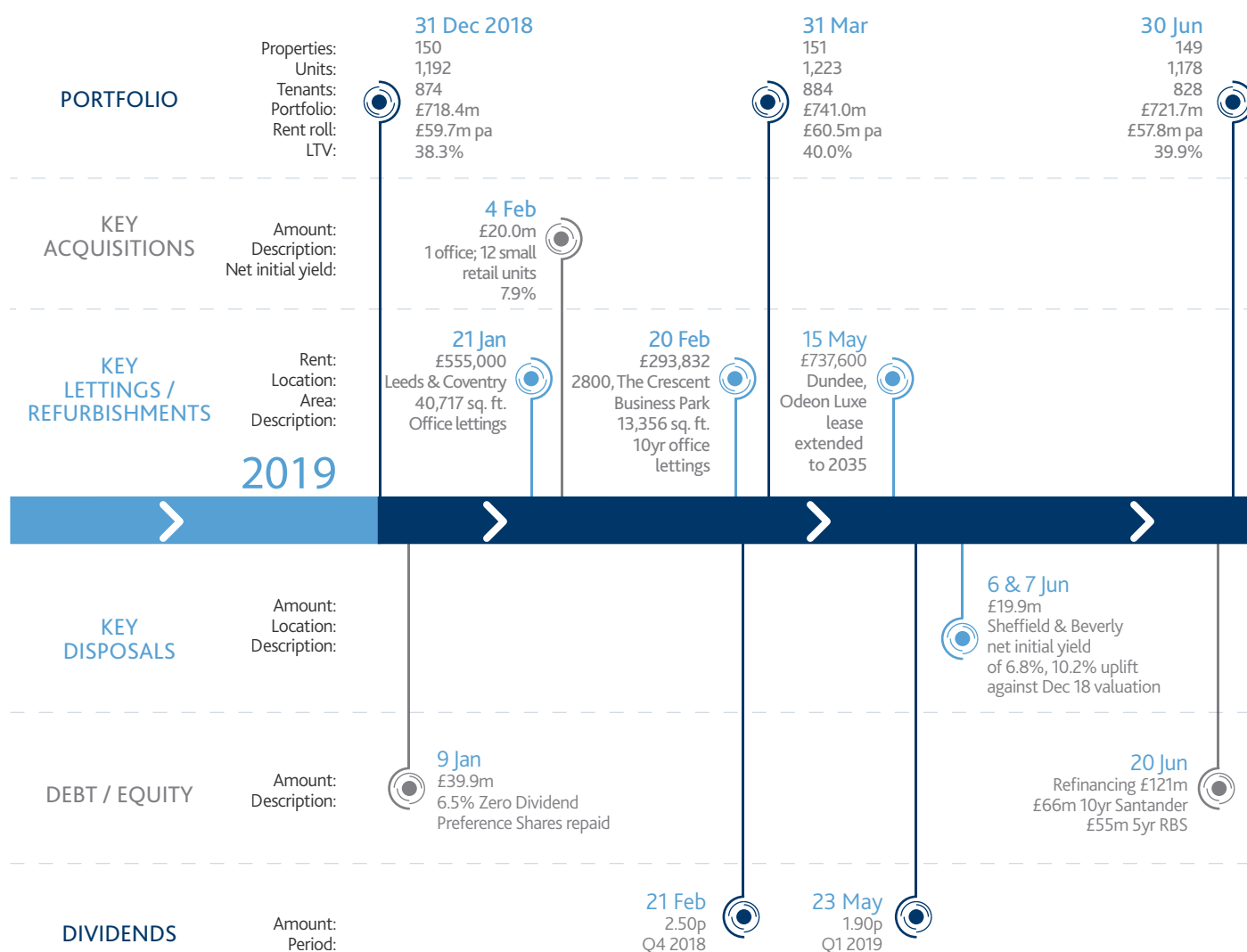
Norfolk House, Birmingham



2800 The Crescent, Birmingham



Odeon Luxe, Dundee



Century Way, Thorpe Park, Leeds



Juniper Park, Basildon



Salamander Quay, Harefield



30 Sep

156
1,224
864
£749.7m
£60.2m pa
34.2%

31 Dec

160
1,251
904
£787.9
£64.3m
38.9%

21 Aug

£25.9m
6 offices
8.87%

18 Oct

£27.7m
4 multi-let offices
8.7%

31 Dec

£10.3m
1 office
8.00%

14 Aug

£320,000
Colwick, Nottingham
82,380 sq. ft.
Industrial park

9 Oct

£370,000
Juniper Park, Basildon
61,079 sq. ft.
5yr letting; 15.4% uplift
from previous tenancy

8 Nov

£240,800
Juniper Park,
Basildon
30,100 sq. ft.
5yr letting; 30% uplift
from previous tenancy

25 Nov

£211,600
3200 Thorpe Park,
Leeds
10,550 sq. ft.
10yr lease

27 Nov

£775,000
Hampshire Corporate Park,
Eastleigh
42,612 sq. ft.
15.7% ahead of previous
passing rent

2020

19 Jul

£62.5m
Successful equity
capital raise at
106.5 pence per share

29 Aug

1.90p
Q2 2019

14 Nov

1.90p
Q3 2019

High dividend distrib
exposure to the regional
market, with active
experienced a

ation UK REIT, offering
al commercial property
management by an
asset manager.

Chairman's Statement

The Chairman's Statement forms part of the Strategic Report and covers the year ended 31 December 2019.



"This was another good year for Regional REIT, marking four years since our IPO and representing a step change in the growth of the Group with the successful oversubscribed equity capital raise in July 2019. In addition, we continued to deliver to our Shareholders a sector-leading dividend that we increased again by a further c. 2.5%.

In line with our strategic objectives, our unique, integrated, proactive asset management platform continued to manage our regionally diverse portfolio on a granular level. This ensured that we delivered the bespoke and high-quality environments our tenants expect, resulting in robust occupancy, increased tenant renewals, increased rent roll, and increased WAULT to expiry.

Whilst the economic and geopolitical backdrop remained uncertain, we responded to both market opportunities and challenges and continued to focus on activities that create value for our Shareholders and deliver a regular source of robust income."

Kevin McGrath
Chairman

↑ 8.25pp
Attractive 2019
Dividend
(2018: 8.05pps)

↑ 7.3% Yield
Attractive Dividend
Yield of 7.3% as at
31 December 2019

↑ Total EPRA Return
43.0% from
inception to
31 December 2019

As I write my Chairman's Statement, and before I comment on the Company's progress and growth during 2019, the world's focus is on COVID-19 and its impact on business and day to day life. I want to assure our Shareholders that the Board is monitoring the impact of the COVID-19 virus on the Group. Further details are given below.

I am pleased to report that the Group had another very active year and continued to achieve positive growth, with investment properties under management increasing significantly by 9.7% to £787.9m. The EPRA company adjusted diluted earnings per share was 7.8 pence per share ("pps") (2018: 7.5pps). IFRS earnings were 6.6pps (2018: 18.1pps) with the recycling of the 2018 disposal funds into assets which are

currently undergoing our intensive asset management initiatives. The total dividend for the year of 8.25pps, is an increase of c. 2.5% on the 8.05pps dividend for 2018. We continued to work closely with our tenants via our distinctive offering of integrated asset, property and finance teams, ensuring we have supportive tenants, which added value to both rental income and capital appreciation.

"The total dividend for the year of 8.25pps, is an increase of c. 2.5% on the 8.05pps dividend for 2018."

Our priorities were to maintain occupancy levels, continue to provide vibrant spaces in which our tenants can thrive, and increase our diversification by tenant profile and geography, whilst seizing considerable ongoing anticipated opportunities from the challenging commercial property market. EPRA occupancy rates remained robust at 89.4% (2018: 89.4%), rent roll increased to £64.3m (2018: £59.7m), and WAULT to expiry increased to 5.5 years (2018: 5.4 years). These are encouraging achievements.

During the year, the Group acquired properties with an aggregate value of £871m, before costs, which was in part funded by the successfully oversubscribed £62.5m equity capital raise undertaken in July 2019. This funding enabled us to make opportunistic

off-market aggregate property acquisitions of £63.9m (before costs), which further diversified the portfolio not only by property, but also by tenant. In addition, we continued our portfolio enhancement programme, with disposals amounting to £24.3m (net of costs), and our rolling capital expenditure programme amounted to £8.0m.

Furthermore, our debt profile continues to be rationalised with the settlement of 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, coupled with the £121m refinancing in June 2019. These successful initiatives resulted in a reduction in the Group's WACD, including hedging costs, to c.3.5% at 31 December 2019 (31 December 2018: 3.8%), and a weighted average debt duration of 7.3 years (31 December 2018: 6.4 years).

The Group's overall net borrowings were 38.9% of gross investment properties as at 31 December 2019 (31 December 2018: 38.3%) and below the Company's target ratio of approximately 40%.

The combination of all of this positive momentum, together with our diverse portfolio and experienced management team, has ensured that the Group remains well positioned for the next stage of its development and to continue to effectively execute our proven business model.

Market Environment

Following muted investment at the beginning of 2019, the UK regions outside of London attracted £4.9 billion of investment during the final quarter of 2019 – equal to the five-year quarterly average. This brought investment in the second half of 2019 to £10.2 billion, 34% higher than the first half of 2019. Annual investment in the regional markets reached £17.9 billion in 2019.

"Annual investment in the regional markets reached £17.9 billion in 2019."

Overseas investment in the UK property markets accounted for almost half (48%) of total investment in 2019 according to data from CoStar³. Furthermore, CoStar estimate that total overseas investment for 2019 reached £21.3 billion, 6% higher than the 10-year average.

Regional offices have outperformed in comparison to central London offices, delivering superior total returns of 8.6% in 2019 in comparison to central London office returns of 5.8% – a trend that has been witnessed over the past four years.

Dividends

The dividend is the major component of total Shareholder returns. Over the period under review, the Company declared total dividends of 8.25pps for the year, comprising three quarterly dividends of 1.90pps each, and a fourth quarterly dividend of 2.55pps, an increase of c.2.5% on the previous year's total dividend. This represented a yield of 7.3% at a share price of 113.2p at the close of 31 December 2019. Since inception, the Company has distributed dividends amounting to 30.25pps.

Performance

The EPRA Total Accounting Return performance since listing on 6 November 2015 amounted to 43.0%, and an annualised EPRA Total Accounting Return of 9.0%.

The Company's Total Shareholder Return of 32.5% for 2019 outperformed the FTSE EPRA NAREIT UK Index Total Return of 30.6%. Since inception, the Total Shareholder Return was 52.2% vs 12.5% for the FTSE EPRA NAREIT UK Index.

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 the Total EPRA Accounting Return in excess of an annual hurdle rate of 8%. A performance fee did not crystallise for the period from 1 January 2019 to 31 December 2019. Further details of the performance fee can be found on page 58.

Management Agreements

The management agreements between the Company, the Asset Manager and the Investment Manager, entered into when the Company listed, had a five-year term to November 2020. In view of the strong returns of the Company, the significant increase in its size and there being less than one year to expiry of the current agreement, the Board sought to secure the services of the Managers. In doing so, the Management Engagement and Remuneration Committee conducted a review to ensure that the terms of these agreements remained appropriate. The Management Engagement and Remuneration Committee sought advice from Peel Hunt LLP, the Company's Financial Adviser and Broker, and Macfarlanes LLP, the Company's Legal Adviser. Following this review, which included comparisons of Shareholder returns against those of its peer group and consideration of the interests of the Company and the respective Managers, the Company and the Managers each agreed to waive their right to issue a termination notice on or before 3 November 2020 and the management agreement will now continue in force until 3 November 2023.

Shareholder and Stakeholder Engagement

Ultimately, the experience of our tenants and other stakeholders will influence our performance. Our aim is to continue to offer great workspaces and environments to businesses throughout their lifecycle, from a start-up in a small flexible unit to a landmark corporate headquarters. Direct engagement with our tenants is an important part of our asset management initiatives, to help us understand their needs and identify opportunities and challenges. We encourage our tenants to work openly and collaboratively with us to enable us to continually improve our workspaces and deliver mutual benefit. Likewise, we encourage this with our stakeholders to ensure we can continually improve our operations.

The Company has continued to develop its relations with investors. The Company's website can be found at www.regionalreit.com.

³ CoStar, Investment Volumes, Q4 2019

Chairman's Statement (continued)

Annual General Meeting

The Company's 2020 Annual General Meeting ("AGM") was due to be held on Thursday, 21 May 2020. In accordance with the Company's Articles of Incorporation (the "Articles") and given the COVID-19 situation, in particular the compulsory measures (the Stay at Home Measures) published by the Government on 23 March 2020 prohibiting public gatherings of more than two people, the Board has made the decision to postpone the Company's 2020 AGM. Notice of a revised time and date for the 2020 AGM will be published on our website (www.regionalreit.com) and, where appropriate, by RNS announcement as soon as practicable. In due course, a notice of AGM will be circulated in accordance with the requirements of the Company's Articles.

"We are going paperless"

The Company is cognisant of its environmental impact and at the 2020 AGM will be seeking approval to implement electronic communications. Further details regarding this will be set out in the Company's Notice of AGM, which will be circulated in due course. I encourage all Shareholders to consider this proposal. We will also be removing paper proxies at the 2020 AGM from our voting process in favour of a quicker and more secure method of voting online via our registrar's website. You can, however, request a paper proxy if you wish from our registrars at the appropriate time.

Subsequent Events and COVID-19

The wellbeing of our tenants and other stakeholders in the Company are of utmost importance to the Board and we continue to manage the Company, cognisant of their needs in this current environment.

On 20 February 2020, the Company announced a potential equity fundraise to take advantage of its growing near-term pipeline of accretive growth. As a result of the current market uncertainty caused by the global spread of COVID-19, the Company took the decision to withdraw the potential equity fundraise.

On 31 March 2020, and in view of the COVID-19 disruption to UK economic activity, the Company announced a trading update. The rental collections were slightly reduced as at 30 March 2020, with 68.2% of invoiced rental income collected in comparison with 69.6% at the same date in 2019. In addition, £30.7m of available borrowing headroom from the Santander UK and Royal Bank of Scotland facilities had been drawn.

The Board will continue to closely monitor the developing situation and its effect on the Group, although the Board is re-assured by the Company's balance sheet, the breadth of tenants and geographical spread of assets, which will ensure it is well positioned to mitigate any prolonged periods of uncertainty.

Outlook

Subject to the above, the outlook for the Group is positive and the Board is encouraged by the Asset Manager's ability to secure attractive assets in regional locations which will support the Company's long-term return prospects. For the remainder of 2020, the Group is confident of maintaining the momentum of the asset management initiatives, which should continue to deliver income for our Shareholders.

We remain mindful of the backdrop of economic uncertainty, market cycles and tenant requirements in a structurally evolving property market, which will inevitably be impacted by COVID-19. However, our confidence for the long term is underpinned by the Group's focus on asset management initiatives that increase the number, quality and quantum of income streams, coupled with an ever-broadening Shareholder base and strengthened balance sheet.

Kevin McGrath
Chairman

8 April 2020

Property Name: Templeton on the Green, Glasgow
Sector: Office



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

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 Objectives

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 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 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 8.6% in 2019 compared to 5.8% – a trend that has been witnessed over the last four years.

HOW WE ADD VALUE

↑ 43.0%
EPRA Total
Accounting
Return since
IPO

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 an individual property asset management plan.

EPRA Total Accounting Return 43.0% since IPO and 9.0% annualised in 2019 (10.6% in 2018).

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

↑ £87.1m
Completed
acquisitions
2019

An opportunistic approach to UK commercial property with recycling of capital from the portfolio refreshment programme and 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 2019 totalled £87.1m (before costs) and disposals (net of costs) of £24.3m, with average net initial yields of c.8.6% and c.6.8% respectively.

During 2019, debt facility payments totalled £59.3m, new borrowings were £22.9m, resulting in total borrowings of £344.0m. The average funding cost (including hedging) was 3.5% (2018: 3.8%).

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

↑ £64.3m
Rent roll
as at end
2019

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.

Rent roll of £64.3m as at end 2019 (31 December 2018: £59.7m).

Average rents have increased to £10.17 per sq. ft. (31 December 2018: £9.40 per sq. ft.).

Declared dividends per share of 8.25p for 2019 (8.05p in 2018).

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

↔ 89.4%
EPRA
occupancy

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 ensuring better decision-making capability.

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

Net capital expenditure of £5.8m in 2019 (£7.0m in 2018); much capital expenditure is recovered through dilapidations, service charges or improved property rental income.

Active and intense asset management maintained robust EPRA occupancy of 89.4% (31 December 2018: 89.4%).

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, new lettings, geography and sector.

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.

↑ 160 properties
1,251 units
904 tenants

160 properties, 1,251 units and 904 tenants as at 31 December 2019.

The largest single property is only 4.3% of the Gross Investment Properties value and the largest tenant only 2.5% of Gross Rental Income.

England & Wales represent 82.0% of the Gross Investment Properties value (31 December 2018: 82.0%); Scotland represents the remainder. Offices and industrial sites are 93.6% (31 December 2018: 91.6%).

Highly Experienced Asset Manager

OUR APPROACH

The Asset Manager has the heritage of a long-established property investment management team.

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.

↑ LSPIM staff
working on
Regional REIT

The senior management team of the Asset Manager collectively have over 180 years of property experience, with a proven record of creating value.

The Asset Manager grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 recession.

LSPIM is based in Glasgow and has a number of offices around the UK, with 57 employees employed, as at 31 December 2019, working on Regional REIT.



Property Name: Norfolk House, Birmingham
Sector: Office



Asset and Investment Managers' Report

"We are pleased to have performed again for our Shareholders, delivering strong dividends and capital growth in 2019. A key component of this total return to Shareholders remains our sector-leading dividend income distributed on a quarterly basis. It is notable therefore that, as planned, distribution to Shareholders increased for the fourth consecutive year and has done so every year since IPO, to 8.25 pence per share.

The year also marked a considerable milestone in our ongoing ambition to grow the Company, marked by a highly successful oversubscribed capital raise of £62.5m. Swift deployment of these proceeds into our significant investment pipeline helped to contribute to the continued growth in our investment properties under management to £787.9m, up 9.7% from £718.4m in 2018. In turn, our enlarged portfolio of properties supported a further increase in both the volume of our gross rent roll to £64.3m and the diversity of our tenant base to 904 tenants.

Whilst markets are currently experiencing considerable levels of volatility due to COVID-19; we continue to believe that our income-led, defensive and risk-adverse approach to Shareholder returns will continue to offer investors the best risk-adjusted income return in the sector. Our market fundamentals remain robust and we continue to micro manage the portfolio utilising our unique, sector-leading asset and property management teams to assist tenants where possible, on health matters, good practice and also to access all of the assistance available from the Government, Bank of England and other banks and local authorities with an absolute focus on everyone's health and safety and on maintaining our income.

It is simply too early to tell what impact COVID-19 will have on the business, but we continue to monitor the situation extremely closely and are speaking regularly to our occupiers and to our banks, who remain hugely supportive. It is worth noting that we are lowly leveraged, have substantial headroom on bank covenants and that we have a hugely diverse portfolio, in terms of number of quality tenants, number of properties, geographic spread of the assets and no large exposure to any individual tenant, any individual property and very little exposure to retail and leisure. We also have a very broad spectrum of tenants operating across a wide range of sectors. We believe that this is important as it is likely that some sectors will be more detrimentally affected than others going forward.

Only a few weeks ago we announced that we were contemplating an equity raise, given the strength and value identified in our investment pipeline. It will come as no surprise that we are no longer considering an equity raise at this time and indeed we will be making no new acquisitions in the immediate future, focussing instead on conserving existing cash and maintaining our rental income for ongoing expenses and dividend distributions, in accordance with the HMRC REIT regime.

The Company's continuing focus on income has delivered strong Shareholder returns in 2019, outperforming the FTSE NAREIT Index and providing 43.0% EPRA NAV returns to Shareholders since IPO."



Stephen Inglis,
CEO of London & Scottish Property Investment Management, the Asset Manager of Regional REIT Limited

↑ Investment
properties value
£787.9m

↑ Rent roll
£64.3m

↑ Tenants
904

HIGHLIGHTS FROM 2019:

£62.5m

Successfully oversubscribed £62.5m equity capital raise was undertaken in July 2019.

1.4%

The like-for-like value of the Group's core office and industrial segment (93.6% by value) also increased in 2019 by 1.4%, after adjusting for capital expenditure and disposals during the period.

10.3%

Disposals during 2019 totalled £24.3m (net of costs) achieving an average uplift against December 2018 valuation of 10.3%, reflecting an average net initial yield of 6.8%.

2.2%

Improved WAULT (to first break) by 2.2%, to 3.5 years and improved WAULT (to expiry) by 1.9% to 5.5 years.

8.6%

Acquisitions in 2019 totalled £871m (before costs) for 13 properties, reflecting an average net initial yield of 8.6%.

8.3%

Average rent by let sq. ft. increased by 8.3% from £9.40 per sq. ft. in December 2018 to £10.17 per sq. ft. in December 2019.

9.8%

Lease renewals for office and industrial assets during 2019 achieved an uplift in gross rental roll of 9.8%.

9.1%

Capital value per sq. ft. increased by 9.1% from £96.64 per sq. ft. in December 2018 to £105.42 per sq. ft..

71

Completed 71 new lettings in 2019, totalling 356,446 sq. ft.; when fully occupied, these will provide a gross rental income of c.£3.8m.

Going forward, we believe that our diverse tenant base as well as the broad regional spread of our assets means that we are well positioned to weather not only current political uncertainty but also the wider economic uncertainty that will no doubt result from the emergence and spread of COVID-19. As always, the Asset Manager will continue to identify value in the market with a focus on income.

INVESTMENT ACTIVITY IN THE UK COMMERCIAL PROPERTY MARKET

Investment in the UK commercial property market reached £49.5 billion in 2019, according to research from Lambert Smith Hampton ("LSH")⁴, 13% below the five-year average. Although overall investment in 2019 was lower than 2018, it was 5.2% higher than 2016 levels, a year that was similarly dominated by political uncertainty. Investment in the final quarter of 2019 was slightly higher than Q3 2019 volumes, bringing investment in H2 2019 to £29.5 billion, indicating an increase of 47% when compared to H1 2019, which helped boost overall investment figures for 2019. 2019 proved to be another strong year for investment in portfolio deals, with investment totalling £13.0 billion. Investment in portfolios was particularly strong in the final quarter of 2019, reaching £4.7 billion, 35% higher than the five-year quarterly average.

Following muted investment at the beginning on 2019, the UK regions outside of London attracted £4.9 billion in investment during the final quarter of 2019 – equal to the five-year quarterly average. This brought investment in the second half of 2019 to £10.2 billion, 34% higher than the first half of 2019. Annual investment in the regional markets reached £17.9 billion in 2019. LSH research notes that there were significant contrasts between regions during 2019, with the East of England performing strongly through the year.

Quarterly Investment Volumes

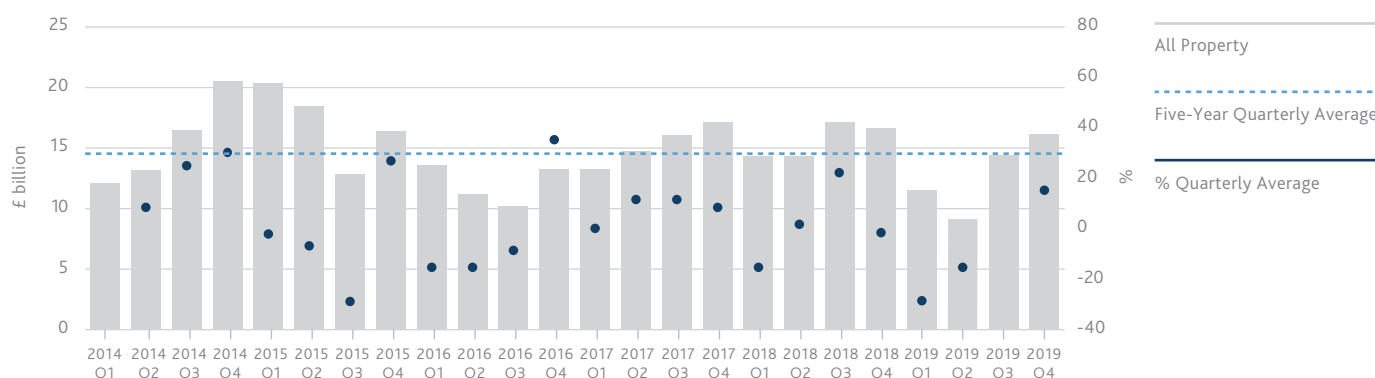


Figure 1: Lambert Smith Hampton Research (February 2020)

⁴ Lambert Smith Hampton, UKIT Q4 2019

Asset and Investment Managers' Report (continued)

Overseas investment in the UK property markets accounted for almost half (48%) of total investment in 2019 according to data from CoStar⁵. Overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2019 reaching £7.2 billion, 24% higher than the five-year average. Figures from LSH indicate that North America, Far East and Europe were all net investors in the final quarter of 2019. CoStar estimate that total overseas investment for 2019 reached £21.3 billion, 6% higher than the 10-year average.

Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior total returns of 8.6% in 2019 in comparison to central London office returns of 5.8%, a trend that has been witnessed over the past four years. Outperformance reflected better capital returns and income returns. Rental growth in regional offices markets continued with growth of 1.2% in 2019.

Central London & Regional Office Returns (12 months to December 2019)

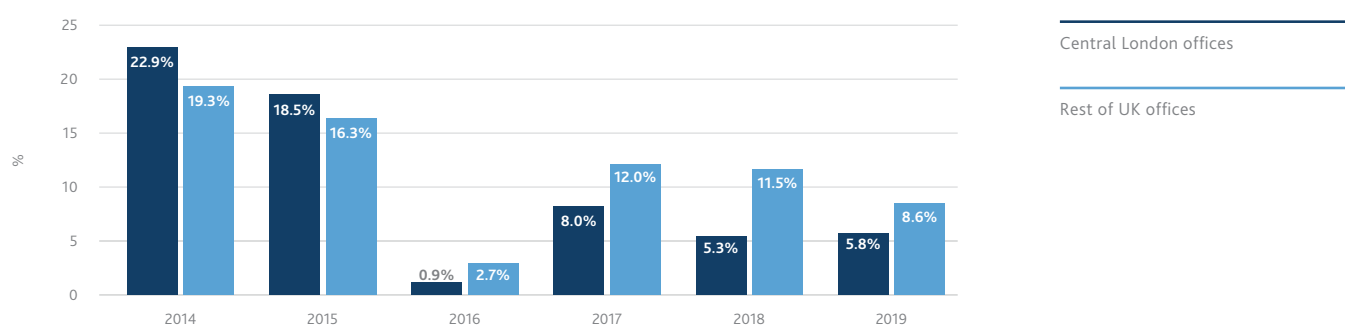


Figure 2: CBRE (February 2020)

OCCUPATIONAL DEMAND IN THE UK REGIONAL OFFICE MARKET

Avison Young estimates that take-up of office space across nine regional office markets⁶ reached 8.8 million sq. ft. in 2019; although this is below the level of take-up recorded in 2018, it is 3.9% above the 10-year average. Take-up during 2019 was marginally higher (+0.7%) than 2016, a year that was similarly dominated by political uncertainty. According to Savills, occupational demand was driven by the technology, media & telecoms sector, which accounted for the highest proportion of take-up at 27%. Following the technology, media & telecoms sector, the serviced office sector and the insurance & financial services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 12% and 10% respectively. Whilst demand from Central Government fell in 2019 in comparison to 2018, Avison Young expect a number of deals to take place in 2020 as part of the next phase of the hub programme.

According to Savills, demand for regional office stock led to a decline in availability across nine regional UK markets⁷, with total availability falling by 8% in 2019 to 10.5 million sq. ft., 28% below the 10-year average. This marks the tenth consecutive year that supply of office stock has declined. Cushman & Wakefield research indicates that vacancy rates across the UK's regions fell to 7% in the final quarter of 2019, a decrease from 8% the 12 months previous⁸.

Furthermore, it is estimated that approximately 5.9 million sq. ft. of office space is currently under construction in the Big Nine regional markets, with Manchester, Glasgow and Birmingham accounting for 26%, 19% and 17%, respectively. 56% of office buildings currently under construction are already pre-let.

⁵ CoStar, Investment Volumes, Q4 2019

⁶ Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle

⁷ Nine regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds & Manchester

⁸ Cushman & Wakefield Big Eight Office Report Q4 2019. Eight regional office markets mentioned by Cushman & Wakefield include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Manchester & Newcastle

Regional Demand: Annual Office Take-Up

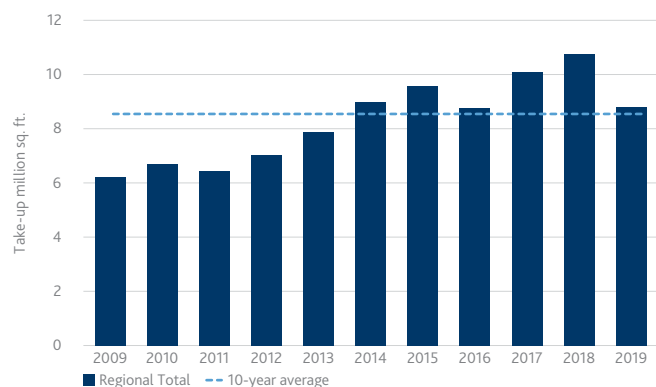


Figure 3: Avison Young (February 2020)

Regional Supply: Annual Office Supply

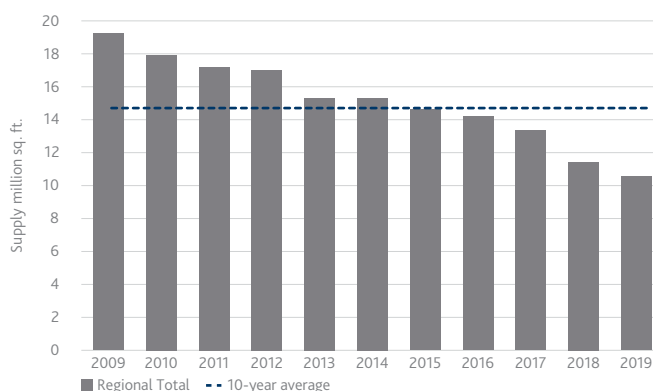


Figure 4: Savills (February 2020)

RENTAL GROWTH IN THE UK REGIONAL OFFICE MARKET

A lack of availability in the Big Nine regional markets put an upward pressure on headline rents as well as a downward pressure on rent incentives, which led to an increase of 2.9% in city centre net effective rents in 2019, according to Avison Young. Additionally, research by Avison Young estimates that headline rents for out of town offices increased by 3.0% from Q4 2018 to Q4 2019.

The CBRE Monthly Index shows that rental value growth for the rest of UK office markets in the 12 months ending December 2019 was 1.2%.

Rental Value Growth (vs previous 12 months)



Figure 5: CBRE (February 2020)

REGIONAL REIT'S OFFICE ASSETS

EPRA occupancy of the Group's regional offices rose to 88.4% (31 December 2018: 88.2%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, 31 December 2019 versus 31 December 2018, shows that occupancy decreased to 86.8% (31 December 2018: 88.5%). This reduction in occupancy can largely be attributed to two properties becoming vacant: Brennan House, Farnborough (29,707 sq. ft.) and Niceday House, Meridian Park, Andover (34,262 sq. ft.). Further details on these are below.

- Brennan House, Farnborough** – We were ahead of business plan when we took the opportunity to do a contract-led letting to Fluor Limited. Unfortunately, Fluor exercised a valid break notice as their contract was not extended. Brennan House presents well and we are exploring the opportunity to carry out works to upgrade the building. Activity levels remain good in the Farnborough market with 2019 take up slightly ahead of the five-year average. Take-up varies across a wide range of size from lettings of 5,500 to 46,000 sq. ft.. We have had a number of positive viewings recently and remain hopeful of securing a letting at the property in the near future.
- Niceday House, Andover** – As expected, the tenant vacated at expiry. Following this, a dilapidations settlement has been agreed and an outline residential consent has been obtained for change of use.

WAULT to first break was 3.0 years (31 December 2018: 3.0 years); like-for-like WAULT to first break increased to 3.1 years (31 December 2018: 3.0 years).

Asset and Investment Managers' Report (continued)

OCCUPIER DEMAND IN THE UK INDUSTRIAL MARKET

Take-up in the final quarter of 2019 reached 6.8 million sq. ft., pushing annual take-up during 2019 to 34.5 million sq. ft.; although this is 18% below the record high reported in 2018, demand remained above the 10-year average⁹. CBRE¹⁰ research shows that 60% of take-up was within the East Midlands and South East as the M1 corridor remains the most attractive location for occupiers. Following this, West Midlands, Yorkshire and North East accounted for 17% and 12% of take-up in 2019, respectively.

BNP Paribas Real Estate research highlights occupier demand was diverse in 2019 with no one sector dominating take-up¹¹. According to Colliers International, occupier demand was driven by occupier's requirements to

future-proof their supply chain operations. Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 19.0% of total retail sales in the UK, according to the ONS¹². BNP Paribas Real Estate research shows that Retailers were the most active in terms of take-up throughout 2019, accounting for 37% of annual take-up (including online sales).

In terms of development, 8.6 million sq. ft. of speculative development was delivered in 2019. However, availability levels remained relatively steady as a result of robust net absorption. Looking forward, there is currently only 6.6 million sq. ft. of speculative development expected to complete in 2020.

INDUSTRIAL RENTAL GROWTH CONTINUES

Research by BNP Paribas Real Estate illustrates that, although demand for standard industrial space led to rental growth in 2019, there were signs that rental growth cooled following several years of strong growth. Data from the CBRE Monthly Index shows rental

growth of 3.1% in the 12 months to the end of December 2019, indicating that rental growth slowed in 2019 from 4.2% for the 12 months to the end of December 2018.

REGIONAL REIT'S INDUSTRIAL ASSETS

EPRA occupancy of the Group's industrial sites increased to 95.5% (31 December 2018: 94.5%). A like-for-like comparison of the Group's industrial offices' EPRA occupancy, 31 December 2019 versus 31 December 2018, shows that occupancy increased to 95.4%

(31 December 2018: 94.2%). WAULT to first break was 5.8 years (31 December 2018: 5.4 years); like-for-like WAULT to first break decreased marginally to 5.8 years (31 December 2018: 5.9 years).

⁹ Cushman & Wakefield, Industrial Snapshot, Q4 2019

¹⁰ CBRE, Market Summary, Q4 2019

¹¹ BNP Paribas Real Estate, Industrial & Logistics Review, Q4 2019

¹² ONS, Retail Sales, Great Britain, January 2020

PROPERTY PORTFOLIO

As at 31 December 2019, the Group's property portfolio was valued at £787.9m (31 December 2018: £718.4m), with rent roll of £64.3m (31 December 2018: £59.7m), and an EPRA occupancy of 89.4% (31 December 2018: 89.4%).

On a like-for-like basis, 31 December 2019 versus 31 December 2018, EPRA occupancy was 88.1% (31 December 2018: 89.6%).

There were 160 properties (31 December 2018: 150) in the portfolio, with 1,251 units (31 December 2018: 1,192) and 904 tenants (31 December 2018: 874). If the portfolio was fully occupied at

Cushman & Wakefield's view of market rents, the rental income would be £77.2m per annum as at 31 December 2019 (31 December 2018: £70.0m).

As at 31 December 2019, the net initial yield on the portfolio was 6.2% (31 December 2018: 6.5%), the equivalent yield was 8.3% (31 December 2018: 8.2%), and the reversionary yield was 9.1% (31 December 2018: 8.8%).

Property Portfolio by Sector

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WALUT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
											Net initial	Equivalent	Reversionary
Office	116	629.7	79.9	4.7	88.4	3.0	51.2	13.15	62.9	135.34	6.1	8.3	9.3
Industrial	18	107.7	13.7	2.2	95.5	5.8	8.0	4.17	9.0	48.85	5.3	7.4	7.6
Retail	23	39.2	5.0	0.5	90.9	4.6	4.3	10.53	4.3	84.19	9.0	9.2	9.7
Other	3	11.4	1.4	0.2	90.6	6.9	0.8	8.17	1.0	74.99	7.5	8.0	8.1
Total	160	787.9	100.0	7.5	89.4	3.5	64.3	10.17	77.2	105.42	6.2	8.3	9.1

Property Portfolio by Region

Location	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WALUT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
											Net initial	Equivalent	Reversionary
Scotland	43	141.8	18.0	1.7	86.2	3.3	12.8	9.73	15.7	81.70	6.7	9.3	10.3
South East	33	233.0	29.6	1.7	87.9	3.4	17.9	12.06	21.2	140.33	5.9	7.5	8.4
North East	20	81.2	10.3	0.9	88.1	2.8	6.8	8.56	8.4	87.29	5.9	9.0	9.6
Midlands	32	140.4	17.8	1.4	93.2	3.5	11.6	9.07	12.7	100.88	6.0	7.8	8.5
North West	16	92.4	11.7	1.0	89.1	4.9	6.7	8.32	9.8	91.21	5.5	8.7	9.4
South West	13	79.3	10.1	0.5	95.8	2.9	6.6	15.57	7.6	165.50	6.8	8.1	8.9
Wales	3	19.9	2.5	0.3	87.6	6.6	1.9	8.73	1.9	74.97	7.5	8.4	8.6
Total	160	787.9	100.0	7.5	89.4	3.5	64.3	10.17	77.2	105.42	6.2	8.3	9.1

Tables may not sum due to rounding

Asset and Investment Managers' Report (continued)

Top 15 Investments (market value) as at 31 December 2019

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	EPRA Occupancy (%)	Annualised gross rent (£m)	% of gross rental income	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Execution Services Ltd, University of Glasgow	33.7	4.3	156,853	94.2	2.7	4.2	2.4
Juniper Park, Basildon	Industrial	Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd	29.6	3.8	277,760	100.0	2.2	3.5	2.8
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd	26.0	3.3	98,359	82.7	1.5	2.4	4.3
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd	24.9	3.2	140,791	95.7	2.3	3.5	3.4
Norfolk House, Smallbrook Queensway, Birmingham	Office	Secretary of State for Communities & Local Government, Spark44 Ltd	20.5	2.6	114,982	100.0	1.7	2.6	1.6
Hampshire Corporate Park, Eastleigh	Office	Aviva Central Services UK Ltd, National Westminster Bank Plc	20.1	2.6	85,422	99.6	1.5	2.4	3.6
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	19.3	2.4	73,292	100.0	1.5	2.4	3.6
One & Two Newstead Court, Annesley	Office	E.ON UK Plc	16.9	2.1	146,262	100.0	1.4	2.2	3.9
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	15.7	2.0	246,209	100.0	1.0	1.5	14.8
Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd	15.3	1.9	54,959	97.7	0.8	1.3	2.9
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd	13.9	1.8	91,034	100.0	1.1	1.7	1.4
Columbus House, Coventry	Office	TUI Northern Europe Ltd	13.3	1.7	53,253	100.0	1.4	2.1	4.0
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd	11.7	1.5	142,512	97.4	1.3	2.0	4.1
Oakland House, Manchester	Office	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd	11.3	1.4	160,938	89.5	1.1	1.7	3.8
Kingscourt Leisure Complex, Dundee	Other	Odeon Cinemas Ltd, Jag Leisure (Scotland) Ltd	10.5	1.3	83,780	88.8	0.7	1.1	7.7
Total			282.6	35.9	1,926,406	96.0	22.2	34.6	3.8

Tables may not sum due to rounding

Top 15 Tenants (share of rental income) as at 31 December 2019

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	Annualised gross rent (£m)	% of gross rental income
Barclays Execution Services Ltd	Tay House, Glasgow	Administrative and support service activities	1.9	78,044	1.6	2.5
Bank of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury High Street, Dumfries	Banking	2.2	92,978	1.5	2.3
Secretary of State for Communities & Local Government	Bennett House, Hanley Cromwell House, Tritton Road, Lincoln Norfolk House, Birmingham Oakland House, Manchester	Public sector	2.2	115,753	1.4	2.2
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.9	146,262	1.4	2.2
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	4.0	53,253	1.4	2.1
The Scottish Ministers	Calton House, Edinburgh Quadrant House, Dundee Templeton On The Green, Glasgow The Courtyard, Falkirk	Public Sector	1.5	111,076	1.3	2.1
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	14.8	246,209	1.0	1.5
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	3.4	41,285	0.9	1.4
John Menzies Plc	2 Lochside Avenue, Edinburgh	Professional, scientific and technical activities	3.6	43,780	0.9	1.4
The Royal Bank of Scotland Plc	Cyan Building, Rotherham	Banking	1.5	67,458	0.9	1.3
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	5.8	58,167	0.8	1.3
Aviva Central Services UK Ltd	Hampshire Corporate Park, Chilworth House, Eastleigh	Other service activities	4.9	42,612	0.8	1.2
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	2.8	91,287	0.7	1.1
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Swansea Juniper Park, Basildon	Wholesale and retail trade	4.4	75,791	0.7	1.1
The Secretary of State for Defence	800 Aztec West, Bristol	Public sector	4.0	32,007	0.6	1.0
Total			3.8	1,295,962	15.9	24.8

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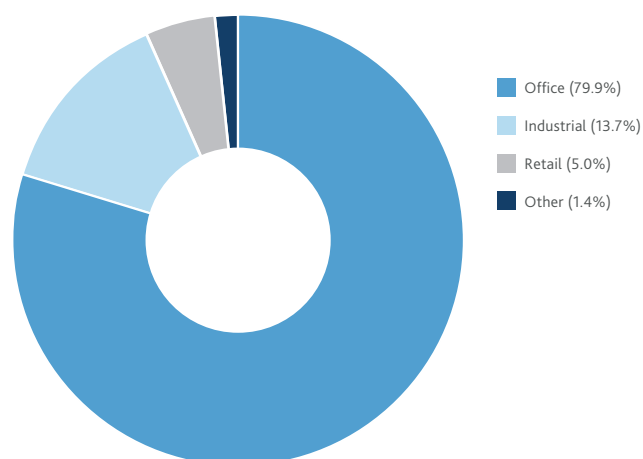
Asset and Investment Managers' Report (continued)

PROPERTY PORTFOLIO SECTOR AND REGION SPLITS BY VALUATION AND INCOME

BY VALUATION

As at 31 December 2019, 79.9% (2018: 76.1%) of the portfolio by market value was offices and 13.7% (2018: 15.5%) was industrial. The balance was made up of retail, 5.0% (2018: 7.1%) and other, 1.4% (2018: 1.4%). By UK region, as at 31 December 2019, Scotland represented 18.0% (2018: 18.0%) of the portfolio and England 79.5% (2018: 79.3%); the balance of 2.5% (2018: 2.7%) was in Wales. In England, the largest regions were the South East, the Midlands and the North West.

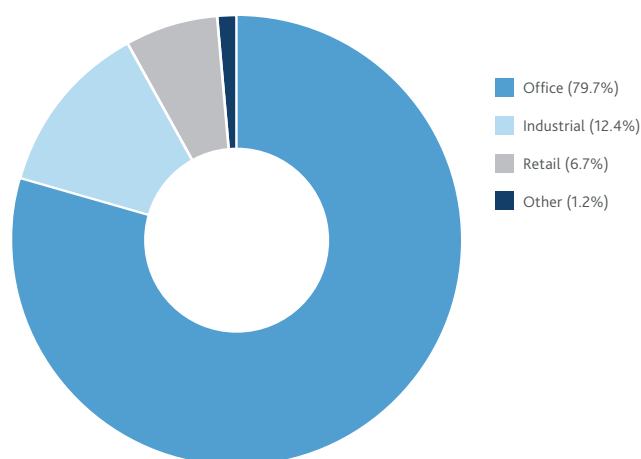
Sector split by valuation 2019



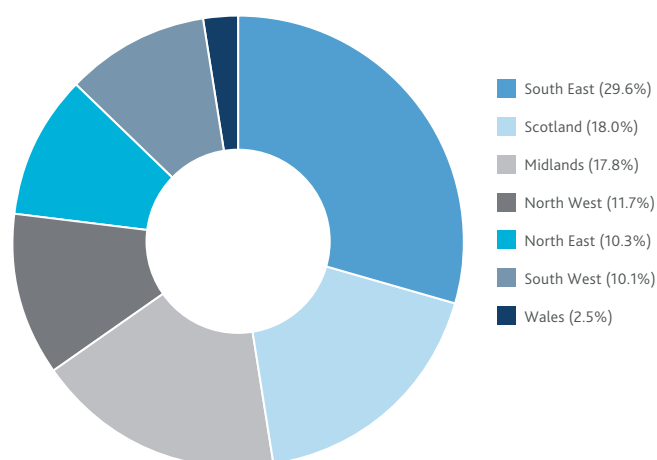
BY INCOME

As at 31 December 2019, 79.7% (2018: 77.3%) of the portfolio by income was offices and 12.4% (2018: 13.2%) was industrial. The balance was made up of retail, 6.7% (2018: 8.3%), and other, 1.2% (2018: 1.2%). By UK region, as at 31 December 2019, Scotland represented 19.9% (2018: 20.1%) of the portfolio and England 77.2% (2018: 77.2%); the balance of 2.9% was in Wales (2018: 2.7%). In England, the largest regions were the South East, the Midlands and the North East.

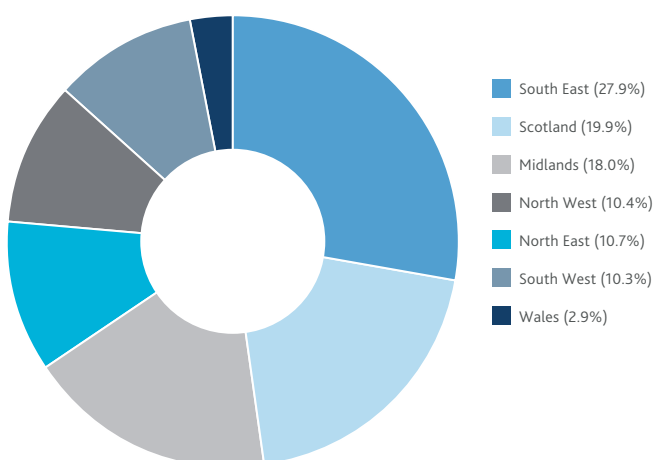
Sector split by income 2019



Regional split by valuation 2019



Regional split by income 2019

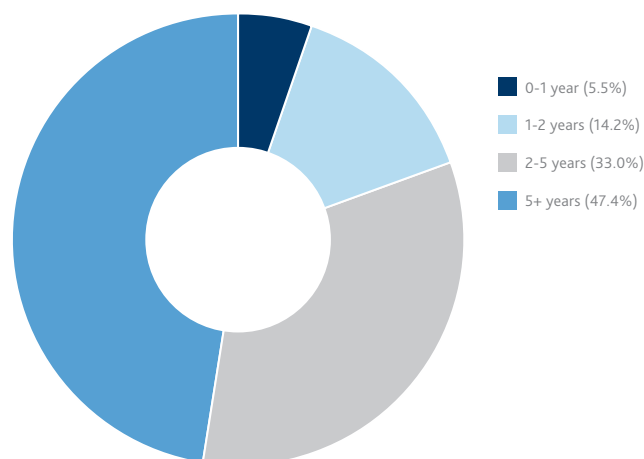


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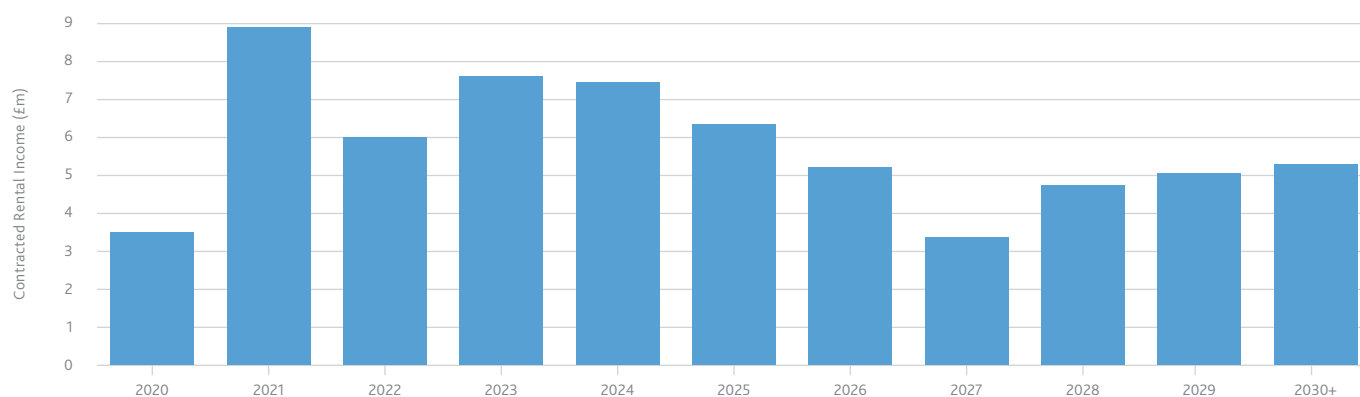
LEASE EXPIRY PROFILE

The WAULT on the portfolio is 5.5 years (2018: 5.4 years); WAULT to first break is 3.5 years (2018: 3.4 years). As at 31 December 2019, 5.5% (2018: 10.1%) of income was from leases, which will expire within 1 year, 14.2% (2018: 4.4%) between 1 and 2 years, 33.0% (2018: 34.0%) between 2 and 5 years and 47.4% (2018: 51.6%) after 5 years.

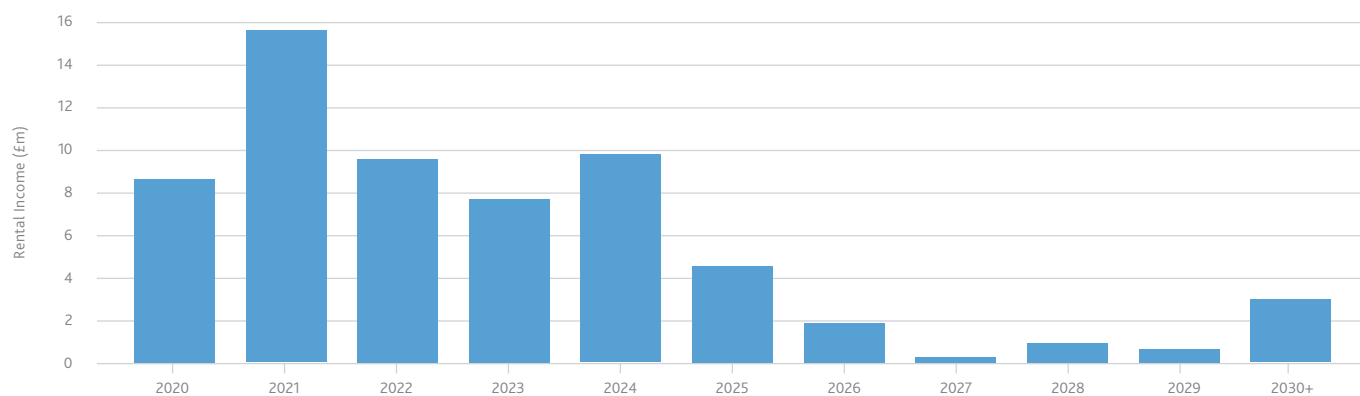
Lease expiry income profile



Lease expiry income profile by year



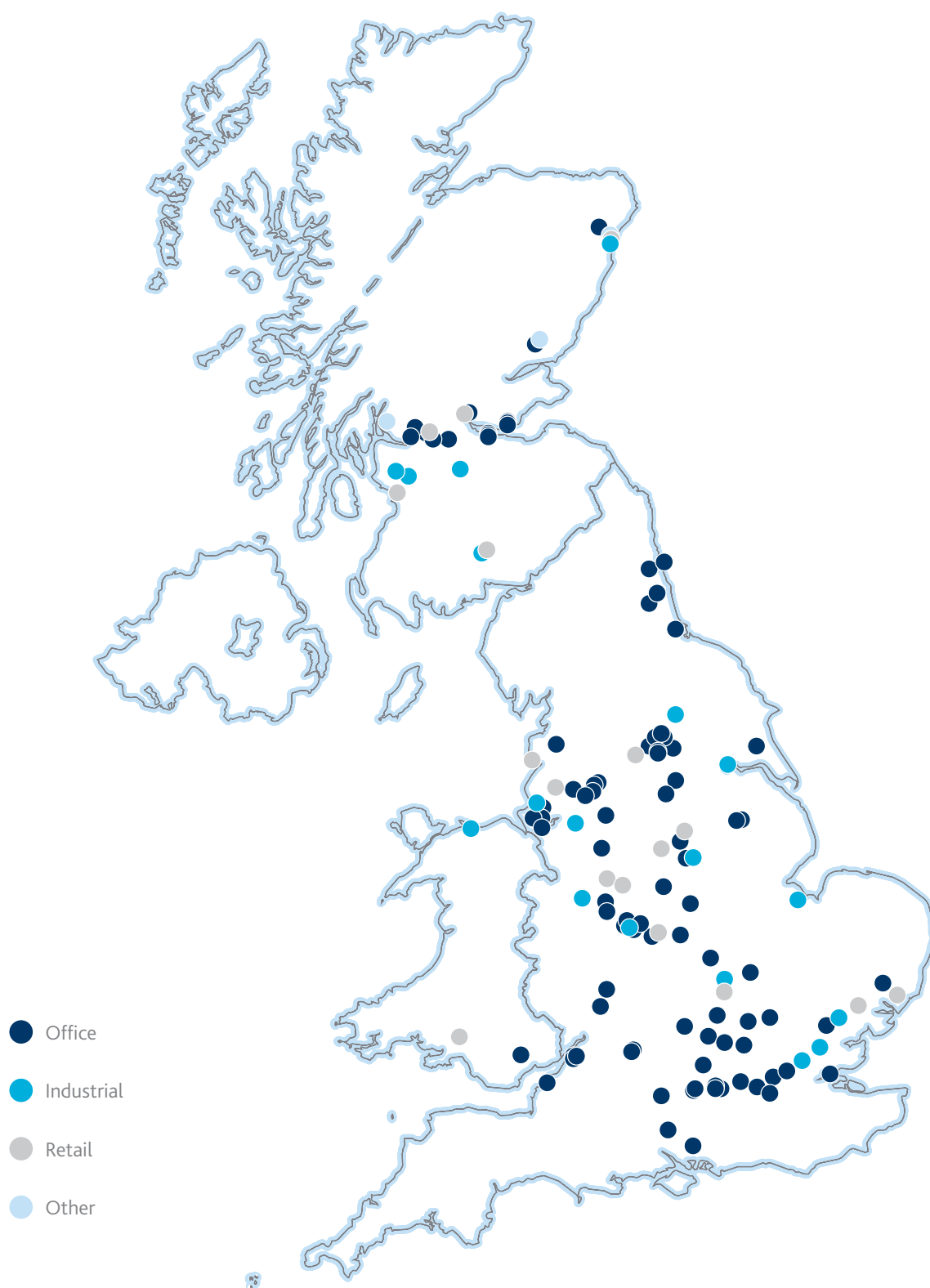
Lease expiry to first break income profile by year



Charts may not sum due to rounding

Asset and Investment Managers' Report (continued)

UK PROPERTY LOCATIONS AS AT 31 DECEMBER 2019



TENANTS BY STANDARD INDUSTRIAL CLASSIFICATION AS AT 31 DECEMBER 2019

As at 31 December 2019, 13.0% of income was from tenants in the professional, scientific and technical activities sector (2018: 11.5%), 12.0% from the administrative and support service activities sector (2018: 10.4%), 9.1% from the information and communication sector (2018: 8.8%), 9.1% from the wholesale and retail trade (2018: 10.1%) and 8.7% from the manufacturing sector (2018: 7.4%). The remaining exposure is broadly spread.

No tenant represents more than 3% of the Group's rent roll as at 31 December 2019, the largest being 2.5% (2018: 2.7%).

Tenants by SIC Codes (% of gross rent)

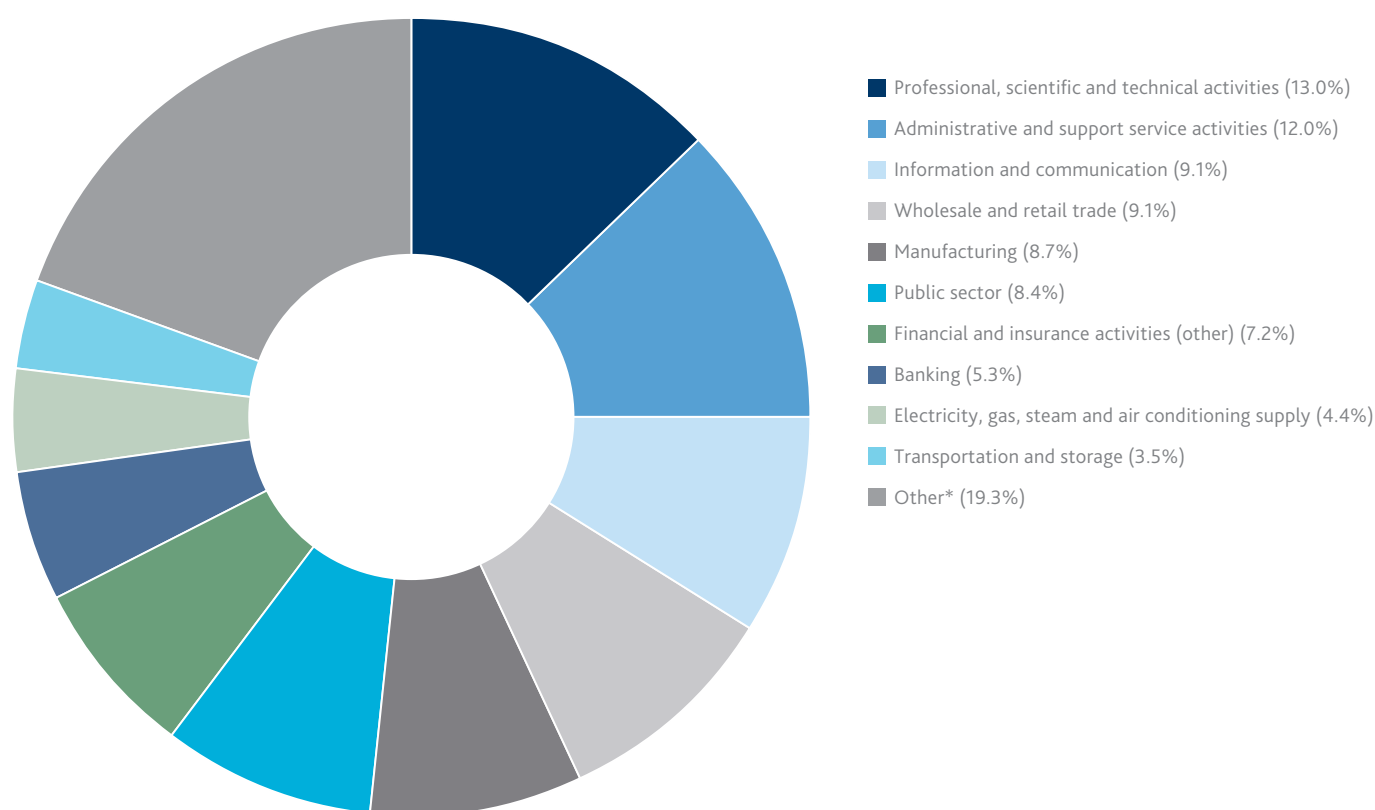


Chart may not sum due to rounding

* Other – Not specified, other service activities, construction, education, human health and social work activities, real estate activities, accommodation and food service activities, arts, entertainment and recreation, water supply, sewerage, waste management and remediation activities, public administration and defence, compulsory social security, charity, activities of extraterritorial organisations and bodies, residential.

Asset and Investment Managers' Report (continued)

TOP 15 PROPERTIES BY SECTOR: OFFICE

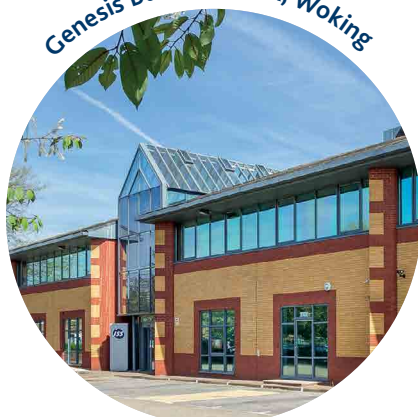
Tay House, Glasgow



Market value (£m):	33.7
Sector:	Office
Annualised gross rent (£m):	2.7
Lettable area (sq. ft.):	156,853
Anchor tenants:	Barclays Execution Services Ltd, University of Glasgow
EPRA Occupancy (%):	94.2
WAULT (years) (to first break):	6.4 (2.4)

- **Secure Income** – The leases with Barclays were 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** – New 10-year lease agreed with the University of Glasgow for an additional 9,791 sq. ft. in the building, with option to break in September 2024. This lease provides an additional gross rental income of c. £181,000 p.a.
- **Future Asset Management Initiatives** – Let of the balance of space on the first floor. Explore refurbishment options should Barclays Execution Services Ltd exercise November 2021 break option. This presents an opportunity for comprehensive repositioning of asset in a market with limited supply of high-quality large floor plates in an improving location.

Genesis Business Park, Woking



Market value (£m):	26.0
Sector:	Office
Annualised gross rent (£m):	1.5
Lettable area (sq. ft.):	98,359
Anchor tenants:	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd
EPRA Occupancy (%):	82.7
WAULT (years) (to first break):	7.3 (4.3)

- **Established Business Park** – Genesis is the premier out-of-town office park in the town, situated approximately one mile from Woking town centre.
- **New Letting** – New 10-year lease agreed with Gallagher Benefit Services Management Company Limited for 4,594 sq. ft. (Suite 1C) subject to a break option after five years at a gross rent of c. £106,000 p.a (£23.00 per sq. ft.).
- **Asset Management Initiatives** – Let balance of space.

TOP 15 PROPERTIES BY SECTOR: OFFICE (CONTINUED)

Market value (£m):	24.9
Sector:	Office
Annualised gross rent (£m):	2.3
Lettable area (sq. ft.):	140,791
Anchor tenants:	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd
EPRA Occupancy (%):	95.7
WAULT (years) (to first break):	4.2 (3.4)



- **High-Quality Asset** – Comprehensive refurbishment programme of Building 2 now completed with gross capital expenditure of c. £3.3m. The property is now the best accommodation in the town.
- **Continued Letting Activity** – Additional lettings on the ground floor of Building 2 to Product Compliance Specialists Limited on a 10-year lease commencing in April 2019, subject to a break option at the seventh anniversary. The lease provides a gross rental income of c. £87,000 p.a (c. £24.00 per sq. ft.).
- **Future Asset Management Initiatives** – Let balance of remaining space (5,550 sq. ft.) in Building 2. Additionally, advanced discussions are currently ongoing with the Bank of Scotland Plc to assess their intentions for renewal of their lease of Building 3 in November 2021. Opportunity exists to undertake similar successful refurbishment programme completed on Building 2.

Market value (£m):	20.5
Sector:	Office
Annualised gross rent (£m):	1.7
Lettable area (sq. ft.):	114,982
Anchor tenants:	Secretary of State for Communities & Local Government, Spark44 Ltd
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	4.0 (1.6)



- **High-Quality Asset** – City centre building split over six floors with 12 retail units on the ground floor level.
- **Business Plan** – Engage with tenants to re-gear the leases, remove break options and improve rental value. Let remaining retail unit.
- **Future Asset Management Initiatives** – Explore improving aesthetics and profile of exterior of building by way of potential cladding options/retail frontage improvements.

Asset and Investment Managers' Report (continued)

TOP 15 PROPERTIES BY SECTOR: OFFICE (CONTINUED)



Market value (£m):	20.1
Sector:	Office
Annualised gross rent (£m):	1.5
Lettable area (sq. ft.):	85,422
Anchor tenants:	Aviva Central Services UK Ltd, National Westminster Bank Plc
EPRA Occupancy (%):	99.6
WAULT (years) (to first break):	7.5 (3.6)

- **Successful Refurbishment** – Interior and exterior refurbishment of Hampshire House. By advance programme and marketing, the void period was limited to only five months whilst the works were ongoing.
- **Securing Income Streams** – New 10-year lease agreed for 43,612 sq. ft. at Chilworth House, Hampshire Corporate Park, Eastleigh, at a rent of £775,000 p.a which is 15.7% ahead of the previous rent.



Market value (£m):	19.3
Sector:	Office
Annualised gross rent (£m):	1.5
Lettable area (sq. ft.):	73,292
Anchor tenants:	Edvance SAS, The Secretary of State for Defence
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	8.8 (3.6)

- **Successful Refurbishment** – Major “back to shell” refurbishment of the whole building completed in August 2018 into active Bristol market with limited city centre supply.
- **Further Lettings** – The final floor comprising 9,736 sq. ft. has been let to Edvance SAS for a nine-year lease from August 2019 at a gross rental income of c. £224,000 p.a.
- **Full Let** – Property now fully let and producing a gross rental income of £2.3m.

TOP 15 PROPERTIES BY SECTOR: OFFICE (CONTINUED)

Market value (£m):	16.9
Sector:	Office
Annualised gross rent (£m):	1.4
Lettable area (sq. ft.):	146,262
Anchor tenants:	E.ON UK Plc
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	5.6 (3.9)

- **High-Quality Assets** – Two modern office pavilions in an established business park.
- **Break Option Removed** – Removal of EON's break option in May 2020 for Two Newstead Court, securing income until April 2025.



Market value (£m):	15.3
Sector:	Office
Annualised gross rent (£m):	0.8
Lettable area (sq. ft.):	54,959
Anchor tenants:	New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd
EPRA Occupancy (%):	97.7
WAULT (years) (to first break):	5.3 (2.9)

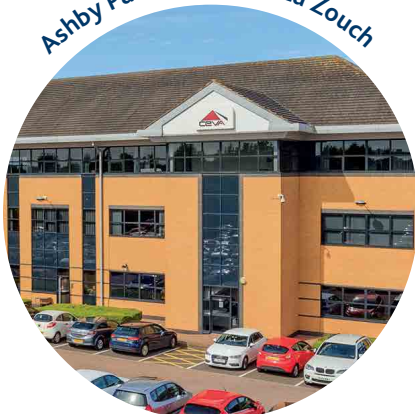
- **Tenant Retention** – Secured three lease re-gears with existing tenants during 2019 which will provide a revised combined gross rental income of c. £262,000 p.a., an uplift of 43.4% from previous gross rental income.
- **Strong Investment Market** – Strong investor demand remains for offices in the Manchester city centre.
- **Asset Management Initiatives** – Various initiative ongoing with existing tenants regarding lease extensions. Explore opportunity to undertake improvements to elements of the reception area.



Asset and Investment Managers' Report (continued)

TOP 15 PROPERTIES BY SECTOR: OFFICE (CONTINUED)

Ashby Park, Ashby De La Zouch



Market value (£m):	13.9
Sector:	Office
Annualised gross rent (£m):	1.1
Lettable area (sq. ft.):	91,034
Anchor tenants:	Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	2.7 (1.4)

- **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** – Re-gear lease with Ceva Logistics to secure longer income and complete lease surrender of Power House with Alstom Power Ltd and back-to-back re-letting to Brush Electrical Machines Ltd on a new 10-year lease.

Columbus House, Coventry



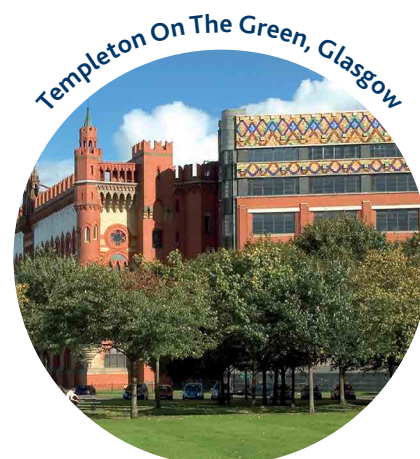
Market value (£m):	13.3
Sector:	Office
Annualised gross rent (£m):	1.4
Lettable area (sq. ft.):	53,253
Anchor tenants:	TUI Northern Europe Ltd
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	4.0 (4.0)

- **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.

TOP 15 PROPERTIES BY SECTOR: OFFICE (CONTINUED)

Market value (£m):	11.7
Sector:	Office
Annualised gross rent (£m):	1.3
Lettable area (sq. ft.):	142,512
Anchor tenants:	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd
EPRA Occupancy (%):	97.4
WAULT (years) (to first break):	7.5 (4.1)

- **Diversified Income** – Multi-let to 39 tenants across 47 leases.
- **Further Lettings** – Six new lettings took place during 2019 to five tenants across 13,547 sq. ft., providing a combined gross rental income of c. £130,000 p.a. and representing a notable uplift of c. 19% from December 2018 ERVs.
- **Reducing Vacancy** – EPRA Occupancy has increased by 5.4% in the 12 months to 31 December 2019, reaching 97.4%.



Market value (£m):	11.3
Sector:	Office
Annualised gross rent (£m):	1.1
Lettable area (sq. ft.):	160,938
Anchor tenants:	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd
EPRA Occupancy (%):	89.5
WAULT (years) (to first break):	5.1 (3.8)

- **Adding Value** – Front of house works undertaken to improve immediate presentation and installation of high-level external illuminated signage to “landmark” the building.
- **New Lettings** – New lease agreed with Please Hold (UK) Limited for 5,450 sq. ft. on the fifth floor for a 10-year term at a gross rental value of £12.50 per sq. ft., with a break option in 2024.
- **Asset Management Initiatives** – Refurbishment of ground floor to create smaller suites in response to changing occupational demand as well as proposed creation of hub style facility to provide welfare facilities (including showers and improved reception).



Asset and Investment Managers' Report (continued)

TOP 15 PROPERTIES BY SECTOR: INDUSTRIAL

Juniper Park, Basildon



Market value (£m):	29.6
Sector:	Industrial
Annualised gross rent (£m):	2.2
Lettable area (sq. ft.):	277,760
Anchor tenants:	Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	4.4 (2.8)

- **Diversified Income** – Multi-let to 11 tenants across 15 leases.
- **New Letting** – New lease agreed with DG International Group Limited for c. 30,100 sq. ft. for a five-year term at a gross rental income of c. £240,800 p.a., representing a notable uplift of 30% from the previous tenancy. The unit was re-let within 11 weeks of the previous lease coming to an end.
- **Major Renewal Secured** – Unit 2 of the 16-unit site has successfully been renewed to Vanguard Logistics Services Limited for a five-year period with Vanguard having the option to extend beyond this. A stepped rent has been agreed on the 61,079 sq. ft. unit, increasing to £370,000 p.a representing an uplift of 15.4% to the previous annual rent of £320,665, and 5.4% ahead of ERV.
- **Tenant Expansion** – Agreement for lease signed with Schenker Limited to take a lease of the whole ground floor offices (c. 13,000 sq. ft.) at Juniper Place on a five-year term at a gross rent of c. £182,000 p.a (c. £14.00 per sq. ft. and 4.9% above ERV).

Market value (£m):	15.7
Sector:	Industrial
Annualised gross rent (£m):	1.0
Lettable area (sq. ft.):	246,209
Anchor tenants:	Jiffy Packaging Ltd
EPRA Occupancy (%):	100.0
WAULT (years) (to first break):	14.8 (14.8)

- **Long-Term Lease** – Let to Jiffy Packaging Limited until 2034.
- **Business Plan** – Tenant company acquired by Airpack Group and lease guarantee assigned to new parent company. Discussions continue with tenant regarding a potential re-gear.

Road 4 Winsford Industrial Estate, Winsford



TOP 15 PROPERTIES BY SECTOR: OTHER

Market value (£m):	10.5
Sector:	Other
Annualised gross rent (£m):	0.7
Lettable area (sq. ft.):	83,780
Anchor tenants:	Odeon Cinemas Ltd, Jag Leisure (Scotland) Ltd
EPRA Occupancy (%):	88.8
WAULT (years) (to first break):	8.0 (7.7)

- **Adding Value** – Works undertaken to transform 10 screen multiplex Odeon cinema to 'Odeon Deluxe' brand. Successfully negotiated re-gear of the lease to provide a further 10-year term subject to us contributing to the cost of the upgrade.
- **Asset Management Initiatives** – Let balance of refurbished 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' and tenants' areas, 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. Please see below for an example of a property where we improved the energy efficiency.

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.

Case Study

Century Way, Thorpe Park, Leeds

Ground and second floor office spaces, plus all common area and toilet facilities, were comprehensively refurbished. The scope of energy improvements includes:

- The replacement of the original air conditioning system with a high-performance low energy use VRF system; including new fan coils, external condensers and fully insulated pipework.
- Water heating was replaced with point of use appliances and the old storage vessels for the indirect system were removed.
- Retained chiller unit for the first floor offices was downgraded to its optimum use characteristic.
- BMS systems were entirely replaced; making the most efficient use of all systems and in planning for the eventual replacement of the nominal retained systems in the first floor.
- Lighting throughout the common areas, internal and external, were replaced with modern high efficiency LED fittings.
- All power systems to these areas were also replaced with new high efficiency fittings and new cabling.
- The lift installation was comprehensively upgraded to include new operational equipment and controls; of modern efficient type.
- Building fabric upgrades included insulated suspended ceiling tile installations. Sealing of roof sheet gaps and brand-new raised access floors of enhanced composition to the original.
- External fire doors were all upgraded with new draught seals.
- New ground floor fire exit door facilities were installed to the rear, fully thermally broken, and a new entrance lobby was created to the front of the premises to minimise air leakage and improve thermal control.
- The south facing full height atrium was solar control managed and new air handling systems were installed.



Property Name: 800 Aztec West, Bristol
Sector: Office



Asset and Investment Managers' Report (continued)

FINANCIAL REVIEW

Net Asset Value

In the year ended 31 December 2019, the EPRA NAV of the Group increased by £55.8m to £486.3m (IFRS: £483.7m) from £430.5m (IFRS: £429.5m) as at 31 December 2018, equating to a decrease in the diluted EPRA NAV of 2.8pps to 112.7pps from 115.5pps. This is after the payment of dividends in the period amounting to 8.2pps.

The EPRA NAV increase of some £55.8m since 31 December 2018 is predominately sourced from the issuance of new equity and offset by the revaluation of investment properties held at 31 December 2019.

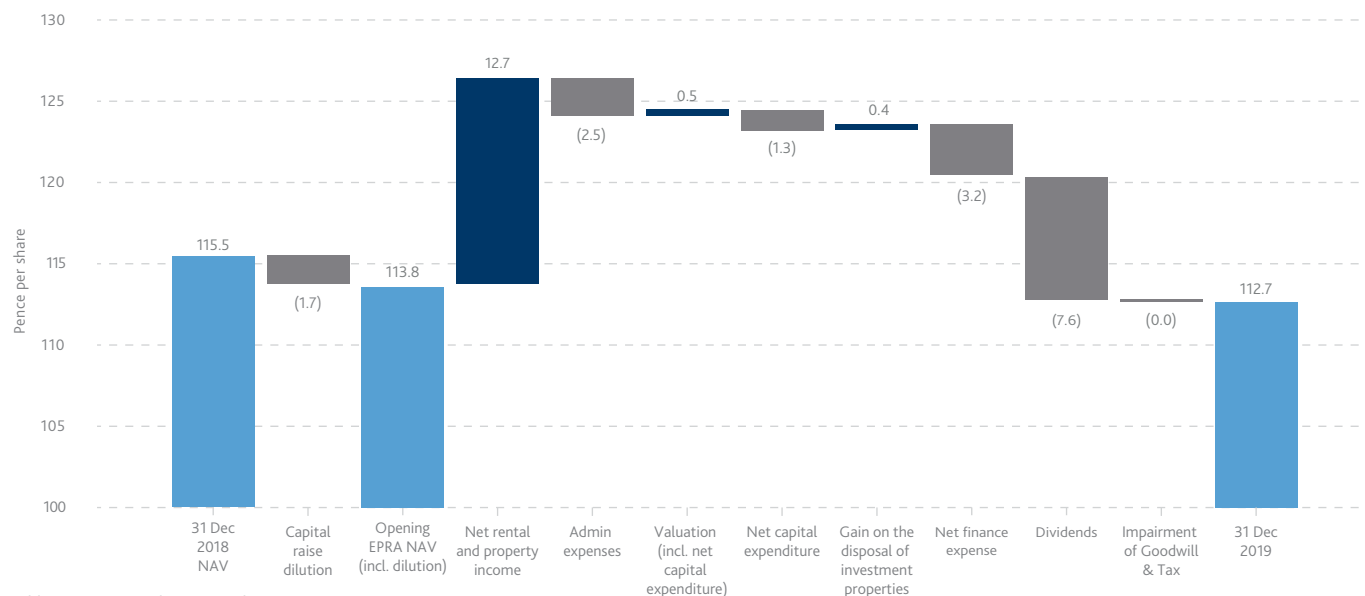
On 23 July 2019, the Company issued 58,685,447 Ordinary Shares at a price of 106.5pps pursuant to a capital raise of gross proceeds of £62.5m. The funds were deployed in three tranches, excluding transaction costs: on 21 August 2019, a portfolio of six offices were acquired for £25.9m; on 18 October 2019, four multi-let offices were acquired for £27.7m; and finally, on 31 December 2019, a company office headquarters was acquired for £10.3m.

The investment property portfolio valuation as at 31 December 2019 totalled £787.9m (31 December 2018: £718.4m). The increase of £69.5m since the December 2018 year end is largely a reflection of the aforementioned £62.5m equity capital raise funds being deployed, £1.7m realised property disposals, offset by £3.5m of investment property revaluations, and gross capital expenditure amounting to £8.0m. Overall, on a like-for-like basis, the portfolio was broadly unchanged with a 0.1% decrease.

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

	Year ended 31 December 2019 (£m)	Year ended 31 December 2018 (£m)
Acquisitions		
Net (after costs)	89.9	76.3
Gross (before costs)	87.1	73.3
Disposals		
Net (after costs)	24.3	149.3
Gross (before costs)	24.9	152.5
Capital Expenditure		
Net (after dilapidations)	5.8	7.0
Gross (before dilapidations)	8.0	9.8

EPRA Net Asset Value – Diluted Bridge 2019



The diluted EPRA NAV per share decreased to 112.7pps (31 December 2018: 115.5pps). The EPRA NAV is reconciled in the table below:

	Year ended 2019	
	£m	Pence per share
Opening EPRA NAV (31 December 2018)	430.5	115.5
Capital raise dilution	60.5	(1.7)
Opening EPRA NAV (incl. net capital raise)	491.0	113.8
Net rental and property income	55.0	12.7
Administration and other expenses	(10.9)	(2.5)
Gain on the disposal of investment properties	1.7	0.4
Change in the fair value of investment properties	(3.5)	(0.8)
Change in value of right of use	(0.2)	–
EPRA NAV after operating profit	533.0	123.5
Net finance expense	(13.7)	(3.2)
Impairment of goodwill	(0.6)	(0.1)
Taxation	0.4	0.1
EPRA NAV before dividends paid	519.1	120.3
Dividends paid	(32.8)	(7.6)
Closing EPRA NAV (31 December 2019)	486.3	112.7

Table may not sum due to rounding

As at 31 December 2018, there were 372,821,136 shares in issue. On 23 July 2019, the Company issued 58,685,447 shares which qualified for the Q2 2019 dividend of 1.90 pence per share and increased the total number of shares in issue to 431,506,583.

INCOME STATEMENT

Operating profit before gains and losses on property assets and other investments for the year ended 31 December 2019 amounted to £44.1m (31 December 2018: £36.8m). Profit after finance items and before taxation was £26.3m (31 December 2018: £67.9m). This reduction is predominately the result of three factors: firstly, a reduction in the gains on the disposal of investment properties, with 2018 including a number of opportunistic disposals; secondly, the reduction in the change in fair value of investment properties, with 2018 values being driven by asset management initiatives; and finally, the combination of the two prior factors resulted in a reduction of the performance fee incurred. 2019 included a full rent roll for properties held as at 31 December 2018, plus the partial rent roll for properties acquired and disposed of during the period.

Rental and property income amounted to £64.4m, excluding recoverable service charge income and other similar items (31 December 2018: £62.1m). The increase was primarily the result of the enlarged investment property portfolio held in 2019.

Currently more than 85% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.5m (31 December 2018: £0.4m).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £9.4m (31 December 2018: £7.7m), and the rent roll increased to £64.3m (31 December 2018: £59.7m).

Realised gain on disposal of investment properties amounted to £1.7m (31 December 2018: £23.1m). These gains were primarily driven by asset management initiatives. The change in the fair value of investment properties amounted to a loss of £3.5m (31 December 2018: gain of £23.9m). Gross capital expenditure amounted to £8.0m. The change in value of right of use asset amounted to a charge of £0.2m; additional information is set out in note 2.4 on page 101.

Finance expenses amount to £13.9m (31 December 2018: £16.0m). The decrease is largely as a result of the repayment of the 30m zero dividend preference shares ("ZDPs") on 9 January 2019.

Asset and Investment Managers' Report (continued)

The EPRA cost ratio, including direct vacancy costs, was 31.6% (31 December 2018: 40.1%), adjusting for ground rent. The decrease in the cost ratio is ostensibly a reflection of the decrease in realised gains from the disposal of investment properties in the period, coupled with the reduction in the fair value of the investment properties, resulting in a nil performance fee (31 December 2018: £7.0m). The EPRA cost ratio, including direct vacancy costs and excluding the performance fee, was 31.6% (31 December 2018: 28.6%).

The ongoing charges for the period ending 31 December 2019 were 4.5% (31 December 2018: 4.4%).

The EPRA Total Return from 6 November 2015 to 31 December 2019 was 43.0% (31 December 2018: 37.5%), an annualised rate of 9.0% pa (31 December 2018: 10.6% pa).

DIVIDEND

In relation to the period from 1 January 2019 to 31 December 2019, the Company declared dividends totalling 8.25pps (2018: 8.05pps). Since the end of the period, the Company has declared a dividend for the fourth quarter of 2019 of 2.55pps.

Period covered	Announcement date	Ex-date	Payment date	Pence per share
1 Jan 2019 to 31 Mar 2019	23 May 2019	6 Jun 2019	12 July 2019	1.90
1 Apr 2019 to 30 Jun 2019	29 Aug 2019	5 Sep 2019	15 Oct 2019	1.90
1 Jul 2019 to 30 Sep 2019	14 Nov 2019	21 Nov 2019	19 Dec 2019	1.90
1 Oct 2019 to 31 Dec 2019	27 Feb 2020	5 Mar 2020	9 April 2020	2.55
1 Jan 2018 to 31 Mar 2018	17 May 2018	24 May 2018	13 Jul 2018	1.85
1 Apr 2018 to 30 Jun 2018	31 Aug 2018	13 Sep 2018	15 Oct 2018	1.85
1 Jul 2018 to 30 Sep 2018	15 Nov 2018	22 Nov 2018	21 Dec 2018	1.85
1 Oct 2018 to 31 Dec 2018	21 Feb 2019	28 Feb 2019	11 Apr 2019	2.50

DEBT FINANCING AND GEARING

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next four to ten years, with a weighted average maturity of 7.3 years (31 December 2018: 6.4 years).

The Group's borrowing facilities are with the Royal Bank of Scotland, Scottish Widows Limited & Aviva Investors Real Estate Finance, Scottish Widows Limited and Santander UK. Total bank borrowing facilities at 31 December 2019 amounted to £294.0m (31 December 2018: £290.5m) (before unamortised debt issuance costs), with £27.9m available to be drawn. In addition to the bank borrowings, the Group has a £50m 4.5% retail eligible bond which is due for repayment in August 2024. In aggregate, the total debt available at 31 December 2019 amounted to £371.9m (31 December 2018: £380.4m).

During the period, the Company fully repaid the £39.9m ZDP shares on 9 January 2019. In addition, a new £66.0m 10-year facility was agreed with Santander, refinancing the existing £44.0m facility; a new £55.0m five-year facility was agreed with the Royal Bank of Scotland, which refinanced both the existing £26.5m facility with the Royal Bank of Scotland and the £19.0m facility with HSBC. The new Royal Bank of Scotland and Santander UK facilities had not been fully drawn as at 31 December 2019.

At 31 December 2019, the Group's cash and cash equivalent balances amounted to £37.3m (31 December 2018: £104.8m), after the repayment of the £39.9m ZDP shares and the acquisition of Norfolk House for £20.0m before costs.

The Group's net LTV ratio stands at 38.9% (31 December 2018: 38.3%) before unamortised costs. The Board continues to target a net LTV ratio of 40%, with a maximum limit of 50%.

Debt Profile and LTV Ratios as at 31 December 2019

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value** %	Annual interest rate
Royal Bank of Scotland	55,000	48,584	June 2024	39.8	2.15 over 3 months £ LIBOR
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	45.1	3.28 Fixed
Scottish Widows Ltd.	36,000	36,000	December 2028	38.9	3.37 Fixed
Santander UK	65,870	44,416	June 2029	26.4	2.2 over 3 months £ LIBOR
	321,870	294,000			
Retail eligible bond	50,000	50,000	August 2024	N/A	4.5 Fixed
	371,870	344,000			

* Before unamortised debt issue costs

** Based on Cushman and Wakefield property valuations

Table may not sum due to rounding

The Managers continue to monitor the borrowing requirements of the Group. As at 31 December 2019, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio (net debt to Ordinary Shareholders' equity (diluted)) of the Group was 63.4% as at 31 December 2019 (31 December 2018: 64.1%).

Interest cover, including amortised costs, stands at 3.6 times (31 December 2018: 2.3 times) including the ZDP shares, and 3.6 times excluding the ZDP shares (31 December 2018: 2.7 times). The interest cover, including amortised costs, increase was a result of the reduction of borrowings following the 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 2019 (%)	31 December 2018 (%)
Borrowings interest rate hedged (incl. ZDP)	108.1	102.0
Thereof:		
Fixed	73.0	76.5
Swap	17.6	12.8
Cap	17.6	12.8
WACD ¹	3.5	3.8
WACD – excluding the ZDPs ²	3.5	3.5

Table may not sum due to rounding

¹ WACD - Weighted Average Effective Interest Rate including the cost of hedging

² Zero Dividend Preference Shares, which were assumed on 24 March 2017 and fully repaid on 9 January 2019

The over hedged position has arisen due to the entire Royal Bank of Scotland and Santander UK facilities, including any undrawn balances, being hedged by interest rate cap derivatives which have no ongoing cost to the Group.

Asset and Investment Managers' Report (continued)

TAX

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK property 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.

At 31 December 2019, the Group recognised a tax credit of £0.3m, which comprised tax provisions for the year offset by releases of tax previously provided for in prior years which are now concluded and not payable.

SUBSEQUENT EVENTS AND COVID-19

The wellbeing of our tenants and other stakeholders in the Company are of utmost importance to the Board and we continue to manage the Company, cognisant of their needs in this current environment.

On 20 February 2020, the Company announced a potential equity fundraise to take advantage of its growing near-term pipeline of accretive growth. As a result of the current market uncertainty caused by the global spread of COVID-19, the Company took the decision to withdraw the potential equity fundraise.

On 31 March 2020, and in view of the COVID-19 disruption to UK economic activity the Company announced a trading update. The rental collections were slightly reduced as at 30 March 2020, with 68.2% of invoiced rental income collected in comparison with 69.6% at the same date in 2019. In addition, £30.7m of available borrowing headroom from the Santander UK and Royal Bank of Scotland facilities had been drawn.

The Board will continue to closely monitor the developing situation and its effect on the Group, although the Board is re-assured by the Company's balance sheet, the breadth of tenants and geographical spread of assets, which will ensure it is well positioned to mitigate any prolonged periods of uncertainty.

Property Name: Columbus House, Coventry
Sector: Office



Principal Risks and Uncertainties

The Board acknowledges that it faces a number of risks which could impact the achievement of its strategy, and that effective risk management is essential to the Group. A robust assessment is undertaken of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity.

Although the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate risk.

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 emerging 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
Principal Risk Summary		Movement trend in the period		
1.	Inappropriate investment strategy	»»»		
2.	Valuation	»»»		
3.	COVID-19	»		
4.	Economic and political	»»»		
5.	Funding	»»»		
6.	Tenant	»»»		
7.	Financial and tax changes	»»»		
8.	Operational	»		
9.	Accounting, legal and regulatory	»»»		
10.	Environmental and efficiency standards	»		

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.		
	Supply and demand market information is reviewed continuously to assist in acquisitions and disposals.		
	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.	

<p>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.</p> <p>No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.</p> <p>Speculative development (i.e. properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.</p> <p>The value of the assets is protected by an active asset management programme, which is regularly reviewed against the business plan for each property.</p>	<p>Tay House (31 December 2018: Tay House) remains the highest valued property, which equates to 4.3% (31 December 2018: 4.6%) of the Group's investment properties.</p> <p>The Group's largest single tenant exposure is 2.5% (31 December 2018: 2.7%) of gross rental income, being Barclays Bank PLC (31 December 2018: Barclays Bank PLC).</p> <p>No speculative construction was undertaken in the year.</p> <p>The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.</p>
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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 & Wakefield provide independent valuations for all properties and in accordance with the RICS Red Book.</p> <p>The Audit Committee has the opportunity to discuss with the external valuers the basis of their valuations.</p> <p>The Asset Manager's experience and extensive property market knowledge and are able to challenge the external valuers findings.</p> <p>The Company's Auditor to engage an independent third party to evaluate Cushman & Wakefield valuation.</p>	Cushman & Wakefield provide the valuation for the entire portfolio.	

Principal Risks and Uncertainties (continued)

COVID-19			
Potential impact	Mitigation	Movement in the period	⬆
The economic disruption resulting from COVID-19 virus could impact rental incomes, the ability to access funding at competitive rates, maintain a progressive dividend policy, and adhere to the HMRC REIT regime requirements, especially if associated restrictions are in place for greater than one year.	<p>The retention of the Asset and Investment Manager will be pivotal in the near-term in maintaining the rental income, given their experience and corporate memory. The Company and the Managers each agreed to waive their right to issue a termination notice on or before 3 November 2020 and the management agreement will now continue in force until 3 November 2023.</p> <p>The Asset Manager stands ready, should it be required, to support tenants in accessing UK Government financial assistance.</p> <p>The Asset Manager, where appropriate, has put in place social distancing measures as advised by the government.</p> <p>The available borrowing facility headroom has been drawn down from Santander UK and Royal Bank of Scotland.</p> <p>The Company is no longer considering a potential equity fundraise and any associated property acquisitions.</p> <p>Close relationships with lenders ensuring early dialogue around covenants.</p> <p>Dividend distributions remain under review.</p>	This was a completely new and unforeseen risk. However, the Group continues to scrutinise all current risk mitigation approaches employed and to work closely with all parties through this disruptive period.	
Economic and political Risk			
Potential impact	Mitigation	Movement in the period	⬅⬅⬅
Significant political events 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 900 (31 December 2018: 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 Advisers and acts accordingly.</p>	There remains a risk that property valuations and the occupancy market may be impacted by the ongoing negotiations during the Brexit transition period.	

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 LTV.</p>	<p>Weighted average debt term increased to 7.3 years from 6.4 years in 2018.</p> <p>Weighted average cost of capital, including hedging costs was 3.5% (31 December 2018: 3.8%).</p> <p>LTV increased to 38.9% from 38.3% at 31 December 2018.</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.	

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>	<p>This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio.</p> <p>The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 904 at the year end (31 December 2018: 874).</p>	
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 2019 was 3.5 years (31 December 2018: 3.4)</p> <p>The largest tenant is 2.5% of the gross rental income, being Barclays Bank PLC (31 December 2018: 2.7%).</p> <p>The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.</p>	

Principal Risks and Uncertainties (continued)

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 advisers including Grant Thornton UK LLP 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. These plans have been implemented in adherence to COVID-19 government guidelines, with limited disruption to operations.</p> <p>An annual due diligence exercise is carried out on all principal third-party service providers.</p> <p>As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers.</p> <p>All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk assessment.</p> <p>The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive building, loss of rent and service charge plus terrorism insurance with the exception of a small number of "self-insure" arrangements covered under leases.</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 third party service providers.</p> <p>There were no concerns identified from these visits.</p> <p>Both the Asset and Investment Manager are viable going concerns.</p> <p>The Asset Manager remains vigilant to changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures.</p> <p>The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.</p>	

Accounting, Legal, and Regulatory

Potential impact	Mitigation	Movement in the period	»»»
Changes to accounting, legal and/or regulatory legislation could result in changes to current operating processes.	<p>Robust processes are in place to ensure adherence to accounting, legal, regulatory requirements, and Listing Rules.</p> <p>All contracts are reviewed by the Group's legal advisers.</p> <p>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.</p> <p>All compliance issues are raised with the Financial Adviser.</p>	<p>The Group continues to receive advice from its corporate advisers and has incorporated changes where required.</p> <p>The Administrator and Company Secretary continue to attend all Board meetings and advise on Listing Rule requirements in conjunction with the Corporate Broker and Financial Adviser.</p>	

Environmental and Energy Efficiency Standards

Potential impact	Mitigation	Movement in the period	»
The Group's cost base could be impacted, and management time diverted, due to climate changes and associated legislation.	<p>The Board receives regular updates on environmental, social, governance and potential legislation changes (e.g. the Government Green Finance Strategy July 2019) from its advisers.</p> <p>The Group is currently reviewing its approach to these emerging risks with the assistance of specialist external advisers.</p>	Additional attention is currently being devoted in this area to ensure the appropriate approach and indicators are applied.	
Changes to the environment could impact upon the operations of the Group.	<p>Property acquisitions undergo a rigorous due diligence process, including an environmental assessment.</p> <p>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.</p>	The rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.	
An Energy Performance Rating of E and below is required for each asset in order to be let or sold.	<p>The Group continues to review each property to ensure adherence with Energy Performance Rating requirements.</p> <p>The energy efficiency of investment acquisitions is fully considered as part of the buying due diligence.</p>	The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.	

Emerging Risks

In reviewing the principal risks, the Board also considers emerging risks on a regular basis. The Company has a procedure in place to identify emerging risks and manages them accordingly. One key emerging risk that was identified but is now considered an actual principal risk to the Company is COVID-19, as detailed above.

Changes to the Principal Risks and Uncertainties

The Board, via the Audit Committee, has agreed the movement during the period to each of the identified principal risks and uncertainties following review of these risks, having considered the characteristics of these and the economic and geo-political factors. Any impact of these risks to the Company's future strategy is considered on an ongoing basis.

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



Management Arrangements

The Board has overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of all suppliers of services to the Company, including the Asset Manager and Investment Manager. It is also responsible for the determination of the Company's investment policy and strategy and the Company's system of internal and financial controls, including ensuring that commercial risks and financing needs are properly considered and that the obligations of a public limited company are adhered to.

To assist the Board in the day-to-day operations of the Company, arrangements have been put in place to delegate authority for the performance of day-to-day operations of the Company to the Asset Manager, Investment Manager and other third-party service providers.

Asset Manager

The Asset Management Agreement was assigned to London & Scottish Property Investment Management Limited on 3 May 2019 from an existing entity within the Asset Manager group following a restructure. The Asset Manager is engaged to provide asset management services to the Company, Regional Commercial Midco Limited ("Midco") and the respective Group limited companies which hold the properties directly.

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 Objectives of the Company, its Investment Policy (as set out on page 16) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the Group's properties.

Notwithstanding the above terms, the Asset Management Agreement may be terminated with immediate effect in certain circumstances, including a material unremedied breach by the Asset 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 (3 November 2020) and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Asset and Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Property Manager

London & 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 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 Objectives 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").

Notwithstanding the above terms, 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 (3 November 2020) 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 EPRA 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. Any performance fee payable for the period commencing 1 January 2019 and subsequent periods is to be paid in part 34% in cash and 66% in Ordinary Shares. Any Ordinary Shares issued to the Managers are to be issued at the prevailing price per Ordinary Share on the date of issue.

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 per 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 160 to 162 of the Company's Prospectus, published on 24 June 2019.

Performance Fee

As reported in the Chairman's Statement on page 13, a performance fee was not crystallised for the performance fee period from 1 January 2019 to 31 December 2019.

Continuing Appointment of Asset Manager and Investment Manager

The management agreements between the Company, the Asset and the Investment Managers had an initial five-year term to November 2020. Following a thorough review, the Management Engagement and Remuneration Committee ("MERC") recommended to the Board the continued appointment of both the Asset and Investment Managers, on similar terms of their respective agreements, which the MERC considered to remain commercial and reasonable. The Independent Directors were of the opinion that the Managers had executed the investment strategy according to the Board's expectations. The Board agreed that this was in the best interests of the Company and its Shareholders as a whole and approved the MERC's recommendation. Accordingly, the Company, the Asset Manager and the Investment Manager have each waived their right to serve a termination notice on or before 3 November 2020 and, therefore, the management agreements will now continue in force until 3 November 2023. Notwithstanding this decision, the MERC will continue to review the performance of the Asset and Investment Managers on an annual basis.

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 the 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 £133,695 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 automatically renews 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 to the Company pursuant to a Company Secretarial Services Agreement. This agreement automatically renews for 12-month periods unless notice of termination is served by either party at least six months prior to the end of each period.

Other Information

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 is 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 2018. It is a member of the 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.

On 9 January 2018, the Company registered for VAT purposes in England and has recovered VAT incurred since November 2015.

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

Stakeholder Engagement and Board Decision Making

In accordance with the AIC Code of Corporate Governance, the Board is required to understand the views of the Company's key stakeholders and describe in the Annual Report how their interests and the matters set out in section 172 of the UK's Companies Act 2006¹⁴ have been considered in Board discussions and decision making. This section of the UK's Companies Act requires the Directors to have regard to the following matters:

- the likely consequences of any decision in the long term;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the Company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board is of the view that effective engagement with all of its stakeholders plays an important role and underpins good governance and creates long-term value.

The importance of stakeholder considerations, in particular in the context of decision making, is taken into account at every Board meeting. All discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders. Examples of material matters discussed during the year are set out in the Chairman's Statement. In addition, the Investment Strategy and Business Model set on pages 16 to 20 gives examples of how we approach each specific element of our strategy which supports the business model, this includes an explanation of our values and approach.

Examples of the Board having taken into consideration its stakeholders in decisions are set where relevant below.

Our Stakeholders

The Board seeks to understand the needs and priorities of the Company's stakeholders and these are taken into account during all its discussions and as part of its decision making. During the period under review, the Board has discussed which parties should be considered as stakeholders of the Company. As the Company is an externally-managed REIT and does not have any employees, the Board believes that the Company's key stakeholders comprise, in no particular order, its tenants, Shareholders and its Managers. The section below discusses why these stakeholders are considered of importance to the Company and the actions taken to ensure that their interests are taken into account.

Tenants

The ability of the Company to meet its objective requires a strong focus on generating income from the property portfolio. To do this, the Company must understand its tenants needs, challenges and future aspirations to retain lettings and lease renewals. The Company has engaged a dedicated property manager, London and Scottish Property Asset Management Limited ("LSPAM") to manage the day-to-day property management. LSPAM communicates regularly with existing tenants to understand their needs and improve their satisfaction. This improves retention rates and also attracts prospective tenants.

The Board recognises that the Company has certain responsibility to its Shareholders, stakeholders and the wider society. While an externally-managed REIT, the Company itself does not have employees, the Company aims to conduct itself responsibly, ethically and fairly and has sought to ensure that the Asset Manager takes account of social, environmental and ethical factors where appropriate. The Board has welcomed the Asset Manager's increased commitment to improve the environmental and sustainability performance of the Company.

An example of how the interests of our tenants are taken into consideration and acted upon was in respect of the letting of 800 Aztec West, Bristol. The Asset Manager met with the tenant prior to them leasing the space regarding the tenant's security requirements and was able to ensure that these requirements were met prior to them signing the lease.

¹⁴ Although Section 172 of the Companies Act 2006 does not apply to the Company, the AIC Code requires that the matters stated under Section 172 are reported on by all companies irrespective of domicile.

Other Information (continued)

Shareholders

Continued Shareholder support and engagement are critical to the existence of the Company and the delivery of its long-term strategy. The Board is committed to maintaining open channels of communication and engagement with Shareholders which is given a high priority by both the Board and the Managers. The Chairman ensures that the Board as a whole has a clear understanding of the views of Shareholders by receiving regular updates from the Company's Corporate Broker and Financial Adviser and Managers.

The Managers and the Company's Corporate Broker and Financial Adviser are in regular contact with major Shareholders, which include meetings and roadshows. The Managers report the results of all meetings and the views of those Shareholders to the Board on a regular basis. At every Board meeting, the Directors receive an investor relations update from the Investment Manager on the share trading activity, share price performance and any Shareholder feedback, as well as an update from the Investment Manager on any publications or comments by press and analysts. The Chairman and the other Directors are available to attend these meetings with Shareholders if required. Relations with Shareholders are also considered as part of the annual Board evaluation process. For further details regarding this process see page 77.

All Shareholders are encouraged to vote at the annual general meeting ("AGM"), during which the Board and the Managers intend to make themselves available to discuss issues affecting the Company and answer any questions. The Asset Manager generally delivers a presentation on the Company's performance and the future outlook at the AGM. Shareholders have an opportunity to meet the Directors and to ask the Managers or any of the Directors questions. Shareholders wishing to raise questions or concerns directly with the Chairman, Senior Independent Director or Company Secretary, outside of the AGM, should do so using the contact details provided on page 143.

The annual report and half-year report are made available on the Company's website, together with other communications to Shareholders. These reports provide Shareholders with a clear understanding of the Company's performance and financial position. This information is supported by regular announcements on activity within the property portfolio such as lettings, lease extensions and acquisitions announced via the stock exchange and are also available on the Company's website.

The Asset Manager and Investment Manager

The performance of both the Asset Manager and Investment Manager is critical for the Company to successfully deliver its investment strategy and meet its objective to provide Shareholders with an attractive total return of greater than 10% per annum.

Maintaining a close and constructive working relationship with the Managers is crucial as the Board and the Managers aim to achieve the investment objective. Important components in the collaboration with the Managers, representative of the Company's culture are:

- Encouraging open discussion with the Managers;
- Recognising that the interests of Shareholders and the Managers are for the most part well aligned, adopting a tone of constructive challenge, balanced when those interests are not fully congruent by robust negotiation of their terms of engagement;
- Drawing on Board Members' individual experience to support the Managers in the monitoring and development of the property portfolio; and
- Willingness to make the Board Members' experience available to support the Managers in the sound long-term development of its business and resources, recognising that the long-term health of the Managers is in the interests of Shareholders in the Company.

Other Service Providers

The Company's day-to-day operational functions are delegated to a number of third-party service providers, each engaged under separate contracts. The Company's principal third-party service providers include the Company Secretary, Corporate Broker and Financial Adviser, Administrator, Legal Adviser, Tax Adviser, Auditor and the Registrar. The Company relies on these reputable advisers for support in complying with all relevant legal and regulatory obligations. The Board maintains regular contact with its key third-party service providers, taking a constructive and positive approach to working with these service providers with the aim of building long-term relationships. Their advice, as well as their needs and views, are routinely taken into account.

The Audit Committee reviews and evaluates the control environments in place at the key third-party service providers. Further details regarding the role of the Audit Committee are set out on pages 82 to 85. The Management Engagement Remuneration Committee formally assess their performance, fees and continuing appointment at least annually to ensure that the key third-party service providers continue to function at an acceptable level. Further information about the review of third-party service providers is set out on page 86.

The above mechanisms for engaging with stakeholders are kept under review by the Directors and will be discussed on a regular basis at Board meetings to ensure that they remain effective.

Culture

The Board has established core values for the Company that align with the Company's purpose, culture and strategy. These are set out on page 2. The Directors are aware that establishing and maintaining a healthy corporate culture amongst the Board and in its interaction with the Managers, Shareholders and other stakeholders will support the delivery of its purpose and investment strategy.

The Board's culture itself is one of openness, collaboration and transparency of debate. The Directors are comfortable to give their opinions in a respectful environment, allowing challenge and constructive discussion. The Board maintains a desire for strong governance and diversity. All Directors act with integrity, lead by example and seek to promote the Company's culture through ongoing dialogue and engagement with its stakeholders, principally the Managers.

The Board seeks to appoint appropriate service providers and, through the MERC, evaluates their service on a regular basis as described on page 86. Their ongoing appointments are not only reflective of their performance by reference to their contractual and service level obligations, but also take into account the extent to which their individual corporate cultures align with those of the Company. The Board considers the culture of the Managers and other stakeholders, including their practices and behaviour, relationships with the Board and through regular reporting from these stakeholders, and in particular during the annual review of the performance and continuing appointment of all service providers.

The Strategic Report has been approved by the Board and signed on its behalf.

On behalf of the Board

Kevin McGrath

Chairman and Independent Non-Executive Director

8 April 2020





Board of Directors



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

Appointed: 16 October 2015

Kevin McGrath is chairman of M&M Property Asset Management, having previously been managing director and senior adviser of F&C REIT Asset Management. Prior to F&C REIT, Kevin was a founding equity partner in REIT Asset Management, a property investment, finance and asset management partnership, which managed a global commercial property portfolio and had offices in London, Munich, Tel Aviv, Stockholm and Mumbai.

Prior to REIT Asset Management, Kevin was a senior investment surveyor with Hermes Investment Management, the fund manager for British Telecommunications and Post Office Pension Schemes. Before that, he worked for various local authorities in a variety of property-related positions and prior to that he worked in manufacturing and banking.

Kevin graduated from the Polytechnic of the South Bank with a BSc (Distinction) in Estate Management. He also obtained a postgraduate diploma in Property Investment (Award Winner) from the College of Estate Management.

He was the High Sheriff for Greater London in 2014/15 and is the Representative Deputy Lieutenant for the London Borough of Hammersmith and Fulham. Kevin is a chartered surveyor who has worked in the property industry for over 35 years, is a member of the Royal Institute of Chartered Surveyors and the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a trustee of several charities including The Old Vic and The Clink Prison Restaurant Charity.

William Eason **(Senior Independent Non-Executive Director)**

Appointed: 16 October 2015

William ("Bill") Eason was previously head of charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a member of the London Stock Exchange in 1976. Bill was chief investment officer at Laing & Cruickshank Investment Management and is a former chairman of Henderson High Income Trust plc and non-executive director of The European Investment Trust plc. Bill is currently a director of Henderson International Income Trust plc and of Institutional Protection Services Ltd. He is 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, the John Hampden Fund and a business fellow of Gray's Inn.



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

Appointed: 16 October 2015

Daniel ("Dan") Taylor is the chairman of Westchester Capital Limited, an investment and advisory firm specialising in real estate. Dan currently holds the role of managing partner of Bourne Office Space Limited, 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, then the UK's second largest serviced office provider. Prior to this, he was managing director of financier Grosvenor ParkMedia, Inc. for whom he managed a US\$400m investment joint venture with Fortress Investment Group LLC providing finance to the media industry. From 1989 to 1999, Dan was president and founder of Victoria Asset Management Inc., an investment company in Houston, Texas, specialising in distressed real estate assets. Dan started his professional career as a financial analyst with Bank of America in San Francisco, and then as vice president at FirstBoston Inc., in charge of the institutional equity division based in London.

Dan has held directorships for various private and listed companies involving investment management, corporate finance and corporate governance roles. He has been registered with the FCA as an investment manager (CF30) and CF1-Director and has over the last 20 years held the following controlled functions at FCA (or predecessor) authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Adviser; and CF27-Investment Management. Dan graduated from Stanford University in 1980.



Frances Daley
(Independent Non-Executive Director)

Appointed: 1 February 2018

Frances Daley is a chartered accountant who qualified with a predecessor firm to Ernst & Young LLP. She subsequently spent nine years in corporate finance with Royal Bank of Canada and Ernst & Young, followed by 18 years in various chief financial officer roles, principally in the licensed retail sector (10 years) and in healthcare. 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.

Frances graduated from Cambridge University in 1980 with a degree in Land Economy.

Stephen Inglis
(Non-Executive Director)

Appointed: 16 October 2015

Stephen Inglis is the founder and chief executive officer of the Asset Manager. He has over 30 years' experience in the commercial property market, the majority of which has been working in the investment and development sector. His career to date has been split between London and Scotland and he has gained extensive knowledge of the UK regional property markets. He is a chartered surveyor and became a member of RICS in 2001 and is also a member of the Investment Property Forum.



Timothy Bee
(Non-Executive Director)

Appointed: 7 July 2017

Tim Bee is the Investment Manager's chief legal counsel. He joined the Investment Manager in May 2014 having previously been a corporate partner at two leading London-based law firms where he advised on a wide range of transactions for public and private companies, financial institutions and fund managers. 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 2019.

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 12 to 61) as the Board considers them to be of strategic importance.

Directors

All Directors of the Company were in office during the whole of the year and at the date of this report. Their full biographies can be found on pages 64 and 65. Details of the Directors' terms of appointment can be found in the Corporate Governance Statement and the Directors' remuneration report.

All Directors will stand for re-election at the 2020 AGM in accordance with the Company's Articles and the AIC Code of Corporate Governance.

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 2019		At 8 April 2020	
	Number of Ordinary Shares	% Interest in share capital	Number of Ordinary Shares	% Interest in share capital
Kevin McGrath*	334,158	0.08	334,158	0.08
William Eason	225,000	0.05	225,000	0.05
Daniel Taylor**	709,998	0.16	709,998	0.16
Frances Daley	76,948	0.02	76,948	0.02
Stephen Inglis***	1,062,498	0.25	1,062,498	0.25
Timothy Bee****	232,031	0.05	232,031	0.05

* Held by his spouse and children.

** Held by his spouse and children.

*** Held by himself and spouse.

**** Held beneficially by his spouse.

Share Capital

As at 31 December 2019, the Company's total issued share capital was 431,506,583 Ordinary Shares (31 December 2018: 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 (2018: none) are currently in issue.

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 Advisers 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. 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.

Share Issues

At the AGM held on 23 May 2019, the Directors were granted authority to allot Ordinary Shares on a non-pre-emptive basis for cash up to a maximum number of 18,641,056 shares (being 5% of the issued share capital on 10 April 2019). The Directors were also granted the authority to disapply pre-emption rights in respect of the allotment of Ordinary Shares up to a maximum number of 18,641,056 shares (being 5% of the issued share capital on 10 April 2019) where the allotment of such shares is for the sole purpose of financing an acquisition or other capital investment of a kind contemplated by the Pre-Emption Group's Statement of Principles. No shares were issued under these authorities, which were superseded by those authorities granted at the extraordinary general meeting held on 18 July 2019.

On 24 June 2019, the Company published a prospectus in relation to a placing, open offer and offer for subscription and intermediaries offer to raise gross proceeds of up to £50m (the "Capital Raise"). At an extraordinary general meeting held on 18 July 2019, the Directors were granted the authority to allot Ordinary Shares on a non-pre-emptive basis up to a maximum number of 93,896,714 shares in connection with the Capital Raise, such authority to expire at the next AGM of the Company.

On 19 July 2019, the Company issued 58,685,447 Ordinary Shares under this authority at a price of 106.5 pence per Ordinary Share pursuant to the Capital Raise. The new Ordinary Shares commenced trading on 23 July 2019.

At the extraordinary general meeting held on 18 July 2019, the Directors were also granted the following general share issuance authorities, which replaced the existing general issuance authorities granted at the AGM on 23 May 2019:

- (i) The authority to allot Ordinary Shares on a non-pre-emptive basis for cash up to a maximum number of 21,575,329 shares (being 5% of the entire issued share capital immediately following admission of the new shares); and
- (ii) the authority to disapply pre-emption rights in respect of the allotment of Ordinary Shares up to a maximum number of 21,575,329 shares (5% of the entire issued share capital immediately following admission of the new shares) where the allotment of such shares is for the sole purpose of financing an acquisition or other capital investment of a kind contemplated by the Pre-Emption Group's Statement of Principles.

No shares have been issued under these authorities, which will expire at the Company's 2020 AGM, where resolutions for their renewal will be sought.

Purchase of Own Shares

At the AGM held on 23 May 2019, the Company was authorised to purchase up to a maximum of 37,282,113 of its own Ordinary Shares (being 10% of the Company's issued share capital on 10 April 2019). No shares were bought back under this authority.

At the extraordinary general meeting held on 18 July 2019, the Company was authorised to purchase up to a maximum of 43,150,658 of its own Ordinary Shares (being 10% of the entire issued share capital immediately following admission of the new shares), which replaced the existing authority granted at the AGM on 23 May 2019.

No shares have been purchased under this authority, which will expire at the Company's 2020 AGM, where a resolution for its renewal will be sought.

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 Guernsey 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 Adviser 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 2019		At 8 April 2020	
	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	6.29%	27,154,198	6.29%

The Company has not been informed of any other changes to the notifiable interests between 31 December 2019 and the date of this report.

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%.

Dividend Policy

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.

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

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. However, in view of ongoing circumstances, the Company reserves the right to review future dividend payments.

- 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.

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.

Results and Dividends

A summary of the Company's performance during the year and the outlook for the forthcoming year is set out on pages 22 to 48.

During 2019, the Company declared three quarterly dividends, each of 1.90pps. A fourth quarterly dividend of 2.55pps for the year ended 31 December 2019 was declared on 27 February 2020. This dividend will be paid on 9 April 2020 to Shareholders on the register at the close of business on 6 March 2020. The ex-dividend date was 5 March 2020.

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 Corporate Governance Statement on pages 74 to 79 forms part of this report.

Stakeholder Engagement

While the Company has no employees, suppliers or customers, the Directors give regular consideration to the need to foster the Company's business relationships with its stakeholders, in particular with tenants, Shareholders, the Managers and other service providers. The effect of this consideration upon the principal decisions taken by the Company during the financial year is set out in further detail in the Strategic Report on pages 12 to 61.

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.

Representatives of both the Asset and Investment Managers conducted several roadshows during the 2019 successful capital equity raise, meeting both existing and potential Shareholders. These representatives also regularly meet institutional Shareholders to discuss strategy and to understand any concerns or issues. The results of such meetings are reported at the following Board meeting.

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 Corporate Broker and Financial Adviser on Shareholder matters.

Shareholders are encouraged to 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 Annual Report, notice of AGM including proposed resolutions, 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.

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 50 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 Directors have made an assessment of the Group's ability to continue as a going concern which included the current uncertainties created by COVID-19, coupled with the Group's cash resources, borrowing facilities, rental income, acquisition and disposals of investment properties, elective and committed capital expenditure, and dividend distributions.

The Group ended the year under review with £37.3m of cash and cash equivalents, of which £34.7m was unrestricted cash. In light of current uncertainties, the Directors prudently decided to draw down £30.7m of available borrowing headroom from the Santander UK and Royal Bank of Scotland facilities on 26 March 2020. As at 30 March 2020, the cash and cash equivalents amounted to £68.8m, of which £64.4m was unrestricted. As a result of the drawdown, the borrowing facilities increased from £344.0m at the year ended 31 December 2019 to £371.9m as at 31 March 2020, with an LTV of c. 39%, based upon the value of Company's investment properties as at 31 December 2019. In respect of the Company's borrowings, the first of its facilities to mature is for £55.0m in June 2024, and is held with the Royal Bank of Scotland.

As at 30 March 2020, the first quarter 2020 rent collected was only c. 1.4% reduced from the position as at the same date in the first quarter 2019. As at 31 March 2020, the aggregate rent to be invoiced for the second and third quarters of 2020 would amount to some £30.4m, and the respective operating costs would amount to some £5.7m.

Report of the Directors (continued)

As part of the going concern assessment, and taking the above into consideration, the Directors reviewed a number of scenarios which included extreme downside sensitivities in relation to rental cash collection, no property acquisitions, no elective capital expenditure, REIT regime compliance, and no dividends. The 2019 dividend payment of 8.25 pence per share would amount to £35.6m if distributed in 2020, based on the current number of shares in issue. A range of scenarios up to 12 months with nil cash collection were considered, and taking into account mitigating management actions, the Company had adequate resources to continue its operations.

To supplement the scenario planning, constructive discussions were held with all the Company's lenders around the ability to waive or change the respective covenants, if required. This was further underpinned by the, Bank of England's financial services regulatory and supervisory body, the Prudential Regulation Authority providing guidance to its regulated members on the 26 March 2020.

Given the substantial amount of unrestricted cash currently held by the Group, the limited level of committed capital expenditure in the forthcoming 12 months, and reasonable downside sensitivities the Directors are satisfied that the Company has adequate resources to continue in operational existence, for a period of at least 12 months from the date that these Financial Statements were approved.

Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the Directors consider that it is appropriate to prepare the Financial Statements on a going concern basis.

Viability Statement

In accordance with the AIC Code of Corporate Governance, and taking into consideration COVID-19, the Directors have assessed the prospects of the Group and future viability over a three-year period from the year end, being longer than the 12 months required by the 'Going Concern' provision. The Board conducted the review with regard to the Group's long-term strategy, principal risks and risk appetite, current position, asset performance and future plans, and determined that three years to 31 December 2022 is the maximum timescale over which the performance of the Group can be forecast with any material degree of accuracy, and so is an appropriate period over which to consider the Group's viability.

A range of downside sensitivity analyses were stress tested to form part of the review, with material inputs filtered to consider differing economic backdrops, and how such challenges would be met. Achievement of the one-year forecast has a greater level of certainty and is used to set near-term targets across the Group. Achievement of the subsequent forecasted years is less certain than the one-year. The Board's forecast, though provides a longer-term outlook against which strategic decisions can be made.

Assessment of Review Period

The Board chose to conduct the review for a three-year period giving consideration to:

- The Group's WAULT of 3.5 years to first break.
- The Group's detailed forecast covering a rolling three-year period.
- The Group's weighted average debt to maturity was 7.3 years as at 31 December 2019.

Assessment of Prospects and Viability

The financial planning process considers the Group's profitability, capital values, LTV, cashflows, dividend cover, banking covenants, and other key financial metrics over the three-year period. The metrics are subject to a sensitivity analysis, in which a number of the main underlying assumptions are flexed and tested to consider a range of alternative macro-environments and portfolio compositions. The review was updated to consider the impact of COVID-19, however, given the unpredictable nature of the outbreak, and how rapidly the responses to the outbreak are changing, the Board is unable to predict the full extent of the impact.

The downside scenarios considered the impact on the corporate model, including the loss of all rental income up to a 12-month period, taking into consideration, no property acquisitions, elective capital expenditure, or dividends, and compliance with the REIT regime. Taking into account mitigating management actions, the Company had adequate resources to continue its operations over the period of the assessment on the assumption the current economic turbulence resulting from the impact of COVID-19 will be ameliorated by the UK Government actions and normalise within one year.

Subject to this assumption, the results of the sensitivity analysis and stress testing demonstrated that the Group would have sufficient liquidity to meet its ongoing liabilities and its currently committed capital expenditure as they fall due over the period of assessment.

Furthermore, the Board, in conjunction with the Audit Committee, carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the three-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believes that the Group is well positioned to manage its principal risks and uncertainties successfully, taking into account the current COVID-19 risk, and the economic and political environment.

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.

Confirmation of Viability

The Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years, taking account of the Group's current position, the principal risks as set out in the Chairman's Statement and the principal risks and uncertainties report, and on the assumption the current economic turbulence resulting from the impact of COVID-19 will be ameliorated by the UK Government actions and normalise within one year.

The Directors have carefully reviewed areas of potential financial risk. The Directors have satisfied themselves that the Group has 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 page 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.

Future Developments

Information on future developments is detailed within the Strategic Report on page 14.

Subsequent Events

The wellbeing of our tenants and other stakeholders in the Company are of utmost importance to the Board and we continue to manage the Company, cognisant of their needs in this current environment.

On 20 February 2020, the Company announced a potential equity fundraise to take advantage of its growing near-term pipeline of accretive growth. As a result of the current market uncertainty caused by the global spread of COVID-19, the Company took the decision to withdraw the potential equity fundraise.

On 31 March 2020, and in view of the COVID-19 disruption to UK economic activity, the Company announced a trading update. The rental collections were slightly reduced as at 30 March 2020, with 68.2% of invoiced rental income collected in comparison with the 69.6% at the same date in 2019. In addition, £30.7m of available borrowing headroom from the Santander UK and Royal Bank of Scotland facilities had been drawn.

The Board will continue to closely monitor the developing situation and its effect on the Group, although the Board is re-assured by the Company's balance sheet, the breadth of tenants and geographical spread of assets, which will ensure it is well positioned to mitigate any prolonged periods of uncertainty.

Annual General Meeting

As advised in the Chairman's Statement, the Company's 2020 AGM has been postponed in view of the COVID-19 situation.

A revised date and time for the 2020 AGM will be notified to all Shareholders in due course and a notice of AGM, which will set out the resolutions to be proposed, together with an explanation of the resolutions proposed, will be circulated to all Shareholders in accordance with the requirements of the Company's Articles.

The AGM is the Company's principal forum for communication with Shareholders. The Chairman of the Board, together with the other Directors, currently intend to make itself available to answer Shareholders' questions at the AGM.

Report of the Directors (continued)

Electronic Communications

The Company is seeking to take advantage of the provisions of the Articles and the Disclosure Guidance and Transparency Rules to allow electronic communications with its Shareholders, including making important documents available through its website, and an Ordinary Resolution authorising this will be included in the Notice of AGM.

This resolution, if passed, would allow the Company to communicate electronically with Shareholders by placing documents such as the Annual Report on its website rather than sending them in hard copy. The Company will notify those Shareholders who have elected for electronic communication, by post or email, if they have provided an email address, that the document is available on the Company's website. Shareholders can, however, ask for a hard copy of any document at any time.

If this resolution is passed, the new arrangements are expected to result in potential administrative, printing and postage cost savings for the Company, whilst preserving Shareholders' rights to receive hard copy documents if they so wish. In addition, the greater use of electronic communications would result in environmental benefits.

For and on behalf of the Board

Kevin McGrath
Chairman

8 April 2020



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 are properly prepared in accordance 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 64 and 65, 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 Strategic Report, including the Asset and Investment Managers' Report, includes 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 principal 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, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Kevin McGrath
Chairman

8 April 2020

Corporate Governance Statement

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

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.

Introduction from the Chairman

I am pleased to introduce this year's Corporate Governance Statement.

In this statement, the Company reports on its compliance with the AIC Code of Corporate Governance (the "AIC Code") and sets out how the Board has operated during the past year. The revised AIC Code, as published in February 2019, sets out new principles and provisions regarding matters including stakeholder engagement and the culture of the Company, against which the Company has reported in the below Statement. The AIC Code is available on the AIC website (www.theaic.co.uk).

The Board is accountable to Shareholders for the governance of the Company and is committed to maintaining the highest standard of corporate governance for the long-term sustainable success of the Company.

By reporting against the AIC Code, the Company has met the requirements of the Listing Rules.

The Principles of the AIC Code

The AIC Code is made up of 18 principles split into five sections:

- Board leadership and purpose
- Division of responsibilities
- Composition, succession and evaluation
- Audit, risk and internal control
- Remuneration

Compliance with the AIC Code

The AIC Code addresses the principles and provisions set out in the UK Corporate Governance Code (the "UK Code") as well as setting out additional provisions on issues that are of specific relevance to the Company as an investment trust. The Board considers that reporting against the principles and provisions of the AIC Code (which adapts the UK Code for investment companies), which has been endorsed by the FRC and the Guernsey Financial Services Commission ("GFSC"), provides more relevant information to Shareholders. A copy of the UK Code can be found at www.frc.org.uk.

The GFSC's 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 GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

Throughout the year, the Board considers that it has managed its affairs in compliance with the AIC Code, except where it has concluded that adherence or compliance with any particular principle or provision of the AIC Code would not have been appropriate to the Company's circumstances. Similar to the UK Code, the AIC Code specifies a "comply or explain" basis and the Board's report under this section explains any deviation from its provisions.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- management performance, remuneration and succession planning;
- workforce policies (including remuneration) and practices; and
- the need for an internal audit function.

For the reasons explained in the AIC Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company with no employees. The Company has therefore not reported further in respect of these provisions.

The Board has reviewed the principles and provisions of the AIC Code and considers that it has complied throughout the year, with the exception of the following:

- as a Guernsey incorporated entity, there are no statutory requirements for the Company to develop a remuneration policy. The steps taken by the MERC to ensure that Directors' fees support the Company's strategy and promote its long-term success are set out in the Remuneration Report on page 88.
- the Board do not consider it necessary to appoint a separate nomination committee as this function is currently undertaken by the Board as a whole. This will be kept under review.

The Board of Directors

The Board consists entirely of Non-Executive Directors, who have all served throughout the period. Biographical details of the Directors of the Company are shown on pages 64 and 65.

Under the leadership of the Chairman, the Board of Directors is collectively responsible for the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society. All decisions are considered from this point of view. It establishes the purpose, values and strategic aims of the Company and satisfies itself that these and its culture are aligned. The culture is set out on page 61. The values of the Company are set out in page 2. These values are considered in Board decision making. The purpose of the Company is the investment objective, which can be found on page 16. The strategy that the Board follows to meet this objective is outlined in the Strategic Report on page 16. The business model that the Company operates is set out on page 17.

The Board ensures that the necessary resources are in place for the Company to meet its objectives. It does this predominately through its engagement with third-party service providers. The Board regularly reviews financial forecasts and KPIs on page 7, as well as debt financing and gearing. Further details can be found on pages 12 to 61 of the Strategic Report. The Board fulfils its obligations to

Shareholders within a framework of high standards of corporate governance and effective internal controls. The Directors are responsible for the determination of the Company's investment policy and strategy and have the overall responsibility for the Company's activities, including the review of investment activity and performance, and the control and supervision of the Asset and Investment Managers.

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. As part of this, the opportunities and risks faced by the business are considered, monitored and assessed on a regular basis, both in terms of actual and emerging risks that the business may face. Emerging risks are identified by the Board through a variety of means including advice from the Company's Managers, the AIC and Directors' industry knowledge and market changes and events.

More detail regarding the principal risks and uncertainties, emerging risks and the sustainability of the business can be found in the Strategic Report on pages 50 to 55.

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

Chairman

The Chairman, Mr McGrath, who was deemed by his fellow independent Board members to be independent at the time of his appointment and to have no conflicting relationships, remains so. He does not have any other significant commitments that would affect his Chairmanship of the Company and the time he can commit to the Company's affairs. The role and responsibilities of the Chairman are clearly defined and set out in writing, a copy of which is available on the Company's website. Whilst Mr McGrath and his family own shareholdings in the Company, in view of these de minimis holdings, the Board are of the view that this does not affect his independence.

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. The role and responsibilities of the Senior Independent Director are clearly defined and set out in writing, a copy of which is available on the Company's website.

Culture

The Board's own culture promotes a desire for strong governance, diversity and transparency of debate. The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He demonstrates objective judgement, promotes a culture of openness and debate, and facilitates effective contributions by

all Directors. In liaison with the Company Secretary, he ensures that the Directors receive accurate, timely and clear information. The Directors act with integrity, lead by example and promote this culture within the Company.

The Board seeks to ensure the alignment of the Company's purpose, values and strategy with the culture of openness, debate and integrity through ongoing dialogue, and engagement with the Asset Manager, the Investment Manager, Shareholders and the Company's other service providers. The culture of the Board is considered as part of the annual performance evaluation process which is undertaken by each Director.

Board Diversity and Inclusion

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 a 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.

The Board has not appointed a new director during the year under review. In furtherance of the Company's strategy, 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.

Board Operation

There is a clear division of responsibilities between the Chairman, the Board and the Managers. The Directors have agreed a formal schedule of matters specifically reserved for their approval. These includes, but is not limited to the following:

- approval of asset acquisitions and disposals over £15m;
- approval of CAPEX;
- approval of the Company's borrowings;
- approval of the Company's investment policy, long-term objectives and commercial strategy;
- approval of the gearing policy of the Company;
- approval of annual and half-yearly reports and financial statements and accounting policies, prospectuses, circulars and other Shareholder communications;

Corporate Governance Statement (continued)

- raising new capital;
- approval of dividends;
- Board appointments and removals; and
- appointment and removal of the Asset Manager, Investment Manager, Auditor and the Company's other service providers, including the Company Secretary.

A copy of this schedule of matters reserved for the Board can be found on the website.

To assist the Board in the day-to-day operations of the Company, arrangements have been put in place to delegate authority for the performance of day-to-day operations of the Company to the Asset Manager and Investment Manager and other third-party service providers. The Board has appointed the Asset Manager and Investment Manager to manage the Company's portfolio within guidelines set by the Board, detailed in the respective management agreements with the Company. Both Managers are in frequent contact with the Board and supply the Directors with regular updates on the Company's activities and a detailed report at each Board meeting.

The Board agenda is set by the Chairman, in conjunction with the Company Secretary and include an update from the Managers.

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 (whether at a discount or premium to NAV) and NAV performance. It 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. The Board also receives an update from the Investment Manager on investor relations. Discussions also take place on strategic proposals, developments and legal and governance matters.

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.

Company Secretary

The Board has direct access to the advice and services of the Secretary, Link Company Matters Limited, which is responsible for ensuring that the Board and Committee procedures are followed.

The Secretary is also responsible to the Board for ensuring timely delivery of the information and reports and that the statutory obligations of the Company are met. To enhance the delivery of Board and Committee papers the Board uses a Board portal which provide a secure and efficient process for meeting pack distribution.

Board Meeting Attendance

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 2019, 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	4	4
William Eason ¹	4	3
Daniel Taylor	4	4
Frances Daley	4	4
Stephen Inglis ²	4	3
Timothy Bee	4	4

¹ Mr Eason was unable to attend one Board meeting due to personal illness.

² Mr Inglis was unable to attend one Board meeting due to personal illness.

Additional Board meetings were also held as required during the year, including to deal with corporate transactions such as property acquisitions, dividends, the capital raise and were attended by those Directors available at the time. The Board also held an all-day strategy meeting during the year, which all Directors attended.

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 performance with a detailed update from Asset and Investment Manager on the property portfolio, investment opportunities and disposals, the Company's financial performance, updates on investor relations and specific regulatory or governance matters. Representatives of the Company's Advisers are invited to attend Board meetings from time to time, particularly the Company's Corporate Broker and Financial Adviser and Legal Adviser.

The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis.

The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.

Conflicts of Interest

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

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

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

Board Evaluation

The Directors are aware 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 externally facilitated evaluation service provider was not necessary this year, however, this will 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, culture, Shareholder engagement and succession planning. The evaluation identifies areas for improvement and areas of knowledge and expertise which would be considered as part of succession planning.

The evaluation process was carried out following the year end and responses were collated and provided on an anonymous basis to the Chairman of the Board. The independence of the Directors and their ability to commit sufficient time to the Company's activities was considered as part of the evaluation process. The performance of the Chairman was similarly evaluated by the other Directors, led by the Senior Independent Director.

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. Any feedback relating to Board composition from the evaluation will be taken into consideration by the Board at the time it discusses the anonymised results of the evaluation.

As evidenced by the result of the evaluation, the Board considers that all the current Directors are independent, contribute effectively and have the skills and experience relevant to foster the effective leadership and direction of the Company. It was found that the Directors can commit sufficient time to the Company's activities.

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. 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.

Independence of Directors

In accordance with the AIC Code, the Board has reviewed the independence status of each individual Director and the Board as a whole. Stephen Inglis and Tim Bee are deemed non-independent and report on the activities of each of the Asset and Investment Manager respectively. A majority of the Board will at all times be independent of each of the Asset and Investment Managers.

As part of its review of the Directors independence, the Board considered the shareholdings in the Company held by each of the Directors and/or their connected persons. In view of the de minimis amounts held, the Board do not consider these shareholdings in the Company impact the independence of the Directors.

William Eason and Frances Daley are directors of separate companies managed by investment manager Janus Henderson. This has been considered by the Board, which is satisfied that they are demonstrably independent and that their independence as Directors of the Company is not affected. 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.

Having assessed the performance and independence of each Director, the Board is satisfied that all Directors bring strong independent oversight and continue to demonstrate independence in judgement and character.

Re-election of Directors

In accordance with the Company's Articles and the AIC Code, Directors are subject to election by Shareholders at the first AGM after their appointment. Thereafter all Directors submit themselves for annual re-election by Shareholders at the AGM of the Company.

Tenure

Each Director has a letter of appointment setting out their terms of appointment. 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.

In 2018, the Board agreed to extend the appointment period of Kevin McGrath, Daniel Taylor, Stephen Inglis and William Eason for a further three-year term.

Directors are initially appointed by the Board, until the following AGM when, as required by the Company's Articles, they will stand for re-election by Shareholders. Thereafter, a Director's appointment

Corporate Governance Statement (continued)

is subject to an annual performance evaluation and the approval of Shareholders at each AGM, in accordance with corporate governance best practice.

The Board has adopted a formal tenure policy for Directors based on a continual review of performance. It is not anticipated that any of the Directors would normally serve in excess of nine years in order to provide regular refreshment of the Board and facilitate diversity of the Board. In exceptional circumstances, which would be fully explained to Shareholders at the time, an extension might be appropriate.

Similarly, it is not anticipated that the Chairman will normally serve in excess of nine years, this limit being decided by the Board in consideration of the need for regular Board refreshment. However, given the entirely non-executive nature of the Board and as the Chairman may not be appointed as such at the time of their initial appointment as a Director, in exceptional circumstances, which would be fully explained at the time, a short extension might be appropriate. As with all Directors, the continuing appointment of the Chairman is subject to ongoing review of performance, including a satisfactory annual evaluation, annual re-election by Shareholders and may be further subject to the particular circumstances of the Company at the time he or she intends to retire from the Board.

Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate nomination committee and this function is carried out by the Board. The independent Directors would be expected to lead the process of the appointment of any new Director to the Board as and when vacancies arise and as part of the Directors' ongoing succession plans. As part of this process, the use of an external executive search agency will be considered. The Board will keep the decision not to appoint a separate nomination committee under review.

Induction and Training

On appointment, the Asset Manager, Investment Manager and Company Secretary provide new Directors with induction training as appropriate. The training covers the Company's investment strategy, policies and practices. The Directors are also given regular briefings on changes in law and regulatory requirements that affect the Company and the Directors. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of Directors' training needs are carried out by the Chairman by means of the evaluation process.

The Directors have access to the advice and services of the Company Secretary through its appointed representative, who is responsible for general secretarial functions and for assisting the Company with compliance with its continuing obligations as a company listed on the premium segment of the Official List. The Company Secretary is also responsible for ensuring good information flows between all parties.

When deemed necessary, the Directors can seek independent professional advice.

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

The Audit Committee comprises the four Independent Directors and is chaired by Frances Daley. It meets at least twice a year, or more often if required. 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 82 to 85.

Management Engagement and Remuneration Committee ("MERC")

The MERC comprises the four Independent Directors and is chaired by William Eason. It meets at least once a year, or more often if required. The Chairman of the Company is a member of the MERC but does not act as committee chairman.

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 86 and 87.

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 depositary 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 each of the Asset Manager and Investment Manager 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 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.

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 50 to 55.

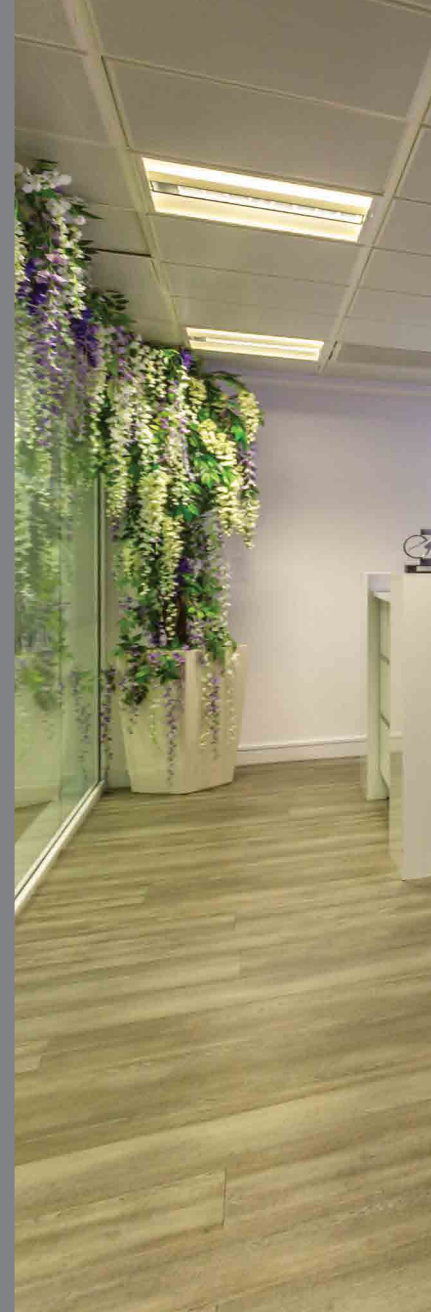
The Board reviews financial information produced by the Investment Manager and the Sub-Administrator on a regular basis.

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 LSPIM and Toscafund, provide 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 LSPIM and Toscafund to discuss and review their internal controls. The Depositary provides depositary 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 and emerging risks provided on pages 50 to 55 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 emerging and principal risks facing the Group; and
- have reviewed the effectiveness of the risk management and internal controls systems and no significant failings were identified.



Property Name: Portland Street, Manchester
Sector: Office



Audit Committee Report

Dear Shareholder,

I am pleased to present the Audit Committee Report for the year ended 31 December 2019, which provides an overview of our activities and our role in ensuring the integrity of the Group's published financial information and effectiveness of its risk management, controls and related processes.

The Audit 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.

Role of the Audit Committee

The principal duties of the Audit Committee are:

Financial Reporting

- to review the integrity and contents 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 judgements, 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;
- review the Company's risk register, including significant and emerging risks; and
- to assess the prospects of the Company for the next 12 months and to consider its longer-term viability.

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

External Property Valuation

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

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 reports and makes recommendations to the Board, as appropriate.

Financial Reporting

As stated above, one of the Audit Committee's principal responsibilities is to review and report to the Board on the Group's financial statements, including the Preliminary Statement, the Annual Report and Half-Year Report. When conducting its reviews, the Committee considers the overall requirement that the financial statements present a "true and fair view", the Company's accounting policies and significant financial judgements.

We are pleased to advise the Board that the 2019 Annual Report is fair, balanced and understandable and provides the necessary information for our Shareholders to assess the Company's position and performance, business model and strategy.

Risk Management and Control

The Audit Committee reviewed the internal controls and risk management systems of the Company's key third-party service providers and no significant matters of concern were raised. On an annual basis, I meet with representatives of the Managers and discuss their internal controls and compliance. There were no significant matters of concern from these meetings.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix. This is done on a six-monthly basis. The Principal Risks and Uncertainties are set out on pages 50 to 55.

Audit Committee Composition

During the year under review, the membership of the Audit Committee, which remained unchanged, comprised of four independent non-executive Directors. None of the members of the Committee are connected to either the Asset or Investment Manager or to the Auditor. Whilst Mr McGrath is an independent Director, he is also Chairman of the Company. The Committee has considered it beneficial to have Mr McGrath as a member of the Committee as he was independent on appointment and provides significant input into Audit Committee meetings.

I am a qualified accountant, a Fellow of the Institute of Chartered Accountants in England and Wales and therefore consider that I have an appropriate level of recent and relevant financial experience to discharge my duties as Chairman of the Audit Committee.

The Audit Committee's role and responsibilities are set out in the terms of reference, which were last updated in March 2020 and are available on the Company's website at www.regionalreit.com.

Meetings

The Audit Committee met on two scheduled occasions during the year and three occasions post the year end to consider the audit plan, the AQR and the Financial Statements.

Attendance at these scheduled meetings was as follows:

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

Matters Considered by the Audit Committee in the Year

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of key third-party service providers;
- reviewed financial results;
- reviewed the assessment of the Company's prospects and viability made by the Investment Manager for the next four years which formed the basis for the viability statement (see pages 70 and 71);
- 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);
- 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 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.

Significant Matters Considered by the Audit Committee

The Committee considering the following key matters in relation to the Company during the period:

COVID-19

Since the Company's year end, the spread of COVID-19 has quickly escalated from an initial emerging risk to that of a principal risk to the Company, which the Audit Committee has considered as set out in the principal risk and uncertainties, the going concern and viability statements.

Audit Committee Report (continued)

Property Portfolio Valuation

The 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 provider, Cushman & Wakefield at the half-year and year end.

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 meets with the independent property valuer as part of the audit process to discuss and challenge their approach and findings.

The Committee reviewed the half-year valuation as at 30 June 2019 and, since the year end, the Committee has considered the year-end valuation report. It discussed the year-end report with the Asset Manager. The Committee were satisfied with the valuation report.

The performance of Cushman & Wakefield is assessed on an annual basis by the MERC, as set out in their report on page 86.

FRC Audit Quality Review

During the year, the Audit Quality Review Team from the FRC conducted an audit quality review ("AQR") of our 2018 year-end audit, performed by our Auditor, RSM UK Audit LLP ("RSM") as part of its annual programme of promoting improvement in the overall quality of auditing in the UK.

I was involved in the planning for the review which included a preparatory call with the FRC. Following completion of the AQR, the Committee was provided with a report from the FRC's AQR Team and received an oral update on the outcome from RSM.

The Committee discussed the AQR findings, in particular with respect to the challenge of the judgements made in relation to the valuation of investment properties. As the Chair of the Committee, I discussed the FRC's report with RSM and the FRC. RSM have confirmed that, in the 2019 audit, it enhanced its audit procedures to address the specific matters raised in the AQR findings.

External Auditor

The Audit Committee has primary responsibility for overseeing the relationship with the external Auditor, RSM. This includes assessing their performance, effectiveness and independence annually and recommending to the Board their reappointment or removal.

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 lead audit partner on the audit. In accordance with requirements relating to the appointment of auditors, the Company will conduct a competitive audit tender no later than in respect of financial year ending 31 December 2025. There are no contractual obligations that would restrict the Audit Committee in selecting an alternative external Auditor.

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.

Change in Audit Partner

Euan Banks will reach the end of his five-year term as audit partner following the 2019 year-end audit. I have met with the new audit partner, Alan Aitchison, post the year end. The transitional arrangements were discussed with RSM and the Investment Manager to ensure a smooth handover and induction process. The first audit under the supervision of Alan Aitchison will be the 2020 year-end audit.

Working with the Auditor

Each year, the Audit Committee meets with the lead audit partner before the annual results are prepared to discuss the scope of the audit plan, with focus on risk and materiality. The external Auditor further meets with the Audit Committee post the year end to discuss the findings of the external audit and consider and evaluate any findings. To facilitate further open dialogue and assurance, the Audit Committee holds a private session with the Auditor without members of the Asset Manager and Investment Manager being present.

Annual Review of the External Auditor

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. The Audit Committee further considered the outcome of the AQR.

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.

Audit Fees and Non-Audit Services

An audit fee of £82,500 has been agreed in respect of the audit of the Company for the year ended 31 December 2019 (31 December 2018: £77,500). The Group's audit fees for the year ended 31 December 2019 totalled £219,000 (31 December 2018: £222,500).

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 is 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 year under review was £80,000 (31 December 2018: £26,000). These services related to work undertaken by RSM Corporate Finance LLP, a separate corporate body to that of the Auditor (RSM UK Audit LLP) in respect of corporate finance advice in respect of the equity capital raise.

Independence and Objectivity of the Auditor

The Audit Committee has considered the independence and objectivity of the Auditor. 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 Committee were of the view that the non-audit services provided by a different business line within RSM did not impact their independence.

The Audit Committee received confirmation from RSM that they maintain appropriate internal safeguards in line with applicable professional standards.

Having considered the Auditor's independence in respect of the year under review, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

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, principally because the Company delegates its day-to-day operations to third parties that are monitored by the Committee, and which provide control reports on their operations at least annually but also given the limited size and complexity of the 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

8 April 2020

Management, Engagement and Remuneration Committee Report

I am pleased to present the Management Engagement and Remuneration Committee ("MERC") Report for the year ended 31 December 2019.

Composition and Meetings

The MERC, whose membership remained unchanged and consists solely of the independent non-executive Directors and myself as Chairman, met twice during the year. The MERC is required to meet at least once annually, and its quorum is two members.

Attendance at these meetings was as follows:

Member	Scheduled MERC Meetings	
	Number of meetings entitled to attend	Number attended
Bill Eason (Chairman) ¹	2	1
Kevin McGrath	2	2
Daniel Taylor	2	2
Frances Daley	2	2

¹ Mr Eason was unable to attend one meeting due to personal illness

Activities During the Year

The MERC met to consider a proposal from LSPIM and Toscafund that the Company waive its right to terminate the Investment Management Agreement and Asset Management Agreement (the "Agreements") on or before November 2020 so that the agreements would continue until at least November 2023. The MERC considered advice from Peel Hunt LLP, the Company's Financial Adviser and Broker, and Macfarlanes LLP, the Company's Legal Adviser, and further considered the performance of the Managers, their performance incentivisation in knowing their tenure was secure for a further three years, and their ability to support the Company's Investment Objective.

Following this review, which included comparisons of Shareholder returns against those of its peer group and consideration of the interests of both the Company, all Shareholders and the respective Managers, the MERC agreed to recommend to the Board that the Company waive its right to terminate the Agreements on or before November 2020 so that the Agreements will continue at least until November 2023.

The Board keeps the ongoing performance of each of the Asset and Investment Manager under continual review and, through the MERC, conducts an annual appraisal of each of the Managers, along with the performance of key third-party service providers.

On a regular basis, the Board reviews the acquisition and disposal decisions made by the Asset Manager. To ensure open and regular communication between the Managers and the Board, representatives of both Managers have been appointed to the Board and attend all Board meetings. The Managers provide regular updates to the Board on the Company's assets and discuss the property market generally and financial performance and strategy of the Company. The Board keeps the performance of both Managers under continual review.

The MERC considered the ongoing appointment of the Company's third-party service providers and was satisfied with the effectiveness of the performance of these providers and that the Company was benefiting from added value in respect of the services it procures from these third parties and recommended to the Board that all third-party service providers be retained.

In addition, the Investment Manager undertakes continual review of the competitiveness of the Company's service providers and advises the MERC as appropriate.



The MERC also considered the remuneration of the independent non-executive Directors, details of which can be found in the Remuneration Report on page 88. No individual was involved in discussions about his/her own remuneration.

Directors' Interests

The Company's Articles do not require a Director to own shares in the Company. The interests of the Directors and any connected persons in the Ordinary Shares of the Company at 31 December 2019 and the date of this report can be found on page 66.

Remuneration Advisers

The Company has not sought the advice or service by any outside persons in respect of the consideration of Directors' remuneration.

Role of the Management Engagement and Remuneration Committee

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.

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 continued to operate at a high standard.

William Eason

MERC Chairman

8 April 2020

Directors' Remuneration Report

Statement from the Chairman

As Chairman of the MERC and on behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2019. This report has been prepared in accordance with the relevant requirements of the Listing Rules. A resolution for the approval of this Director's Remuneration Report will be proposed at the Company's 2020 AGM.

As at 31 December 2019 and the date of this report, the Board consists entirely of non-executive Directors and the Company has no employees. During the year under review, the MERC reviewed the level of 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. The MERC ensured that the level of remuneration remained aligned to the performance of the Company and will take into consideration the views of Shareholders on Directors' remuneration.

Each Director abstains from voting on their own individual remuneration. The MERC has not been provided with any advice or services by any person or organisation in respect of its consideration of the Directors' remuneration.

There have been no decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the period under review.

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. Directors' & Officers' liability insurance is maintained and paid

for by the Company on behalf of the Directors. No Director is entitled to any other monetary payment or any assets of the Company.

Payment for Loss of Office

Compensation will not be made upon early termination of appointment. 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 (audited)

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

Director	Fees paid to 31 December 2019	Fees paid to 31 December 2018
Kevin McGrath	£72,625	£70,000
William Eason	£51,875	£50,000
Daniel Taylor	£51,875	£50,000
Frances Daley*	£51,875	£45,833
Stephen Inglis	–	–
Tim Bee	–	–
Aggregate:	£228,250	£215,832

* Appointed on 1 February 2018

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

Directors' Shareholdings

Neither the Company's Articles of Incorporation nor the Directors' Letters of Appointment require a Director to own shares in the Company. Any shares held by the Directors and their connected persons have been bought on the open market. Details of the Directors' interests in shares are provided on page 66.

Shareholder Engagement

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
Chairman

8 April 2020

Property Name: 800 Aztec West, Bristol
Sector: Office



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

Opinion

We have audited the Group financial statements of Regional REIT Limited and its subsidiaries ('the Group') for the year ended 31 December 2019 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 2019 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 50 to 55 that describe the principal risks and explain how they are being managed or mitigated;

- the Board's confirmation set out on page 79 in the annual report that it has carried out a robust assessment of the Group's principal risks, including those that would threaten its business model, future performance, solvency or liquidity;
- the Board's statement set out on pages 69 and 70 in the financial statements about whether the Board considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Board's 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 Board's 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 Board's explanation set out on pages 70 and 71 in the annual report as to how it has assessed the prospects of the Group, over what period it has done so and why it considers that period to be appropriate, and its statement as to whether it has 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 82 to 85; the significant accounting judgements and estimates on pages 102 and 103; significant accounting policies in note 4 to the financial statements on page 105.

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 2019 was £787.9m (2018: £718.4m). These properties are diversified across the UK with a wide geographical spread.

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, Cushman & Wakefield, in line with the methodology set out in note 3.1.1.

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 the 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 the valuers' objectivity had been compromised.

We reviewed the property portfolio and selected a total of 22 properties that were either individually material or had valuation or yield movements that were higher or lower than expected from our overall review of the portfolio. We discussed and challenged the valuation of these properties 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 corroborated the additional information provided to support these movements.

In addition, we engaged a property valuation specialist, as our auditor expert, they provided us with sector and geographical data to assist us with the corroboration of movement in yields and also completed a detailed valuation exercise of 15 properties, selected to cover the various significant movements in the portfolio, this included 6 properties from the 22 selected above.

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.

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.

Impact of COVID-19 on going concern and viability statement

Risk of material misstatement

The Group has set out its analysis of the potential impact on its operations and financial position of the COVID-19 pandemic in the description of the principal risks on pages 50 to 55, the going concern statement on pages 69 and 70, the viability statement on pages 70 and 71 and the post balance sheet events note on page 135. The potential risks to the Group include tenants defaulting on rent, a decline in the property market resulting in a reduced ability to sell properties, and market conditions resulting in a reduced ability to borrow and comply with bank covenants.

In the event of a material loss of, or delay to, incoming cash resources, the Group could suffer cash pressure or default against borrowing covenants. The assessment of these risks in an uncertain economic environment requires judgement, and a risk of material misstatement arises in respect of an incorrect application of the going concern basis of preparation or the failure to disclose a material uncertainty. As a result, the potential impact of the COVID-19 outbreak was considered to be one of most significance in the audit and was therefore determined to be a key audit matter.

Audit approach adopted

We audited the Group's assessment of the application of the going concern basis of preparation, including the Liquidity Analysis prepared by management in response to the COVID-19 pandemic.

Our audit work included:

- Checking the integrity and accuracy of the cashflow forecasts and covenant calculations prepared by Management and stress tested in the Liquidity Analysis.
- Challenging management on the reasonableness of the assumptions made in the forecasts in the Liquidity Analysis, particularly in respect of the non-payment of rent by tenants; the drawdown of funds from existing bank facilities; the headroom in banking covenants; the ability to make property sales and the delay or cancellation of dividend payments.
- Corroborating the reasonableness of assumptions and explanations provided by management to supporting information where available.
- Discussing with all the banks the relationship with the Group and that they would continue to support the business even if covenants were breached. Discussions with the valuer and our own auditor valuation expert to ascertain their view on the market and the impact on valuations of COVID-19.
- Stress-testing management's cashflow forecasts to assess the impact of assumptions worse than those included in management's Liquidity Analysis. Considering mitigating actions available to management and the level of headroom in the forecasts under various scenarios.
- Discussing our findings with management and the Audit Committee.

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

- Auditing the accuracy and completeness of disclosures made in the financial statements in respect of risks, going concern, viability and post balance sheet events.

Key Observation

COVID-19 is a new and unique event, its full impact and how long it lasts cannot be predicted. In this context, the funding the Group has in place and actions it has and can take, we are satisfied that management's assessment that it remains a going concern is 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 £5.3m, 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 audited as noted above.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 88, 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 73** – 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 82 to 85** – 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 74 to 79** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the AIC Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the AIC Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the 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 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 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 94, 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 five years, covering the years ending 31 December 2015 to 31 December 2019.

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

8 April 2020

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: 2 Lochside Avenue, Edinburgh Park, Edinburgh
Sector: Office



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Continuing Operations			
Revenue			
Rental and property income	5	75,645	74,019
Property costs	6	(20,681)	(19,644)
Net rental and property income		54,964	54,375
Administrative and other expenses	7	(10,904)	(17,586)
Operating profit before gains and losses on property assets and other investments		44,060	36,789
Gain on disposal of investment properties	14	1,662	23,127
Change in fair value of investment properties	14	(3,513)	23,881
Change in fair value of right of use assets	33	(194)	–
Operating profit		42,015	83,797
Finance income	9	155	268
Finance expenses	10	(13,880)	(15,983)
Impairment of goodwill	16	(557)	(557)
Net movement in fair value of derivative financial instruments	26	(1,479)	415
Profit before tax		26,254	67,940
Taxation	11	257	(567)
Total comprehensive income for the year (attributable to owners of the parent Company)		26,511	67,373
Total comprehensive income arises from continuing operations.			
Earnings per share – basic and diluted	12	6.6p	18.1p

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

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Assets			
Non-current assets			
Investment properties	14	787,915	718,375
Right of use assets	33	16,351	–
Goodwill	16	558	1,115
Non-current receivables on tenant loan	17b	1,156	1,396
		<u>805,980</u>	<u>720,886</u>
Current assets			
Trade and other receivables	18	32,158	22,163
Cash and cash equivalents	19	37,248	104,823
		<u>69,406</u>	<u>126,986</u>
Total assets		<u>875,386</u>	<u>847,872</u>
Liabilities			
Current liabilities			
Trade and other payables	20	(22,153)	(30,663)
Deferred income	21	(13,301)	(11,043)
Taxation liabilities	22	(736)	(1,763)
Bank and loan borrowings	23	–	(400)
Zero dividend preference shares	24	–	(39,816)
		<u>(36,190)</u>	<u>(83,685)</u>
Non-current liabilities			
Bank and loan borrowings	23	(287,856)	(285,199)
Retail eligible bonds	25	(49,286)	(49,136)
Derivative financial instruments	26	(1,816)	(337)
Lease liabilities	33	(16,510)	–
		<u>(355,468)</u>	<u>(334,672)</u>
Total liabilities		<u>(391,658)</u>	<u>(418,357)</u>
Net assets		<u>483,728</u>	<u>429,515</u>
Equity			
Stated capital	27	430,819	370,316
Retained earnings		52,909	59,199
Total equity attributable to owners of the parent Company		<u>483,728</u>	<u>429,515</u>
 Net asset value per share – basic and diluted	 28	 <u>112.1p</u>	 <u>115.2p</u>

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 8 April 2020 and signed on its behalf by:

Kevin McGrath

Chairman and Independent Non-Executive Director

8 April 2020

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Attributable to owners of the parent company		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019		370,316	59,199	429,515
Total comprehensive income		–	26,511	26,511
Issue of share capital	27	62,500	–	62,500
Share issue costs	27	(1,997)	–	(1,997)
Dividends paid	13	–	(32,801)	(32,801)
Balance at 31 December 2019		430,819	52,909	483,728

For the year ended December 2018

	Notes	Attributable to owners of the parent company		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018		370,318	22,581	392,899
Total comprehensive income		–	67,373	67,373
Share based payments	29.1	–	(930)	(930)
Share issue costs	27	(2)	–	(2)
Dividends paid	13	–	(29,825)	(29,825)
Balance at 31 December 2018		370,316	59,199	429,515

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities		
Profit for the year before taxation	26,254	67,940
– Change in fair value of investment properties	3,513	(23,881)
– Change in fair value of financial derivative instruments	1,479	(415)
– Gain on disposal of investment properties	(1,662)	(23,127)
– Change in fair value of right of use assets	194	–
Impairment of goodwill	557	557
Finance income	(155)	(268)
Finance expenses	13,880	15,983
Share based payments	–	(930)
Increase in trade and other receivables	(7,881)	(7)
(Decrease)/increase in trade and other payables	(12,416)	5,323
Increase/(decrease) in deferred income	2,259	(2,358)
Cash generated from operations	26,022	38,817
Financial income	–	250
Finance costs	(12,165)	(12,173)
Payments for the interest portion of the lease liability	(583)	–
Taxation paid	(839)	(1,467)
Net cash flow generated from operating activities	12,435	25,427
Investing activities		
Purchase of investment properties	(49,917)	(48,675)
Sale of investment properties	24,294	149,276
Interest received	163	220
Acquisition of subsidiaries, net of cash acquired	(43,943)	(32,629)
Net cash flow (used in)/generated from investing activities	(69,403)	68,192
Financing activities		
Proceeds from the issue of shares	62,500	–
Share issue costs	(1,997)	(1,190)
Dividends paid	(32,534)	(29,429)
Zero Dividend Preference Shareholders repaid	(39,879)	–
Bank borrowings advanced	22,911	50,959
Bank borrowings repaid	(19,398)	(101,506)
Bank borrowing costs paid	(2,168)	(1,345)
Proceeds from Bond issue	–	50,000
Bond issue costs paid	(7)	(925)
Lease repayments	(35)	–
Net cash flow used in financing activities	(10,607)	(33,436)
Net (decrease)/increase in cash and cash equivalents	(67,575)	60,183
Cash and cash equivalents at the start of the year	104,823	44,640
Cash and cash equivalents at the end of the year	37,248	104,823

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. Corporate information

The Group's consolidated financial statements for the year ended 31 December 2019 comprise the results of the Company and its subsidiaries (together constituting the "Group") and were approved by the Board and authorised for issue on 8 April 2020.

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 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 2018.

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 12 to 61.

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.

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 in September 2014.

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts, evaluating a number of scenarios which included extreme downside sensitivities in relation to rental cash collection, no property acquisitions, no elective capital expenditure, REIT regime compliance, and no dividends. A range of scenarios of up to 12 months of nil rental cash collection were considered, and taking into account mitigating management actions, the company had adequate resources to continue its operations. Further effects of the post-year end COVID-19 outbreak are documented in the going concern and viability statements on pages 69 to 71 and within principal and emerging risks on pages 50 to 55.

No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of at least 12 months from the approval of these financial statements. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for this period.

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.

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 2019 and have had an impact on the financial statements are as follows:

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 of 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.

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. At 31 December 2019, there was £50,054,000 ground rent committed under these leases (31 December 2018: £50,614,000) and the annual charge for ground rent for the period for the year ended 31 December 2019 was £618,000 (31 December 2018: £618,000).

Under IFRS 16, the Group recognises the right of use asset in the Consolidated Statement of Financial Position and this is valued at fair value as the underlying asset is an Investment Property. The change in fair value is recognised in the Consolidated Statement of Comprehensive Income. In addition, a financial liability is recognised in the Consolidated Statement of Financial Position which is valued at the present value of future lease payments using the Group's incremental borrowing rate. Lease payments (also known as ground rent) which were previously recognised within non-recoverable property costs, now upon payment, reduce the financial liability. The financial liability is recalculated at each reporting date, lease payments reduce the financial liability and interest on the financial liability is recognised in finance costs.

IFRS 16 has been applied from 1 January 2019 and the modified retrospective approach to measure the right of use asset at the same value as the financial liability has been taken and comparatives have not been restated. At 1 January 2019, a right of use asset and the financial liability of £16,545,000 and £16,545,000 respectively were recognised.

The right of use asset and the financial liability were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate used to determine the right of use asset has been determined with consideration for the rate at which the Group would pay to borrow for an asset of similar value to the right of use asset. The Group considers this to be equivalent to the Group's weighted average cost of debt, being 3.5% and has applied. This single discount rate has been applied across the whole portfolio of leases.

At 31 December 2019, the financial liability was adjusted for the interest as the lease liability is carried at fair value, with amounts recognised within finance costs for movements on the finance liability. The right of use asset was calculated at fair value with the change in fair value charged to the Consolidated Statement of Comprehensive Income. Under the modified retrospective approach in IFRS 16, comparative information is not required to be restated.

The table below illustrates the accounting treatment presented in the financial statements:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Transactions in the Condensed Consolidated Statement of Comprehensive Income		
Ground rent charges included within non-recoverable property costs	–	618
Fair value movement on right of use asset	194	–
Finance charges	583	–
Total	777	618
Assets and liabilities recognised within the Condensed Consolidated Statement of Financial Position		
Right of use assets included with investment property	16,351	–
Lease liabilities	(16,510)	–
Total	(159)	–

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

2. Basis of preparation (continued)

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 2020 and have not been applied in preparing these financial statements. These are:

Amendments to IFRS 3 'Business Combinations' (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions. As detailed in note 2.3, careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the Directors do not expect the amendments to this standard to have any significant impact on the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020) – make amendments to clarify the definition of 'material'. The amendments make IFRSs more consistent but are not expected to have a significant impact on the preparation of the financial statements.

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £787,915,000 (31 December 2018: £718,375,000), 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 value of the properties has been assessed in accordance with the relevant parts of the current RICS Red Book. In particular, we have assessed the fair value as referred to in VPS4 item 7 of the RICS Red Book. Under these provisions, the term "Fair Value" means the definition adopted by the International Accounting Standards Board ("IASB") in IFRS 13, namely "The price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by the 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 £1,816,000 (31 December 2018: £337,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

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

3.1.3. Leases – the Group as lessee

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. Under IFRS16, the Group calculates the lease liability at each reporting date and at the inception of each lease and at 1 January 2019 when the standard was first adopted. The liability is calculated using present value of future lease payments using the Group's incremental borrowing rate as discount rate. At 31 December 2019, there were 13 leases with the range of the period left to run being 15 and 107 years. The Directors have determined that the discount rate to use in the calculation for each lease at 1 January 2019 and 31 December 2019 is 3.5% being the Group's weighted average cost of debt.

3.1.4. Dilapidation income

The Group recognises dilapidation income in the Group's Statement of Comprehensive Income when the right to receive the income arises. In determining accrued dilapidations, the Group has considered historic recovery rates, while also factoring in expected costs associated with recovery.

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. 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 "View Castle Sub Group") by virtue of the amended and restated Call Option Agreement dated 3 November 2015. Following a restructure of the View Castle Sub Group, the majority of properties held within the View Castle Sub Group were transferred into two new special purpose vehicles ("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 five 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 fixed nominal consideration. Despite having no equity holding, the Group is deemed to have control over 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.

3.2.3. 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 above.

3.2.4. Recognition of income

Service charges and other similar receipts are included in net rental and property income gross of the related costs as the Directors consider the Group acts as principal in this respect.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 2018 and have been consistently applied for the year ended 31 December 2019. The significant change arising from accounting standards effective for the first time, IFRS 16 Leases, is detailed in note 2.4.

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 value 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 the 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 are recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

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

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. Summary of significant accounting policies (continued)

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 value 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 the value in use and the fair value less the 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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

4. Summary of significant accounting policies (continued)

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 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.

Bank and other borrowings are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in Group's Consolidated Statement of Comprehensive Income.

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 interest entitlement to the date of these financial statements.

4.13. Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.14. Rental and property 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 and property 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.

4. Summary of significant accounting policies (continued)

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.

Dilapidation income is recognised in the Group's Statement of Comprehensive Income when the right to receive it 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 and property 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. For the year ended 31 December 2018 this figure also included ground rents charges. As from 1 January 2019 a right of use asset and a lease liability are recognised instead of a ground rent cost. Please refer to notes 2.4 and 4.23.

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

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

4.16. Interest income

Interest income is recognised as interest accrued 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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

4. Summary of significant accounting policies (continued)

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 17% from 1 April 2020, however, it has been confirmed in the recent Budget Announcement, on 11 March 2020, that the government will legislate to retain the current 19% rate in 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.

4.23. Leased assets

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. These leased assets are capitalised as "right of 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.

Right of use assets are valued at fair value and the change in fair value is recognised in the Consolidated Statement of Comprehensive Income.

The associated financial liability is valued at the present value of future lease payments using the Group's incremental borrowing rate. The value of the financial liability is revalued at each reporting date. Lease payments reduce the financial liability and interest on the financial liability is recognised in finance costs.

5. Rental and property income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Rental income – freehold property	53,404	54,107
Rental income – long leasehold property	10,989	7,968
Recoverable service charge income and other similar items	11,252	11,944
Total	75,645	74,019

6. Property costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating lease expenses	–	618
Other property expenses and irrecoverable costs	9,429	7,082
Recoverable service charge income and other similar costs	11,252	11,944
Total	20,681	19,644

Property costs represent direct operating expenses which arise on investment properties that generate rental income. Operating lease expenses are now accounted for under IFRS16 as detailed in note 2.4.

7. Administrative and other expenses

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Investment management fees	2,356	2,405
Property management fees	2,280	2,264
Performance fees	–	7,046
Asset management fees	2,356	2,405
Directors' remuneration (see note 8)	255	235
Administration fees	746	663
Legal and professional fees	2,107	1,714
Marketing and promotion	96	87
Other administrative costs (including bad debts)	657	595
Bank charges	51	172
Total	10,904	17,586

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 2019 £'000	Year ended 31 December 2018 £'000
Audit of the consolidated and parent Company financial statements	85	78
Audit-related services in respect of the half-year financial statements	26	26
Audit of the subsidiaries for their respective periods of account	114	171
Fees associated with share issue	80	–
Total	305	275

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 2019 £'000	Year ended 31 December 2018 £'000
Directors' fees	228	216
Employer's National Insurance contributions	27	19
Total	255	235

9. Finance income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest income	155	224
Unwinding of the discount on financial assets	–	44
Total	155	268

10. Finance expenses

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest payable on bank borrowings	9,904	11,267
Accrued capital entitlement on ZDP Shares	60	2,430
Amortisation of loan arrangement fees	912	1,172
Amortisation of ZDP Share acquisition costs	3	147
Bond interest	2,250	906
Bond issue costs amortised	157	61
Bond expenses	11	–
Lease interest	583	–
Total	13,880	15,983

11. Taxation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Corporation tax (credit)/charge	(359)	1,983
Increase/(decrease) in deferred tax creditor	102	(1,416)
Total	(257)	567

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 2019 £'000	Year ended 31 December 2018 £'000
Profit before taxation	26,254	67,940
UK Corporation Tax rate	19%	19%
Theoretical tax at UK Corporation Tax rate	4,988	12,909
Effects of:		
Revaluation of investment property	668	(4,537)
Adjustments to tax charge in respect of previous periods	–	25
Permanent differences	(556)	1,592
Profits from the tax-exempt business	(5,459)	(8,006)
Deferred tax movement	102	(1,416)
Total	(257)	567

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 PIDs 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 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

12. Earnings per share (continued)

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Calculation of earnings per share		
Net profit attributable to Ordinary Shareholders	26,511	67,373
Adjustments to remove:		
Changes in value of investment properties	3,513	(23,881)
Changes in fair value of interest rate derivatives and financial assets	1,479	(459)
Gain on disposal of investment property	(1,662)	(23,127)
Impairment of goodwill	557	557
Deferred tax charge/(credit)	102	(1,416)
Income tax charge on disposal profits	–	1,416
Close out costs on borrowings and derivatives	487	430
EPRA net profit attributable to Ordinary Shareholders	30,987	20,892
Add performance fee	–	7,046
Company specific adjusted earnings figure	30,987	27,938
 Weighted average number of Ordinary Shares	 398,867,828	 372,821,136
Earnings per share – basic and diluted	6.6p	18.1p
EPRA earnings per share – basic and diluted	7.8p	5.6p
Company specific adjusted earnings per share – basic and diluted	7.8p	7.5p

13. Dividends

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Dividend of 2.50 (2018: 2.45) pence per Ordinary Share for the period 1 October 2018 – 31 December 2018	9,321	9,134
Dividend of 1.90 (2018: 1.85) pence per Ordinary Share for the period 1 January 2019 – 31 March 2019	7,084	6,897
Dividend of 1.90 (2018: 1.85) pence per Ordinary Share for the period 1 April 2019 – 30 June 2019	8,198	6,897
Dividend of 1.90 (2018: 1.85) pence per Ordinary Share for the period 1 July 2019 – 30 September 2019	8,198	6,897
	<u>32,801</u>	<u>29,825</u>

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 payment was made on 11 April 2019 to Shareholders on the register as at 1 March 2019.

13. Dividends (continued)

On 23 May 2019, the Company announced a dividend of 1.90 pence per share in respect of the period 1 January 2019 to 31 March 2019. The dividend payment was made on 12 July 2019 to Shareholders on the register as at 7 June 2019.

On 29 August 2019, the Company announced a dividend of 1.90 pence per share in respect of the period 1 April 2019 to 30 June 2019. The dividend payment was made on 15 October 2019 to Shareholders on the register as at 6 September 2019.

On 14 November 2019, the Company announced a dividend of 1.90 pence per share in respect of the period 1 July 2019 to 30 September 2019. The dividend payment was made on 19 December 2019 to Shareholders on the register as at 22 November 2019.

On 27 February 2020, the Company announced a dividend of 2.55 pence per share in respect of the period 1 October 2019 to 31 December 2019. The dividend will be paid on 9 April 2020 to Shareholders on the register as at 6 March 2020. The financial statements do not reflect this dividend.

The Board intends to pursue a progressive dividend policy and continue to pay quarterly dividends. However, in view of ongoing circumstances, the Company reserves the right to review future dividend payments.

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 Chartered Surveyors, a accredited independent valuer 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.

	Freehold property £'000	Long leasehold property £'000	Total £'000
Group			
Movement in investment properties for the year ended 31 December 2019			
Valuation at 1 January 2019	625,020	93,355	718,375
Property additions – acquisitions	89,920	–	89,920
Property additions – subsequent expenditure	5,527	238	5,765
Property disposals	(24,003)	(291)	(24,294)
Gain/(loss) on the disposal of investment properties	1,679	(17)	1,662
Change in fair value during the year	(235)	(3,278)	(3,513)
Valuation at 31 December 2019	697,908	90,007	787,915

The net book value of properties disposed of during the year amounted to £22,632,000.

Movement in investment properties for the year ended 31 December 2018

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 period	24,000	(119)	23,881
Valuation at 31 December 2018	625,020	93,355	718,375

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

14. Investment properties (continued)

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

The historic cost of the properties is £751,638,000 (31 December 2018: £675,808,000).

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

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
Date of valuation:				
31 December 2019	787,915	–	–	787,915
31 December 2018	718,375	–	–	718,375

The hierarchy levels are defined in note 30.

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 2019 £'000	Year ended 31 December 2018 £'000
Balance at the start of the year	718,375	737,330
Additions	95,685	83,313
Disposals	(24,294)	(149,276)
Gain on the disposal of investment properties	1,662	23,127
Change in fair value during the year	(3,513)	23,881
Balance at the end of the year	787,915	718,375

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: £6,000 – £3,092,291 per annum (2018: £1,500 – £3,092,226 per annum).

Observable input: rental growth

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

14. Investment properties (continued)

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% – 28.70% (2018: 0.00% – 26.98%).

Unobservable inputs:

The significant unobservable inputs (level 3) are sensitive to changes in the estimated future cash flows from investment properties such as increases and decreases in contracted rents, operating expenses and capital expenses, plus transactional activity in the real estate market.

As set out within the significant accounting estimates and judgements, 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.

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 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%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

15. Investment subsidiaries (continued)

	Country of incorporation	Ownership %
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca 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%
RR Falcon 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 Portland Street Limited	Jersey	100%
Toscafund Sheldon Court 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 has control of View Castle Limited (previously Credential Investment Holdings Limited) and its 27 subsidiaries (the "View Castle Group").

Under this option, the Group has the ability to acquire any of the properties held by the View Castle 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.

15. Investment subsidiaries (continued)

Despite having no equity holding, the Group controls the View Castle 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 View Castle Group through its power to control.

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 (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited (in liquidation)	United Kingdom	100%
Credential Bath Street Limited (in liquidation)	United Kingdom	100%
Credential Charing Cross Limited (in liquidation)	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Residential Finance Limited (in liquidation)	United Kingdom	100%
Credential Tay House Limited (in liquidation)	United Kingdom	100%
Hamiltonhill Estates Limited (in liquidation)	United Kingdom	100%
Lilybank Church Limited (in liquidation)	United Kingdom	100%
Lilybank Terrace Limited (in liquidation)	United Kingdom	100%
Old Mill Studios Limited (in liquidation)	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited (in liquidation)	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 2019.

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 2.3. The fair value of investment properties acquired through the purchase of subsidiary companies totalled £45,790,000. Total consideration paid was £45,173,000. The assets and liabilities of the companies acquired included the investment properties, mentioned above, net current liabilities totalling £716,000 (principally comprising debtors, cash, creditors and deferred income) and bank borrowings of £nil.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

16. Goodwill

	31 December 2019 £'000	31 December 2018 £'000
Group		
At start of year	1,115	1,672
Impairment	(557)	(557)
At end of year	558	1,115

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 6.9% (31 December 2018: 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 2019 £'000	31 December 2018 £'000
At start of year	–	206
Movement in year	–	(250)
Unwinding of discount	–	44
At end of year	–	–

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 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.

17. Non-current receivables (continued)

17b. Non-current receivables on tenant loans

	31 December 2019 £'000	31 December 2018 £'000
At start of year	1,926	1,926
Amounts repaid in the year	(578)	–
At end of year	1,348	1,926
Asset due within 1 year	192	530
Asset due after 1 year	1,156	1,396
	1,348	1,926

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

18. Trade and other receivables

	31 December 2019 £'000	31 December 2018 £'000
Gross amount receivable from tenants	8,206	7,294
Less provision for impairment	(891)	(1,115)
Net amount receivable from tenants	7,315	6,179
Current receivables – tenant loans (note 17b)	192	530
Value added tax	1,415	–
Income tax	70	–
Other receivables	6,385	3,256
Prepayments	16,781	12,198
	32,158	22,163

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

18. Trade and other receivables (continued)

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

	31 December 2019 £'000	31 December 2018 £'000
< 30 days	4,369	3,974
30 – 60 days	1,055	720
> 60 days	2,782	2,600
	8,206	7,294
Less provision for impairment	(891)	(1,115)
	<u>7,315</u>	<u>6,179</u>

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

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

Provision for impairment of trade receivables movement as follows:

	31 December 2019 £'000	31 December 2018 £'000
At start of year	1,115	1,033
Provision for impairment in the year	562	928
Receivables written off as uncollectable	(537)	(452)
Unused provision reversed	(249)	(394)
At end of year	<u>891</u>	<u>1,115</u>

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

19. Cash and cash equivalents

	31 December 2019 £'000	31 December 2018 £'000
Group		
Cash held at bank	34,731	82,396
Restricted cash held at bank	2,517	22,427
At end of year	<u>37,248</u>	<u>104,823</u>

Restricted cash balances of the Group comprise:

- £124,000 (2018: £20,259,000) 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.

19. Cash and cash equivalents (continued)

- £2,312,000 (2018: £900,000) of funds which represent tenants' rental deposits.
- Nil (2018: £1,268,000) 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.
- £81,000 (2018: Nil) is held in other locked accounts.

All restricted cash balances will be available before 31 March 2020.

In addition, £4,225,000 (2018 £2,780,000) of cash funds represent service charge income received from tenants for settlement of future service charge expenditure. These amounts are not analysed as restricted balances.

20. Trade and other payables

	31 December 2019 £'000	31 December 2018 £'000
Withholding tax due on dividends paid	1,569	1,302
Trade payables	3,650	2,462
Other payables	8,544	9,905
Value added tax	–	939
Accruals of incidental costs for fund raise and acquisitions	–	27
Accruals	8,390	16,028
At end of year	22,153	30,663

Other payables principally include 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 2019 £'000	31 December 2018 £'000
Income tax	–	1,129
Deferred tax	736	634
	736	1,763
The movement on deferred tax liability is shown below:		
At start of year	634	2,050
Deferred tax on the valuation of investment properties	102	(1,416)
At end of year	736	634

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 2019 £'000	31 December 2018 £'000
Bank borrowings drawn at start of year	290,487	339,074
Bank borrowings drawn	22,911	52,919
Bank borrowings repaid	(19,398)	(101,506)
Bank borrowings drawn at end of year	294,000	290,487
Less: unamortised costs at start of year	(4,888)	(4,693)
Less: loan issue costs incurred in the year	(2,168)	(1,367)
Add: loan issue costs amortised in the year	912	1,172
At end of year	287,856	285,599
Maturity of bank borrowings		
Repayable within 1 year	–	400
Repayable between 1 to 2 years	–	400
Repayable between 2 to 5 years	48,584	88,687
Repayable after more than 5 years	245,416	201,000
Unamortised loan issue costs	(6,144)	(4,888)
	287,856	285,599

As detailed in note 25, the Group has £50,000,000 retail eligible bonds 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
Royal Bank of Scotland	55,000	48,584	June 2024	39.8	2.15% over 3 months £ LIBOR	Mandatory prepayment
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	45.1	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	December 2028	38.9	3.37% Fixed	None
Santander UK	65,870	44,416	June 2029	26.4	2.20% over 3 months £ LIBOR	Mandatory prepayment
Total bank borrowings	321,870	294,000				
Retail eligible bond	50,000	50,000				
Total	371,870	344,000				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

23. Bank and loan borrowings (continued)

The weighted average term to maturity of the Group's debt at the period end was 7.3 years (31 December 2018: 6.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.4% (31 December 2018: 3.7%).

The Group weighted average interest rate, including the ZDP Shares, retail eligible bonds and hedging costs at the period end, amounted to 3.5% per annum (31 December 2018: 3.8% per annum, which included the ZDP Shares). The ZDP Shares were fully repaid on 9 January 2019.

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, LTV 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 cash flow interest rate risks. The Group's exposure to interest rate volatility is minimal.

24. Zero Dividend Preference Shares

	31 December 2019 £'000	31 December 2018 £'000
At start of year	39,816	37,239
Amortisation of acquisition costs	3	147
Accrued capital entitlement	60	2,430
Repayment	(39,879)	–
At end of year	–	39,816

The Group entity, Regional REIT ZDP PLC, had 30,000,000 Zero Dividend Preference Shares ("ZDP Shares") in issue, which were listed on the London Stock Exchange (LSE: RGLZ). The ZDP Shares were issued at 100 pence per share. The ZDP Shares had an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but did not receive any dividends or income distributions. Additional capital accrued 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, which was paid on 9 January 2019.

25. Retail Eligible Bonds

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

	31 December 2019 £'000	31 December 2018 £'000
Bond principal at start of year	50,000	–
Bonds issued in the year	–	50,000
Unamortised issue costs at start of year	(864)	–
Issue costs	(7)	(925)
Amortisation of issue costs	157	61
At end of year	49,286	49,136

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 2019 £'000	31 December 2018 £'000
Group		
Fair value at start of year	(337)	(752)
Revaluation in the year	(1,479)	415
Fair value at end of year	(1,816)	(337)

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.

Lender	Original facility £'000	Outstanding debt £'000	Maturity date	Annual interest rate %	Notional amount £'000	Rate %
Royal Bank of Scotland	55,000	49,584	June 2024	2.15% over 3 months £ LIBOR	swap £27,500 cap £27,500	1.26 1.26
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	3.28% Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	December 2028	3.37% Fixed	n/a	n/a
Santander UK	65,870	44,416	June 2029	2.20% over 3 months £ LIBOR	swap £33,000 cap £33,000	1.80 1.80
Total	321,870	294,000				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2019, the swap notional arrangements were £60.50m (31 December 2018: £48.58m).

The Group weighted average effective interest rate was 3.5% (31 December 2018: 3.5%) inclusive of hedging costs but excluding the ZDP Shares.

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 109.5% (31 December 2018: 102.6%), as shown below. The over-hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but that the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

	31 December 2019 £'000	31 December 2018 £'000
Total bank borrowings	294,000	290,487
Notional value of interest rate caps and swaps	121,000	97,158
Value of fixed rate debts	201,000	201,000
	322,000	298,158
Proportion of hedged debt	109.5%	102.6%

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.

	31 December 2019 £'000	31 December 2018 £'000
Group		
Issued and fully paid shares of no par value		
At start of the year	370,316	370,318
Shares issued 23 July 2019	62,500	–
Share issue costs	(1,997)	(2)
At end of the year	430,819	370,316
Number of shares in issue		
At start of the year	372,821,136	372,821,136
Shares issued 23 July 2019	58,685,447	–
At end of the year	431,506,583	372,821,136

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.

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:

	31 December 2019 £'000	31 December 2018 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	483,728	429,515
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	1,816	337
Deferred tax liability	736	634
EPRA net assets	486,280	430,486
Number of Ordinary Shares in issue	431,506,583	372,821,136
Net asset value per share – basic and diluted	112.1p	115.2p
EPRA net asset value per share – basic and diluted	112.7p	115.5p

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 Group reversed the total of share-based payment adjustments made in previous years having determined that the performance fees would be fully paid by cash (see note 35).

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

	Bank loans and borrowings £'000	Zero Dividend Preference Shares £'000	Retail eligible bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
31 December 2019						
Balance at 1 January 2019	285,599	39,816	49,136	337	16,545	391,433
Changes from financing cash flows:						
Zero Dividend Preference Shareholders repaid	–	(39,879)	–	–	–	(39,879)
Bank and Bond borrowings advanced	22,911	–	–	–	–	22,911
Bank borrowings repaid	(19,398)	–	–	–	–	(19,398)
Bank and Bond borrowing costs paid	(2,168)	–	(7)	–	–	(2,175)
Lease payments	–	–	–	–	(35)	(35)
Total changes from financing cash flows	1,345	(39,879)	(7)	–	(35)	(38,576)
Amortisation of issue costs	912	3	157	–	–	1,072
Accrued capital entitlement	–	60	–	–	–	60
Change in fair value	–	–	–	1,479	–	1,479
Total other changes	912	63	157	1,479	–	2,611
Balance at 31 December 2019	287,856	–	49,286	1,816	16,510	355,468

Balances are included in the Statement of Financial Position as follows:

Current liabilities	–	–	–	–	–	–
Non-current liabilities	287,856	–	49,286	1,816	16,510	355,468
Balance at 31 December 2019	287,856	–	49,286	1,816	16,510	355,468

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

	Bank loans and borrowings £'000	Zero Dividend Preference Shares £'000	Retail eligible bonds £'000	Derivative financial instruments £'000	Total £'000
31 December 2018					
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)
Total changes from financing cash flows	(51,892)	–	49,075	–	(2,817)
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)
Total other changes	3,110	2,577	61	(415)	5,333
Balance at 31 December 2018	285,599	39,816	49,136	337	374,888
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
Balance at 31 December 2018	285,599	39,816	49,136	337	374,888

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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 ZDP 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 of the Group's financial instruments that are carried in the financial statements and their fair value:

	31 December 2019		31 December 2018	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Group				
Financial assets – measured at amortised cost				
Trade and other receivables	16,463	16,463	11,891	11,891
Cash and short-term deposits	37,248	37,248	104,823	104,823
Financial liabilities – measured at amortised cost				
Trade and other payables	(20,584)	(20,584)	(29,361)	(29,361)
Bank and loan borrowings	(287,856)	(294,875)	(285,599)	(285,599)
ZDP Shares	–	–	(39,816)	(39,150)
Retail eligible bonds	(49,286)	(51,860)	(49,136)	(50,038)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(1,816)	(1,816)	(337)	(337)
Lease liability	(16,510)	(16,510)	–	–

The following financial liabilities are recorded in the Consolidated Statement of Financial Position at amortised cost but their fair value is different as disclosed above. Their fair values are determined as follows:

- The fair value of bank and loan borrowings is determined by reference to mark to market valuations provided by the lenders.
- The fair value of retail eligible bonds is determined by their published market value.

The following financial liabilities are recorded in the Consolidated Statement of Financial Position at fair value which is determined as follows:

- The fair value of interest rate derivatives 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.
- The fair value of the lease liability is recorded in the Consolidated Statement of Financial Position calculated as the present value of future cash flows discounted using the Group's incremental borrowing rate.

30. Financial risk management (continued)

Fair value hierarchy

The following table provides the fair value measurement hierarchy for financial liabilities measured at fair value through profit or loss.

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2019				
Interest rate derivatives	(1,816)	–	(1,816)	–
Lease liability	(16,510)	–	–	(16,510)
Total	(18,326)	–	(1,816)	(16,510)
31 December 2018				
Interest rate derivatives	(337)	–	(337)	–
Total	(337)	–	(337)	–

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.

There have been no transfers between levels during the year.

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 swaps. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

30. Financial risk management (continued)

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:

	Increase to the annual interest charge	
	31 December 2019 £'000	31 December 2018 £'000
Interest rate increase		
0.00%	–	–
0.25%	81	102
0.50%	155	24
0.75%	184	307
1.00%	212	409

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 is 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 Stable
Royal Bank of Scotland	A Stable
Santander UK	A+ Stable
Aviva	A+ Stable
Scottish Widows*	A+ Stable

* rating relates to parent entity – Lloyds Banking Group plc

30. Financial risk management (continued)

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 that it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

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

	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Group at 31 December 2019					
Trade and other payables	(20,584)	–	–	–	(20,584)
Bank borrowings	(9,579)	(9,579)	(76,588)	(273,944)	(369,690)
Interest rate derivatives	(487)	(483)	(1,111)	–	(2,081)
Retail eligible bonds	(2,250)	(2,250)	(56,750)	–	(61,250)
Lease liability	(618)	(618)	(1,854)	(50,964)	(54,054)
	<u>(33,518)</u>	<u>(12,930)</u>	<u>(136,303)</u>	<u>(324,908)</u>	<u>(507,659)</u>
	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Group at 31 December 2018					
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)
ZDP 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>

The maturity dates of all bank borrowings are disclosed in note 23.

The maturity date of the retail eligible bonds is disclosed in note 25.

The range of maturity dates of the lease liability payments is between 10 and 107 years.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

31. Capital management (continued)

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% 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 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.

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:

	31 December 2019 £'000	31 December 2018 £'000
Group		
Receivable within 1 year	50,038	44,684
Receivable between 1 – 2 years	41,696	36,157
Receivable between 2 – 5 years	61,181	57,599
Receivable after 5 years	36,202	40,483
	189,117	178,923

The Group has in excess of 910 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. Leases

As from 1 January 2019, the Group has adopted IFRS16 accounting treatment as described in note 2.4.

	31 December 2019 £'000	31 December 2018 £'000
Right of use asset		
At start of year	–	–
Value recognised at 1 January 2019	16,545	–
Fair value movement	(194)	–
	16,351	–
Lease liability		
At start of year	–	–
Value recognised at 1 January 2019	16,545	–
Lease payments	(618)	–
Interest charges	583	–
	16,510	–

33. Leases (continued)

The Group's lease commitments which are now represented by the right of use asset and lease liability are spread across 13 separate leases with the two largest leases at Basingstoke and Witham making up 42% of the balance. Total commitments on leases in respect of land and buildings are as follows:

	31 December 2019 £'000	31 December 2018 £'000
Group		
Payable within 1 year	618	618
Payable between 1 – 2 years	618	618
Payable between 2 – 5 years	1,854	1,854
Payable after 5 years	50,964	51,337
	54,054	54,427

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.

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 2019 £'000	Year ended 31 December 2018 £'000
Kevin McGrath	21	24
William Eason	17	16
Daniel Taylor	42	28
Stephen Inglis	103	60
Frances Daley	3	2
Timothy Bee	13	12
Total	199	142

Transactions with the Asset Manager, London & Scottish Property Investment Management 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 Property Investment Management Limited ("LSPIM") 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

35. Transactions with related parties (continued)

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 2019 £'000	Year ended 31 December 2018 £'000
Asset management fees charged*	2,356	2,405
Property management fees charged*	2,280	2,264
Performance fees charged	–	3,523
Total	4,636	8,192

	31 December 2019 £'000	31 December 2018 £'000
Total fees outstanding	1,275	5,263

* Including irrecoverable VAT charged where appropriate

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee, Chief Legal Counsel of Toscafund Asset Management LLP was appointed as non-executive director on 7 July 2017. 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 2019 £'000	Year ended 31 December 2018 £'000
Investment management fees charged	2,356	2,405
Performance fees charged	–	3,523
Total	2,356	5,928

	31 December 2019 £'000	31 December 2018 £'000
Total fees outstanding	591	5,044

35. Transactions with related parties (continued)

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 was calculated initially on 31 December 2018 and is calculated 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, was paid 50% in cash and 50% in Ordinary Shares which are subject to a one-year lock-up.

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 2019, the performance fee liability for the year ending 31 December 2019 was estimated at £nil (for the period from commencement of trading to 31 December 2018: £8,905,000). This fee has been accrued in the consolidated financial statements.

36. Capital commitments

At 31 December 2019, the Group had committed capital expenditure on its investment property portfolio of £2,500,000 relating to a property in Dundee. These costs were paid in February 2020.

37. Subsequent events

The wellbeing of our tenants and other stakeholders in the Company are of utmost importance to the Board and we continue to manage the Company, cognisant of their needs in this current environment.

On 20 February 2020, the Company announced a potential equity fundraise to take advantage of its growing near-term pipeline of accretive growth. As a result of the current market uncertainty caused by the global spread of COVID-19, the Company took the decision to withdraw the potential equity fundraise.

On 31 March 2020, and in view of the COVID-19 disruption to UK economic activity the Company announced a trading update. The rental collections were slightly reduced as at 30 March 2020, with 68.2% of invoiced rental income collected in comparison with 69.6% at the same date in 2019. In addition, £30.7m of available borrowing headroom from the Santander UK and Royal Bank of Scotland facilities had been drawn.

The Board will continue to closely monitor the developing situation and its effect on the Group, although the Board is re-assured by the Company's balance sheet, the breadth of tenants and geographical spread of assets, which will ensure it is well positioned to mitigate any prolonged periods of uncertainty.

EPRA Performance Measures

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

EPRA has 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 2019	31 December 2018
EPRA EARNINGS	Earnings from operational activities	EPRA Earnings	£30,987,000	£20,892,000
		EPRA Earnings per share (basic and diluted)	7.8p	5.6p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings	£30,987,000	£27,938,000
		EPRA Earnings per share (basic and diluted)	7.8p	7.5p
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	£486,280,000	£430,486,000
		EPRA NAV per share (diluted)	112.7p	115.5p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes	EPRA NNNAV	£475,135,000	£429,279,000
		EPRA NNNAV per share (diluted)	110.1p	115.1p
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	6.2%	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	6.9%	6.6%
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio	EPRA Vacancy Rate	10.6%	10.6%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income	EPRA Costs Ratio	31.6%	40.1%
		EPRA Costs Ratio (excluding direct vacancy costs)	18.7%	29.9%

EPRA BPR Awards

2019

The Company was pleased to be recognised by the EPRA for a second consecutive year and be granted its first EPRA BPR Gold Award in respect of the Company's exceptional compliance with EPRA's Best Practices Recommendations for financial reporting of listed property companies.



2018

In 2018, the Company was awarded its first EPRA BPR Award at Silver level and Most Improved Award for compliance with the EPRA Best Practices Recommendations for financial reporting.



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 2019 £'000	31 December 2018 £'000
NAV per the financial statements	483,728	429,515
Fair value of derivative financial instruments	1,816	337
Deferred tax liability	736	634
EPRA NAV	486,280	430,486
Dilutive number of shares	431,506,583	372,821,136
EPRA NAV per share	112.7p	115.5p

3. EPRA NNNAV

	31 December 2019 £'000	31 December 2018 £'000
EPRA NAV	486,280	430,486
Fair value of derivative financial instruments	(1,816)	(337)
Adjustment for the fair value of debt:		
Bank and loan borrowings	(7,019)	–
ZDP Shares	–	666
Retail eligible bonds	(2,574)	(902)
Deferred tax liability	(737)	(634)
EPRA NNNAV	475,134	429,279
Dilutive number of shares	431,506,583	372,821,136
EPRA NAV per share	110.1p	115.1p

EPRA Performance Measures (continued)

4. EPRA Net Initial Yield

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

	31 December 2019 £'000	31 December 2018 £'000
Investment properties	787,915	718,375
Annualised cash passing rental income	57,067	54,710
Property outgoings	5,104	(4,650)
Annualised net rents	51,962	50,060
Add notional rent expiration of rent free periods or other lease incentives	6,157	443
Topped-up net annualised rent	58,119	50,503
EPRA NIY	6.2%	6.5%
EPRA topped up NIY	6.9%	6.6%

5. EPRA Vacancy Rate

	31 December 2019 £'000	31 December 2018 £'000
Estimated Market Rental Value (ERV) of vacant space	7,853	7,128
Estimated Market Rental Value (ERV) of whole portfolio	73,897	67,042
EPRA Vacancy Rate	10.6%	10.6%

6. EPRA Cost Ratios

	31 December 2019 £'000	31 December 2018 £'000
Property costs	20,681	19,644
Less ground rent	–	(662)
Less recoverable service charge income and other similar costs	(11,252)	(11,944)
Add administrative and other expenses	10,904	17,586
EPRA costs (including direct vacancy costs)	20,333	24,624
Direct vacancy costs	(8,312)	(6,240)
EPRA costs (excluding direct vacancy costs)	12,021	18,384
Gross rental income	75,645	74,019
Less recoverable service charge income and other similar items	(11,252)	(11,944)
Less ground rent	–	(661)
Gross rental income less ground rents	64,393	61,414
EPRA Cost Ratio (including direct vacancy costs)	31.6%	40.1%
EPRA Cost Ratio (excluding direct vacancy costs)	18.7%	29.9%

It should be noted that the EPRA costs in the above calculations include the performance fee cost for the period of £nil (year ended 31 December 2018: £7,046,000). The EPRA cost ratio excluding the performance fee from costs would be as follows:

EPRA Cost Ratio (including direct vacancy costs)	31.6%	28.6%
EPRA Cost Ratio (excluding direct vacancy costs)	18.7%	18.5%

The Group has not capitalised any overhead or operating expenses in the accounting years disclosed above.

Property Related Capital Expenditure Analysis

	31 December 2019 £'000	31 December 2018 £'000
Acquisitions	89,920	76,334
Subsequent capital expenditure	5,527	6,979
Total capital expenditure	95,685	83,313

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).

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.

Alternative Performance Measures (APMs) – APMs are key performance indicators used by the Board to assess the Company's performance.

Board – the Board of Directors of the Company.

Borrowings – aggregate amount of total drawn bank facilities and the retail eligible bond.

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).

Company Adjusted Earnings – a company specific earnings measure which adds back the performance fee charged in the accounts to EPRA Earnings.

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 pages 64 and 65.

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 Triple NAV (EPRA NNNNAV) – EPRA net assets adjusted to include deferred tax liabilities and the fair values of financial instruments and debt.

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 "Topped Up" Net Initial Yield – 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 Total Return – the movement in EPRA NAV plus the dividend distributions paid during the period expressed as a percentage of the share price 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.

EPRA Occupancy Rate – occupancy expressed as a percentage being the ERV of let space divided by ERV of the whole portfolio. Occupancy 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 valuer is Cushman & Wakefield.

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

Gross Rental Income – See Rent Roll.

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

Group – Regional REIT Limited and its subsidiaries.

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

ISA – Individual Savings Account.

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

Law – The Companies (Guernsey) Law 2008, as amended

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

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

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

Lease Renewal – renegotiation of a lease with the existing tenant at its contractual expiry.

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

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

Manager(s) – the Company's external Asset and Property Manager is London & Scottish Property Investment Management 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 – $(\text{Borrowings} - \text{cash and cash equivalents}) / (\text{Total Issued Shares} + \text{Retained Earnings})$.

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

Ordinary Resolution – a resolution passed by more than 50% 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.

Ongoing Charges – a measure, expressed as a percentage of NAV, of the regular, recurring costs of running an investment company which is calculated in line with AIC methodology.

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 (PID) – 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.

Rent Roll – is the contracted gross property rent receivable which becomes payable after tenant incentives in the letting have expired.

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.

SIPP – self-invested personal pension.

SSAS – small self-administered scheme.

Total Shareholder Return – the movement in the share price, plus the dividend distributions received and reinvested in the period, expressed as percentage of the share price at the beginning of the period.

Triple Net Initial Yield (NNNIY) – $(\text{Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three "nets")}) / (\text{Investment Properties Value})$.

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income (including rent-free).

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.

Weighted Average Cost of Debt (WACD) – Group borrowings interest and net derivative costs per annum at the period end, divided by total Group debt in issue at the period end.

Weighted Average Debt Duration (WADD) – is calculated by multiplying each tranche of Group debt by the remaining period to its maturity, with the sum of the results being 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 requires certain information to be made available to investors in Alternative Investment Funds 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 and subsequent equity capital raise prospectuses, which can be found on the Group's website at: www.regionalreit.com.

Management agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited, as Asset Manager. Following an internal restructure at London and Scottish Investments Limited, the Asset Manager agreement has been assigned to London and Scottish Property Investment Management Limited ("LSPIM"). Toscafund Asset Management LLP ("Toscafund" or the "AIFM") was appointed as the Investment Manager. LSPIM and Toscafund each receive half of an annual management fee on a scaled rate of 1.1 % of the EPRA net asset value up to £500m and 0.9% above £500m. A performance fee may also be paid to LSPIM and Toscafund.

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 operations of Regional REIT Limited during the period 1 January 2019 to 31 December 2019 was £3,650,400 (2018: £3,027,376).

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM. The Board, through its Management Engagement and Remuneration Committee, 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. 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.

Principal risks and uncertainties

An explanation of the principal risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 30 on pages 128 to 131.

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.

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 2019, this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	188	196

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)

Registered office

Regional REIT Limited

Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey
GY2 4LH

Company Secretary

Link Company Matters Limited

Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

Asset Manager

London & Scottish Property Investment Management 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

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

Independent 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

27-28 Eastcastle Street
London
W1W 8DH

Public Relations

Buchanan Communications Limited

107 Cheapside
London
EC2V 6DN

Property Valuers

Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield)

125 Old Broad Street
London
EC2N 2BQ

Tax Adviser

Grant Thornton UK LLP

110 Queen Street
Glasgow
G1 3BX

Regional REIT Limited

ISIN:

GG00BYV2ZQ34

SEDOL:

BYV2ZQ3

Legal Entity Identifier:

549300D8G4NKLRIKBX73

Company website

www.regionalreit.com

Forthcoming Events

Q1 2020 Trading Update	21 May 2020
2020 Annual General Meeting	TBC
2020 Interim Results Announcement	17 September 2020
Q3 2020 Trading Update	12 November 2020

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

Shareholder Information

Share Register enquiries: Link Asset Services

For any questions about:

- Changing your address or other details
- Questions about your shares
- Buying and selling shares

Phone: 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The Registrar is 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.

Dividend History

Year	Period	Announcement date	Ex-date	Record date	Payment date	Total dividend Pence per share
2019	Q4	27 February 2020	5 March 2020	6 March 2020	9 April 2020	2.55pps entirely PID
	Q3	14 November 2019	21 November 2019	22 November 2019	19 December 2019	1.90pps entirely PID
	Q2	29 August 2019	5 September 2019	6 September 2019	15 October 2019	1.90pps entirely PID
	Q1	23 May 2019	6 June 2019	7 June 2019	12 July 2019	1.90pps entirely PID
2018	Q4	21 February 2019	28 February 2019	1 March 2019	11 April 2019	2.50pps entirely PID
	Q3	15 November 2018	22 November 2018	23 November 2018	21 December 2018	1.85pps entirely PID
	Q2	31 August 2018	13 September 2018	14 September 2018	15 October 2018	1.85pps entirely PID
	Q1	17 May 2018	24 May 2018	25 May 2018	13 July 2018	1.85pps entirely PID
2017	Q4	22 February 2018	1 March 2018	2 March 2018	12 April 2017	2.45pps of which PID: 2.205pps of which non-PID: 0.245pps
	Q3	14 November 2017	23 November 2017	24 November 2017	22 December 2017	1.80pps of which PID: 1.62pps of which non-PID: 0.18pps
	Q2	31 August 2017	7 September 2017	8 September 2017	13 October 2017	1.80pps of which PID: 1.08pps of which non-PID: 0.72pps
	Q1	25 May 2017	8 June 2017	9 June 2017	14 July 2017	1.80pps of which PID: 1.26pps of which non-PID: 0.54pps
2016	Q4	23 February 2017	2 March 2017	3 March 2017	13 April 2017	2.40pps of which PID: 2.1600pps of which non-PID: 0.2400pps
	Q3	17 November 2016	24 November 2016	25 November 2016	22 December 2016	1.75pps of which PID: 1.6345pps of which non-PID: 0.1155pps
	Q2	1 September 2016	8 September 2020	9 September 2016	7 October 2016	1.75pps of which PID: 1.5013pps of which non-PID: 0.2487pps
	Q1	27 May 2016	9 June 2016	10 June 2016	8 July 2016	1.75pps of which PID: 1.3579pps of which non-PID: 0.3921pps
2015		7 March 2016	17 March 2016	18 March 2016	15 April 2016	1.00pps of which PID: 0.6572pps of which non-PID: 0.3428pps

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St. Sampson, Guernsey GY2 4LH
www.regionalreit.com