23 March 2017

Regional REIT Limited

Audited Preliminary Full Year Results for the Year Ended 31 December 2016

Delivery on investment strategy and commitments in first full year as a REIT

Regional REIT Limited (LSE: RGL) ("Regional REIT", "the Group" or "the Company"), the regional office and industrial property focused REIT, today announces its audited preliminary results for the year ended 31 December 2016.

Financial Highlights for the year ending 31 December 2016:

- Gross properties value increased to £502.4m (31 Dec 2015: £403.7m), up 2.25% like-for-like.
- Acquisitions of £133.6m successfully completed, with an average net initial yield of 8.6%; disposals £44.9m net, of mature and non-core assets, at 6.8%. Capital expenditure of £9.1m net.
- Gross bank borrowings of £220.1m (31 Dec 2015: £128.6m) increased to fund acquisitions, which equates to a net LTV of 40.6%. Borrowings and refinancings in H1'16 reduced the average cost of debt (including hedging) to 3.7% (31 Dec 2015: 4.5%) with the new loans maturing in 2021.
- EPRA NAV of 106.9 pence per share ("pps") (31 Dec 2015: 107.8pps), after dividends declared in 2016, affected by the additional Stamp Duty and Wing/Rainbow acquisitions costs (2.5pps) and by capex yet to be reflected in the portfolio valuation.
- Operating profit before gains and losses of £29.9m and Profit Before Tax of £13.4m, with rental income of £43.0m and an EPRA costs ratio of 30.4%. Fully diluted EPRA Earnings per Share of 7.7p (IFRS EpS 4.9p); Dividends per Share in respect of 2016 amounted to 7.65p.

Operational Highlights included:

- The Group continued its approach of active asset management - to improve and generate additional income through lease renewals, re-gears and new lettings - and delivered on its strategy and the commitments made at the time of the IPO (November 2015).
- A diversified portfolio of 123 properties (31 Dec 2015: 123), 941 units (2015: 712) and 717 tenants (2015: 531).
- Occupancy (by area) of 83.8% (31 Dec 2015: 83.9%). A marked increase from the Q1 2016 occupancy rate of 80.9%, following the then recently completed Wing and Rainbow portfolio acquisitions.
- Portfolio further rebalanced towards offices (63.3% by value) and industrial sites (29.4%) across the UK, with an increased share in England & Wales (73.2%).
- Joined FTSE All Share Index (March 2016) and FTSE EPRA NAREIT Developed Europe Index (June).
- Total shareholder return since IPO of +13.2%.

After the year end:

- Conditional 'off-market' acquisition of a c. £129m office, industrial, retail and leisure portfolio from Conygar, announced on 23 February 2017; expected to close by the end of March.

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited, commented**:** *"It has been a very active year for Regional REIT with significant acquisitions, continuing our strategy of non-core disposals, increasing our geographic spread of properties and growing the number and diversity of our tenants. We continue to implement our successful approach to active asset management with our initiatives achieving increased occupancy. We remain optimistic in respect of our strategy and in the strength of our core regional office and light industrial property markets*".

A meeting for investors and analysts will be held at 09.30 (London time) on 23 March 2017 at the offices of Peel Hunt. If you would like to attend the meeting please contact Jamie Perriam, +44 (0) 20 3805 4855 or jperriam@headlandconsultancy.com. The presentation slides for the meeting will shortly be available to download from the Investors section of the Group's website at www.regionalreit.com.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation that came into effect on 3 July 2016.

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About Regional REIT

Regional REIT Limited (LSE: RGL) is a London Stock Exchange Main Market traded specialist real estate investment trust focused on office and industrial property interests in the principal regional locations of the United Kingdom outside of the M25 motorway.

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

The Group's investment portfolio, as at 31 December 2016, was spread across 123 regional properties, 941 units and 717 tenants. As at 31 December 2016, the investment portfolio had a value of £502.4m and a net initial yield of 6.7%. The weighted average unexpired lease term to first break was 3.6 years.

The Company's shares were admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange on 6 November 2015. For more information, please visit the Group's website at www.regionalreit.com.

Cautionary Statement

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

CHAIRMAN'S STATEMENT

"We have delivered to our Shareholders, since our IPO just over a year ago, an attractive total return including a significant dividend income. We have continued to build our investment in, predominantly, regional offices and industrial properties to provide a sustainable and consistent business base. The business environment remains positive for regional commercial property and our strategy remains consistent for the year ahead."

Kevin McGrath, Chairman and Independent Non-Executive Director

At the end of the Group's first full year of operations as a listed company it gives me great pleasure to report on our progress in delivering on our strategy and the commitments made at the time of our listing in November 2015. I am confident of the progress made in building our record of delivery: first, of significant acquisitions, asset management initiatives including disposals and reducing the cost of debt financing; and, secondly, in establishing the strength of our regional commercial property proposition and of the recurring income base. By the end of 2016, despite the turbulence in the sector during the year, the gross value of our Investment Properties had increased to £502.4m including like-for-like valuation growth of 2.25%.

In the course of 2016 the Group successfully acquired properties totalling £133.6m, on an average net initial yield of c.8.6%, disposed of £44.9m (net of costs) at 6.8% yield and undertook £9.1m of net capital expenditure in accordance with our commitment to recycle and invest capital. The Asset Manager was particularly focused on further building the portfolio in the first-half of 2016, along with an extensive programme of refinancing's and new borrowings. In the second-half the emphasis was to successfully navigate the post EU referendum environment and on active management bedding-in the new property portfolios, as well as maintaining progress with the existing assets. In addition, the Managers were heavily engaged in our bid for the multi-asset portfolio of c. £129m that was announced in February 2017 (see below).

It is our belief that Regional REIT offers a distinctive portfolio of UK regional offices and light industrial sites, focusing on acquiring undermanaged or unloved assets. The uniqueness of its asset management is that by doing so much more in-house we ensure the thoroughness of our due diligence, consistently high standards for our assets and tenants and prioritise our own Shareholders' interests. It is the scale and diversity of the portfolio and its tenant base, as well as the experienced active asset management, which secure attractive portfolio fundamentals and mitigate risk. At the same time we avoid the cyclical pressures of speculative development as it detracts from what we believe should be the income focus of the REIT. Both the net initial yield on the portfolio and the dividend yield on the shares are significantly ahead of other asset classes and should underpin the confidence of our Shareholders.

Business Environment

Occupational demand for offices and industrial sites in the UK's regions remained robust over the year. For us this has been evidenced by the steady volume of new lettings and regears, notably since the Brexit vote, and in the progress we achieved with the active asset management of the Wing and Rainbow portfolios, in line with our business plans, since their acquisitions in the first-quarter of 2016.

With the present limited new supply of regional offices and industrial sites, and the prospects for continued economic growth and trends in 'north-shoring', the regions appear well set to continue to grow rentals and narrow the yield differential versus London and of secondary property versus prime. This is further underpinned by property valuations remaining well below replacement cost. Market optimism remains strongest for industrial sites and positive but more nuanced for regional offices, being more focused on specific locations and tempered by some improvements to come in the supply outlook. In our view, both of these sectors continue to offer later-in-cycle benefits, underpinning our enduring strategy and income growth prospects.

In the second-half of 2016 a challenge for us was the comparative quietness of investment property markets, where we had expected more assets to become available. We saw that there were deals to be done in the regional markets and in small to medium-sized lots, but asset prices did not weaken as much as we expected. Consequently transaction volumes are down, as sellers and buyers wait to reconcile to the new equilibrium. The Group's preference remains for off-market transactions where its consistent track record of delivering on deals provides it with an advantage.

We continue to appraise substantive acquisition opportunities and are confident that there are a number of accretive deals to be done. The Board will consider the Company's options to maintain an appropriate growth strategy.

Shareholders

A major part of the total return to our Shareholders is the dividend. The Company declared total dividends of 7.65pps for 2016, comprising three quarterly dividends of 1.75pps and a fourth quarter dividend of 2.40pps. This distribution is fully covered by earnings per share.

Notwithstanding the Market's volatility, and the pressures on many listed property companies that arose around the EU referendum, we believe that the comparative strengths of our own business have proved attractive to investors. These strengths reflect the fundamentals of our strategy, delivering a sustainable and strong income base with the potential to grow through active asset management as the basis for our dividend. That we have declared dividends for the full year 2016, in line with our stated commitment of 7–8% on the 100p listing price, was important in building the credibility of the Group.

In the course of 2016 the Group's shares were included in the FTSE All Share Index (March) and the FTSE EPRA NAREIT Developed Europe Index (June).

Board and the Asset and Investment Managers

The Board made great progress in the last year to establish its effective working and I am grateful to all of my fellow Directors who have contributed to the rigorous discussions on the development of the business. We have undertaken an internal review of Board effectiveness to gauge our progress and to ensure that the Board evolves appropriately with the development of the Group. I am delighted to confirm that no significant issues were raised and the view of the Board is that the governance structure, together with the Board and its Committees, all continue to operate effectively, with a positive and open culture. Corporate governance has been a key focus of the Board and I am extremely satisfied that we continue to enhance our compliance with the The Association of Investment Companies ("AIC") Code of Corporate Governance. As part of our planned development I am pleased that Bill Eason was willing to assume the role of Senior Independent Non-Executive Director, an additional point of contact for Shareholders.

The Board are also pleased with the work of the external Asset and Investment Managers, whose competencies and experience, along with a proven ability to get the most from our properties, are critical to our success.

The Board determined that given the total returns performance to date, amounting to 13.2% since listing to 31 December 2016, it is now appropriate for the Group to commence accruing the Managers' Performance Fee for the initial performance period ending December 2018.

Subsequent Events

The Group is committed to an opportunistic acquisitive growth strategy and management has continued to explore a number of asset opportunities. I am pleased that we were able to announce in late February 2017 that we had reached agreement with The Conygar Investment Company PLC as to the conditional acquisition of a portfolio of 31 regional office, industrial, retail and leisure properties with a gross investment value of c. £129m.

This is a quality investment portfolio secured 'off market', offering substantial asset management opportunities and income growth potential. The transaction is expected to be earnings accretive to Regional REIT, with significant upside potential. The deal is complementary to the existing asset base of our Company and aligns well with the expertise and experience of the Asset Manager, whilst the spread of properties and tenants further underpins the strength of the Group's income base. Subject to securing all necessary approvals we anticipate the deal closing in late March.

Outlook

For 2017 the Group expects a continuation of the positive occupancy trends in the regional office and light industrial markets in the UK with the potential for rental income to grow. In the UK's regions outside of the M25 motorway the fundamentals of supply and, as yet, occupier demand, have changed little, but we remain alert to the uncertainties that persist. However, we are confident that across our portfolio we can maintain the pace of new lettings and regears to improve occupancy and yield. The performance for the year ahead is expected to combine improved rental income – with occupancy expected to rise to around 90% - and a reduction in the costs ratio from increased scale and lower voids.

Our strategy, notwithstanding Brexit ambiguities, remains unchanged. This is based on the longer term business trends we see underpinning the regions as well as the opportunities of 'the Northern Powerhouse', the 'Midlands Engine', infrastructure spend, elected mayors and the new business rates structure, all of which should benefit the regions. This is reinforced by the prospect of continued UK economic growth.

The Board retains confidence in our selective approach to regional commercial property having regard to the implications of the EU referendum as they emerge. In the current market a key priority for investors is certainty and quality of income. This is central to the Regional REIT proposition.

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

ASSET AND INVESTMENT MANAGERS' REPORT

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

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments, the Asset Manager of Regional REIT Limited

Market Overview

The market in regional commercial real estate remains robust, from both the occupational and investment perspectives. Whilst investment volumes were down in 2016, part of this was already anticipated as a 'hangover' following a record 2015, however, this was then combined with the market's inactivity in the run-up to and then post the EU referendum. The commercial property market only really began to show signs of recovery in the fourth-quarter of 2016.

In the view of the Asset Manager, this undoubtedly held back any hardening of yields. We witnessed a very thin market with little transactional activity and with retail property funds and valuers reactively heavily marking-down values across the board; only for them to change their views as the market held up and vendors and purchasers alike regained their self-confidence. For the Asset Manager, part of the issue in the third-quarter of 2016 was a mismatch in expectations between purchasers – believing that there should be a pricing discount in light of the EU referendum vote - and vendors - who being under no immediate financial pressures were happy to hold on to properties when they could not secure the 'full value'.

Commercial property continues to offer a higher yielding investment class than most equities and other asset classes, with some certainty of income from leases. As such we, and other market commentators, expect to see increased investment activity in 2017-18 which could well result in a resumption in the narrowing of the yield gap between prime and secondary regional properties.

Regional commercial property occupancy remains robust and we expect this to continue, given the continuing beneficial supply-demand dynamics of our core markets, and with elements of our portfolio potentially witnessing headline rental growth for the first time in several years.

Regional REIT has been active and opportunistic throughout 2016. The Group undertook property acquisitions of £133.6m, with an average net initial yield of c. 8.6%; disposals amounted to £44.9m net (£45.9m before costs), at an average net initial yield of c. 6.8%. Occupancy increased to 83.8%, from a low of 80.9% post the acquisition of the Wing and Rainbow portfolios in Q1 2016, mainly as a result of completing 116 new leases in 2016, totalling 728,382 sq. ft.; when fully occupied these will provide approximately c. £5m pa of contracted rental income. In addition, the Group has completed 62 lease renewals, c. 67% of the leases that have come up for renewal in the period. Including these renewals and the acquisition of new replacement tenants, c. 76% of the units with lease renewals remain occupied.

Investment Activity in UK Commercial property

In 2016, the total investment in UK commercial property was £48.9bn, 27% lower than in 2015. Investment slowed in the first-half of 2016 ahead of the EU referendum and then retrenched further in Q3 2016 following the UK's vote to leave, in the face of heightened uncertainty and diminished confidence. CoStar estimates that investment in London property fell by approximately 29%; in comparison the rest of the UK showed more resilience with an average year-on-year decline of c. 12%. Investment activity improved in the final quarter of 2016 (£16bn), buoyed by overseas buyers attracted by the exchange rate advantage and by some recovery in domestic confidence as the occupier market remained steady.

Following a recovery in overseas investment in UK commercial property from 2014-15, overseas investment fell in 2016 by approximately 33% to £19bn. However, overseas investment increased in the UK's regions, such as Scotland (up 50% y-o-y), the Midlands (up 23% y-o-y) and the North West (up 19% y-o-y). In comparison, London experienced its lowest level of overseas investment spend since 2012.

For the Asset Manager, a key metric is the yield spreads between prime and secondary properties in the UK's regions, which have continued to fall over the last 12 months from the historic highs of 2013-14. The yield spread still remains above its long-term average, by approximately 1.7 percentage points, indicating that there continue to be significant opportunities with secondary properties set to outperform in the short-to medium-term.

Occupational Demand in the UK Regional Office Market

The uncertainty surrounding the EU referendum resulted in lower levels of take-up ahead of the referendum which then continued directly after the UK voted to leave. However, an increase in the level of activity in the fourth-quarter of 2016 boosted letting activity in the main regional markets.

Take-up of office space reached 5.1 million sq. ft. in 2016, slightly lower than the 5.6 million sq. ft. recorded in 2015. Occupational demand was particularly robust in Manchester, Cardiff, Bristol and Glasgow, mainly as a result of large pre-lets. Professional services continued to dominate the take-up of office space throughout 2016, although an increasing amount of office space was taken by the public sector, accounting for some 20% in the core regional centres. JLL predicts that the public sector will continue to drive take-up as the year progresses. Knight Frank expects occupational demand for office space in the UK to remain robust throughout 2017.

The supply of offices in the core regional markets remains low, with occupier demand continuing to reduce availability, particularly for grade A offices. This has resulted in an increase in pre-lets signed (developments under construction) in 2016, which in turn has limited the amount of space being released to market. Research from Cushman & Wakefield shows that approximately 43% of new development space was let by completion.

Some activity surveys, such as the recent Deloitte Crane Survey (January 2017), suggest heightened construction activity in certain regional urban centres (Birmingham, Manchester, Leeds and Belfast); a total of approximately 3.7m sq. ft. of office space is currently under construction. Consequently, in the medium-term, we are likely to see some increase in regional office supply. Commentators continue to suggest that a supply-demand imbalance will remain even when office space currently under construction is complete.

Rental Growth in the UK Regional Office Market

According to JLL, prime rental growth across the core 8 regional office markets averaged 3.3% (year-on-year) in 2016. However, increased rent free incentives that were evident in the second-half of 2016 were indicative of weaker sentiment as a result of uncertainty likely due to the EU referendum result.

JLL expects headline rental growth for the core 8 regional office markets to remain well supported throughout 2017, with falling supply levels for prime properties in the UK's cities to result in an uplift in rents as the year progresses.

The Asset Manager anticipates that increased occupier activity in the final quarter of 2016 will continue throughout 2017, with critically a low supply of prime properties resulting in rising demand for high-quality secondary properties. In turn, this will likely put an upward pressure on rents and a downward pressure on rent incentives.

Regional REIT's Office Assets

A like-for-like comparison of the Group's regional offices from December 2015 to December 2016, shows that occupancy (by area) rose to 88.7% (31 December 2015: 83.7%). The like-for-like WAULT to first break was 3.4 years (31 December 2015: 3.0 years).

Occupier Demand Strengthens in the UK Industrial Market

Take-up in the UK industrial market in 2016 totalled 37.9 million sq. ft., a 6.5% increase from 2015. The industrial sector was robust in most of the UK's regions throughout 2016, with particularly strong occupier demand in the Midlands, London and the South East.

The continued growth in online shopping, which has seen internet sales grow to a 16% market share, resulted in increased demand for both big-box and mid-size industrial/warehouse space in urban areas. Rising demand can also be attributed to variety of other sectors, including: manufacturing, automotive, pharmaceuticals, food and engineering.

Development remained focused on Grade A space, with strong development activity in the South East, the Midlands and the North West, resulting in stable supply levels for Grade A industrial in these regions. However, development outside the North-South trunk roads (namely the M1 and M6 corridor) has increased, with increasing activity along routes such as the M4, M5 and M62.

The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2017.

According to Cushman & Wakefield, some markets may experience an outward pressure on yields in 2017 as a result of investors seeking greater risk premiums due to increased uncertainty.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced the highest rental value growth in 2016, showing a c. 4% increase according to IPD. In comparison, all property average annual rental value growth was c.2%. The Investment Property Forum UK Consensus Forecast, February 2017, shows 1.8% and 1.1% average rental growth rates respectively for 2017 and 2018.

Research by Cushman & Wakefield indicates that limited land availability will become a major problem, and subsequently moderate speculative development. Consequently, the supply-demand imbalance will result in an upward pressure in prime industrial rents throughout 2017.

Regional REIT's Industrial Assets

Increased occupier demand for industrial space was reflected in occupancy (by area) for the Group's industrial assets. A like-for-like comparison of the Group's industrial assets from December 2015 to December 2016, shows occupancy of 85.7% (31 December 2015: 85.6%). The like-for-like WAULT to first break was 4.2 years (31 December 2015: 5.6 years).

Rental and Capital Value Growth Forecasts (Whole UK)

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2017	2018	2019	2017/21	2017	2018	2019	2017/21	2017	2018	2019	2017/21
Office	-1.3	-1.2	0.3	0.2	-3.2	-2.2	0.1	-0.6	1.5	2.5	4.8	4.1
Industrial	1.8	1.1	1.4	1.5	1.3	0.7	1.0	1.0	6.6	6.1	6.5	6.4
Standard Retail	0.7	0.4	0.9	1.0	-1.1	-0.2	1.1	0.6	3.6	4.6	6.0	5.4
Shopping Centre	0.4	0.2	0.7	0.8	-2.2	-0.9	0.6	0.0	2.8	4.4	6.0	5.2
Retail Warehouse	0.2	0.1	0.6	0.7	-1.8	-0.6	0.5	0.0	3.8	5.2	6.4	5.8
All Property	**0.2**	**0.1**	**0.8**	**0.8**	**-1.6**	**-0.7**	**0.8**	**0.2**	**3.2**	**4.3**	**5.8**	**5.2**

Source; Investment Property Forum UK Consensus Forecasts, ipf.org.uk, Feb 2017

Property Portfolio

As at 31 December 2016, the Group's property portfolio was valued at £502.4m (31 December 2015: £403.7m), with contracted rental income of £44.0m (31 December 2015: £35.9m), and a vacancy rate of 16.2% (31 December 2015: 16.1%). There were 123 properties (31 December 2015: 123) in the portfolio, with 941 units (31 December 2015: 712) and 717 tenants (31 December 2015: 531), following the acquisition of 20 properties.

If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the gross rental income would be £53.1 million per annum as at 31 December 2016 (31 December 2015: £40.4m).

As at 31 December 2016 the net initial yield on the portfolio was 6.7% (31 December 2015: 7.6%), the equivalent yield was 8.6% (31 December 2015: 8.3%), and the reversionary yield was 9.5% (31 December 2015: 9.0%).

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m		(mil)						£m	£psf	Net initial	Equivalent	Reversionary
Office	61	318.2	63.3%	2.72	82.2%	3.5	28.0	23.4	12.52	34.6	116.95	6.6%	8.6%	9.7%
Industrial	35	147.5	29.4%	4.06	85.3%	3.5	12.9	10.9	3.72	14.9	36.35	6.9%	8.7%	9.3%
Retail	26	36.4	7.2%	0.32	87.5%	4.9	3.1	2.3	11.10	3.5	113.05	6.2%	8.3%	8.7%
Other	1	0.4	0.1%	0.04	2.7%	18.7	0.0	0.0	9.85	0.0	10.30	1.7%	9.8%	5.1%
Total	**123**	**502.4**	**100.0%**	**7.14**	**83.8%**	**3.6**	**44.0**	**36.7**	**7.36**	**53.1**	**70.37**	**6.7%**	**8.6%**	**9.5%**

	Properties	Valuation	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m								£m	£psf	Net initial	Equivalent	Reversionary
Scotland	40	134.7	26.8%	2.41	82.2%	3.5	12.7	11.1	6.43	15.5	55.86	7.8%	9.7%	10.7%
South East	18	102.6	20.4%	0.95	84.3%	3.6	8.9	7.1	11.17	10.1	108.54	6.2%	7.4%	8.4%
North East	19	82.3	16.4%	1.36	86.7%	2.5	7.0	5.8	6.00	8.3	60.69	6.7%	8.5%	9.4%
Midlands	22	79.1	15.7%	0.97	81.5%	3.6	6.7	5.9	8.52	7.7	81.58	6.6%	8.2%	8.5%
North West	15	61.6	12.3%	1.02	89.9%	5.3	5.5	4.9	6.05	6.6	60.41	7.3%	9.1%	9.7%
South West	7	24.6	4.9%	0.22	58.4%	3.0	1.5	0.7	11.47	3.3	110.83	2.4%	8.5%	10.8%
Wales	2	17.5	3.5%	0.21	88.1%	4.8	1.5	1.1	8.17	1.7	81.46	6.2%	8.4%	9.0%
Total	**123**	**502.4**	**100.0%**	**7.14**	**83.8%**	**3.6**	**44.0**	**36.7**	**7.36**	**53.1**	**70.37**	**6.7%**	**8.6%**	**9.5%**

Tables may not sum due to rounding

Top 15 Investments (market value) as at 31 December 2016

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.3	6.4%	156,933	87.7%	2.2	4.5
Juniper Park, Basildon	Industrial	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd	21.8	4.3%	296,100	70.0%	1.5	1.2
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Scottish Widows Limited, The Equitable Life Assurance Society	20.3	4.0%	146,936	73.9%	1.8	5.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited	19.9	4.0%	707,775	90.7%	2.4	2.3
Hampshire Corporate Park, Chandler's Ford	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	15.4	3.1%	85,422	97.8%	1.4	5.0
One & Two Newstead Court, Annesley	Office	E.ON UK plc	15.4	3.1%	146,262	100.0%	1.4	3.6
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.6	2.9%	53,253	100.0%	1.1	7.0
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.5	2.7%	246,209	100.0%	0.9	17.7
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.0	2.4%	71,615	100.0%	1.0	6.3
Arena Point, Leeds	Office	JD Wetherspoon PlC, Expotel Hotel Reservations Ltd	12.0	2.4%	98,856	66.8%	0.6	2.2
The Point, Glasgow	Industrial	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited	11.6	2.3%	183,690	100.0%	0.9	6.2
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	10.8	2.2%	54,959	100.0%	0.8	3.1
Oaklands House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.4	2.1%	161,768	80.0%	1.1	3.8
CGU House, Leeds	Office	Aviva Insurance Limited	9.1	1.8%	50,763	100.0%	1.0	0.7
The Genesis Centre, Warrington	Office	Evolution Recruitment Solutions Ltd, Environment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd	9.0	1.8%	95,544	64.8%	0.9	1.5
Total			**228.0**	**45.4%**	**2,556,085**		**19.0**	

Table may not sum due to rounding.

Top 15 Tenants (share of rental income) as at 31 December 2016

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	4.9	78,044	3.7%
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.6	146,262	3.3%
Scottish Widows Limited	Buildings 2 & 3, Aylesbury	Financial and insurance activities	4.9	80,103	3.1%
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	7.0	53,253	2.5%
Aviva Insurance Ltd	CGU House, Leeds	Financial and insurance activities	0.7	50,763	2.3%
Sec of State for Communities & Local Govt	Bennett House, Hanley, Sheldon Court, Solihull and Oakland House, Manchester	Public Sector	0.6	74,886	2.1%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	17.7	246,209	2.0%
The Secretary of State for Transport	St Brendans Court, Bristol, & Festival Court, Glasgow	Public Sector	3.5	55,586	1.6%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Financial and insurance activities	1.4	48,372	1.5%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Financial and insurance activities	2.0	42,612	1.5%
The Scottish Ministers, c/o Scottish Prison	Calton House, Edinburgh	Public Sector	0.8	51,914	1.4%
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	4.5	66,436	1.4%
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	0.5	86,548	1.3%
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Wholesale and retail trade	2.1	34,262	1.3%
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Professional, scientific and technical activities	1.6	32,647	1.2%
Total				**1,147,897**	**30.3%**

Table may not sum due to rounding.

Property Portfolio Sector and Region by Valuation and Income

By Valuation
As at 31 December 2016 63.3% (2015: 59.4%) of the portfolio by market value was offices and 29.4% (2015: 24.7%) was industrial. The balance was made up of retail, 7.2% and other, 0.1% (2015: retail and other 15.9%). By UK region, as at 31 December 2016, Scotland represented 26.8% (2015: 35.9%) of the portfolio and England 69.7% (2015: 60.0%); the balance of 3.5% (2015: 4.1%) was in Wales. In England the largest regions were the South East, the North East and the Midlands.

By Income
As at 31 December 2016 63.6% (2015: 61.8%) of the portfolio by income was offices and 29.2% (2015: 24.7%) was industrial. The balance was made up of retail, 7.1% and other, 0.02% (2015: retail and other 13.3%). By UK region, as at 31 December 2016, Scotland represented 29.0% (2015: 35.7%) of the portfolio and England 67.5% (2015: 60.6%); the balance of 3.5% was in Wales (2015: 3.7%). In England, the largest regions were the South East, the North East and the Midlands.

Lease Expiry Profile

The WAULT on the portfolio is 5.2 years (2015: 6.1 years; 5.6 years excluding Blythswood House); WAULT to first break is 3.6 years (2015: 4.4 years; 3.8 years excluding Blythswood House). As at 31 December 2016, 15.2% (2015: 12.8%) of income was leases which will expire within 1 year, 22.5% (2015: 31.1%) between 1 and 3 years, 19.2% (2015: 15.6%) between 3 and 5 years and 43.1% (2015: 40.5%) after 5 years.

Tenants by Standard Industrial Classification as at 31 December 2016

As at 31 December 2016, 13.7% of income was from tenants in the wholesale and retail trade sector, 12.1% Finance and insurance activities (other) (excluding banking) sector, 11.7% from the manufacturing and 11.4% from the professional, scientific and technical activities sector. The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 31 December 2016, the largest being 3.7%.

Net Asset Value

In the year to 31 December 2016, the EPRA Net Asset Value ("NAV") of the Group decreased marginally to £293.2m (31 December 2015: £295.7m), equating to a decrease of 0.9pps to 106.9pps (31 December 2015: 107.8pps) after the declaration of dividends in 2016 amounting to 6.25pps.

The Investment Property portfolio valuation was £502.4m (2015: £403.7m). In the year to 31 December 2016 the valuation increased on a like-for-like basis 2.25%, whilst for the period 1 July 2016 to 31 December 2016 on a like-for-like basis the valuation grew 0.03%. The property portfolios acquired in the first-quarter of 2016 were revalued higher at the year-end, however, this was more than offset by their associated acquisition costs and the impact of the increase in Stamp Duty on these properties, which together amounted to 2.5pps in the period.

The marginal reduction in the EPRA NAV over the year was predominately derived from the pace of capital expenditure, amounting to £9.1m net, which was not fully reflected in the portfolio valuation. In addition, there was the impairment of the goodwill, which resulted in a £0.6m charge, and an initial Performance Fee provision of £0.3m, as well as dividends declared amounting to £17.1m, all of which had a particular impact in the second-half of 2016. These more than offset gains from the valuation of properties, net rental income and disposal gains.

In the year to 31 December 2016 the Group completed property acquisitions of £133.6m (gross, including transaction costs, £140.7m), and disposals of £44.9m (gross, before transaction costs, £45.9m) and capital expenditure of £9.1m net.

The NAV decreased to 106.4pps (31 December 2015: 107.7pps) over the same period. The EPRA NAV is reconciled in the table below.

	2016 Pence per Share	2015 Pence per Share
EPRA NAV as at 1 January 2016 (2015 : 6 November 2015)	**107.8**	**100.0**
Net rental income	13.9	1.7
Administration and other expenses	(3.0)	(0.5)
Gain on the disposal of investment properties	0.2	0.0
Change in the fair value of investment properties	(2.5)	8.7
Operating profit before exceptional items	**116.4**	**109.9**
Exceptional Item (2015: Launch Costs)	0.0	(1.9)
Operating profit after exceptional items	**116.4**	**108.0**
Net Finance expense	(3.1)	(0.3)
Impairment of Goodwill	(0.2)	0.0
Net movement in fair value of derivative financial instruments	(0.4)	0.0
Operating profit after finance item	**112.7**	**107.7**
Income tax	0.0	0.0
Operating profit after taxation	**112.7**	**107.7**
Dividends paid	(6.3)	0.0
Net Asset Value	**106.4**	**107.7**
Gain\Loss in fair value of derivative financial instruments	0.5	0.1
EPRA NAV per share as at 31 December 2016	**106.9**	**107.8**

Income Statement

The 2015 comparative period was 56 days, being 6 November 2015 to 31 December 2015. (inclusive).

Operating profit before exceptional items and gains and losses on property assets and other investments for the year ended 31 December 2016 amounted to £29.9m (2015: 56 days, £3.3m). Profit after finance items and before taxation was £13.4m (2015: 56 days, £21.1m). 2016 included a full rent roll of properties held as at 31 December 2015, plus the partial rent roll for properties acquired during 2016. 2015 included an exceptional item for launch costs, of £5.3m, which were incurred as a result of the Group's Admission to the London Stock Exchange ("LSE"), as well as a £23.8m gain in the fair value of investment properties.

Rental income amounted to £43.0m (2015: 56 days, £5.4m). More than 80% of the rental income is collected within 28 days of the due date and bad debts in the year were minimal (2015: 56 days: minimal).

The EPRA cost ratio was 30.4% (2015: 56 days, 39.3%) which is the result of, as expected, higher void costs, additional expenses arising from property acquisitions, legal and professional fees associated with the refinancing's and expenses associated with establishing a listed company. The increased void costs were a consequence of the significant property portfolio acquisitions in the first-quarter of 2016, with higher void rates than the Group's then portfolio. The costs ratio in the second-half of 2016 was lower, largely a consequence of the reduced acquisitions and refinancing activity. It is anticipated that the underlying costs ratio is trending down, with the benefit of the increasing scale of the Group's business and as it matures as a public company. The costs ratio in 2015 included the effects of certain costs incurred in the 56-day accounting period that would have normally been charged for a full year, for example, auditor's fees and legal and professional fees.

Administrative expenses include, for the first time, an initial accrual for the Performance Fee for the period 6 November 2015 to 31 December 2018. As at 31 December 2016 the aggregate accrual was £0.25m, all of which was charged in the year; as noted previously the Group had identified but not accrued £0.1m for the 56 days of 2015. The total return from 6 November 2015 to 31 December 2016 was 13.2%, an annualised rate of 11.5%.

Finance expense increased due to increased debt and costs arising on the significant refinancing activity in the first-half of 2016 when refinancing costs amounted to £1.7.m. The Group's percentage cost of debt (interest cost and hedging expense) nonetheless decreased, a combination of the favourable financing environment and its status as a listed Company which improved the Company's access to banking facilities.

Dividend

In relation to the period 1 January 2016 to 31 December 2016, the Company declared dividends totalling 7.65pps (2015: 56 days: 1pps).

Period Covered	Announcement Date	Ex-Date	Record Date	Paid Date	Pence Per Share
6 Nov 2015 to 31 Dec 2015	7 Mar 2016	17 Mar 2016	18 Mar 2016	15 Apr 2016	1.00p
1 Jan 2016 to 31 Mar 2016	27 May 2016	9 Jun 2016	10 Jun 2016	8 Jul 2016	1.75p
1 Apr to 30 Jun 2016	1 Sep 2016	8 Sep 2016	9 Sep 2016	7 Oct 2016	1.75p
1 Jul to 30 Sep 2016	17 Nov 2016	24 Nov 2016	25 Nov 2016	22 Dec 2016	1.75p
1 Oct to 31 Dec 2016	23 Feb 2017	2 Mar 2017	3 Mar 2017	13 Apr 2017	2.40p

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2-to-5 years, with a weighted average maturity of 2.9 years (31 December 2015: 3.4 years).

The Group's borrowing facilities are with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing at 31 December 2016 amounted to £220.1m (31 December 2015: £128.6m) (before unamortised debt issuance costs).

At 31 December 2016 the Group's cash and cash equivalent balances amounted to £16.2m (31 December 2015: £24.0m).

The Group's net loan-to-value ratio stands at 40.6% (31 December 2015: 25.4%). The Board targets a Group net loan-to-value ratio of 35%, with a maximum limit of 50%.

The table below sets out the borrowings the Group had in place as at 31 December 2016:

Lender	Original Facility	Outstanding Debt*	Maturity Date	GROSS LTV***	Annual Interest Rate	Amortisation	Hedging and Swaps:Notional Amounts/Rates**
Santander UK	£48,300	£45,432	Dec-18	43.0%	2.00% over 3mth LIBOR	Mandatory Prepayment basis	£6m/1.867% & £18.15m/1.014%
Santander UK	£25,343	£14,340	Dec-18	34.2%	2.00% over 3mth LIBOR	Mandatory Prepayment basis	£3.40m/2.246% & £9.271m/1.010%
Royal Bank of Scotland	£25,000	£24,450	Jun-19	42.1%	2.15% over 3mth LIBOR	None	£12.48m/1.790% & £0.02m/1.110%
ICG Longbow Ltd	£65,000	£65,000	Aug-19	44.3%	5.00% pa for term	None	n/a
Santander UK	£30,990	£30,990	Jan-21	48.1%	2.15% over 3mth LIBOR	Mandatory Prepayment basis	£9.375m/1.086% & £6.920m/1.203% & £5.280m/1.444%
Royal Bank of Scotland	£40,000	£39,848	Mar-21	50.2%	2.40% over 3mth LIBOR	Prepayment basis	£19.9m/1.395%
	£234,633	£220,060					

*****Including unamortised debt issue costs

**Hedging arrangements : As at 31 December 2016, the swap notional arrangements was £90.8m (31 December 2015: £35.2m). Under the swap agreements, the notional amount reduces on a quarterly basis.

*** Based upon Cushman & Wakefield property valuations.

As at 31 December 2016, the Group has substantial headroom against its borrowing covenants. The Group has the capacity to utilise further borrowings, if available, in excess of 20% of its current NAV.

The net gearing ratio, net debt to ordinary shareholders' equity (basic), of the Group was 69.9% as at 31 December 2016 (31 December 2015: 34.8%).

Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. At the year-end borrowings were 106.5% hedged against interest rate risk: of all borrowings 29.5% are at a fixed rate; 41.3% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 35.7% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The over-hedged position of 106.5% was the result of property disposals. Further to a management review, since the year end the position has been addressed with the over-hedged position reduced to 101.6%.

The weighted average effective interest rate on bank borrowings as at 31 December 2016, including the cost of hedging, was 3.7% (31 December 2015: 4.5%).

Tax

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

At 31 December 2016 the Group's taxation was a credit of £0.02m, due to a release of a historic accrual (2015: 56 days, nil).

Subsequent Events after the Reporting Period – Acquisitions and Disposals

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC. ("Conygar") to acquire regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares, and the two banks currently providing secured lending to Conygar.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board acknowledges that it faces a number of risks which could impact its ability to achieve its strategy. While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks. The Board and the Audit Committee robustly reviews the risk management plan on a bi-annual basis. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate.

RISK	**IMPACT**	**MITIGATION**	**MOVEMENT IN THE PERIOD**
Investment in Commercial Property Assets	Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	The Board will acquire a portfolio of interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and a large number of assets.	[UNCHANGED] The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
		The Board will only invest in office and industrial properties that are situated in the United Kingdom 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.	[UNCHANGED] The Group continues to purchase properties outside the M25 motorway.
		No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's Investment Property value at the time of investment.	[UNCHANGED] Tay House is the highest valued property which equates to 6.4% of the Group's investment properties.

		No more than 20% of the Group's Investment Property value shall be exposed to any single tenant or group undertaking of that tenant.	[UNCHANGED] The Group's largest single tenant exposure is 3.7%.
		Speculative development (ie, properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	[UNCHANGED] No speculative construction was undertaken in the year.
		The value of the assets is protected by an active property management programme and this is regularly reviewed against the business plan for the acquisition.	[UNCHANGED] The Asset Manager continues to actively manage the investment properties in accordance with market conditions and individual asset programme.
Economic and Political Risk	The macro health of the UK economy could impact on borrowing costs, demand by tenants for suitable properties and the quality of the tenants.	The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	[TRENDING UPWARDS] Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.
	Bank reference interest rates may be set to rise accompanying higher inflation.	The Board has instigated a policy of hedging at least 90% of variable interest rate borrowings.	[UNCHANGED] Continued adherence to the hedging policy.
	The Bank of England Financial Stability Report, November 2016, notes there is a risk of further adjustment in the commercial real estate market, given the reliance of the sector on inflows of foreign capital, and some incidences of stretched valuations. Further price falls could reduce access to finance	The Group's borrowings are currently provided by a range of institutions with varying maturities. The Board is constantly reviewing funding options with an emphasis on the lengthening the maturity of borrowings.	[UNCHANGED] The lending institutions continue to lend to established customers within agreed limits.

Tenant Risk	Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	Income risk has been diversified by letting properties, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the United Kingdom.	[UNCHANGED] The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 717 as at 31 December 2016.
	A high concentration of lease term maturity and/or break options.	The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. With a focus on securing early renewals and increased lease period.	[UNCHANGED] The WAULT to first break as at 31 December 2016 was 3.6 years. The largest tenant is 3.7% of the gross rental income.
		The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents.	[UNCHANGED} The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.
Financial and Tax Change Risk	Changes to the UK REIT, tax and financial legislation.	The REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.	[UNCHANGED] The Group continues to receive advice from a number of corporate advisors and adapts to changes as required.
Operational Risk	Business disruption could impinge on the normal operations of the Group.	The Asset Manager and Investment Manager 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.	[UNCHANGED] Both the Asset Manager and Investment Manager annually review their Disaster and Business Continuity Plans.
		An annual due diligence exercise is carried out on all principal vendors.	[UNCHANGED] Annual due diligence visits were undertaken with the Company’s principal vendors.

		As an externally managed Company, there is a continued reliance on the Asset Manager and Investment Manager.	[UNCHANGED] Both the Asset Manager and Investment Manager are viable long-term concerns.
Accounting, Legal and Regulatory Risk	Changes to the accounting legal and/or regulatory legislation	The Group has robust processes in place to ensure adherence to accounting, tax, legal and regulatory requirements.	[UNCHANGED] The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
		All contracts are reviewed by the Group's legal advisors.	[UNCHANGED] The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
		The Group has processes in place to ensure compliance with the applicable Listing Rules for a Premium Listed company. The Administrator, in its capacity as Group Accountant and the Company Secretary attends all Board meetings to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Advisor and Broker	[UNCHANGED] The Administrator continues to attend all Board meetings and advise on Listing Rules in conjunction with the Financial Advisor and Broker.

RESPONSIBILITY STATEMENT

The following statement will be contained in the 2016 Annual Report and Accounts:

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

The Law requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority (“FCA”) to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (“EU”) and have elected under the Law to prepare the Company’s Financial Statements in accordance with IFRS as adopted by the EU.

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

In preparing the Group and the Company Financial Statements, the Directors 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 Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group’s and the Company’s transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the Financial Statements comply with the requirements of the Law and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website.

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

Each of the Directors 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 or loss of the Company and the undertakings included in the consolidation taken as a whole;

- The Asset Manager’s and Investment Manager’s Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and

- The Annual Report and Accounts, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Company’s and Group’s performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	**Year ended 31 December 2016 £'000**	22 June 2015 to 31 December 2015 £'000
Continuing Operations			
Revenue			
Rental income	5a	**42,994**	5,361
Non recoverable property costs	6	**(4,866)**	(753)
Net rental income		**38,128**	4,608
Administrative and other expenses	7	**(8,217)**	(1,353)
Operating profit before gains and losses on property assets and other investments		**29,911**	3,255
Gain on disposal of investment properties	15	**518**	86
Change in fair value of investment properties	15	**(6,751)**	23,784
Operating profit before exceptional items		**23,678**	27,125
Exceptional items	9	**-**	(5,296)
Operating profit after exceptional items		**23,678**	21,829
Finance income	10	**193**	177
Finance expense	11	**(8,822)**	(997)
Impairment of goodwill	17	**(557)**	-
Net movement in fair value of derivative financial instruments	25	**(1,097)**	115
Profit before tax		**13,395**	21,124
Taxation	12	**23**	-
Profit for the year after tax (attributable to owners of the parent)		**13,418**	21,124
Other comprehensive income		**-**	-
Total comprehensive income for the year		**13,418**	21,124
Attributable to:			
Owners of the parent		**13,418**	21,124
Non-controlling interests		**-**	-
		13,418	21,124

Total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	**4.9p**	7.7p
Earnings per share attributable to owners of the parent – diluted	13	**4.9p**	7.7p
EPRA earnings/(losses) per share attributable to owners of the parent - basic	13	**7.7p**	(1.1)p
EPRA earnings/(losses) per share attributable to owners of the parent - diluted	13	**7.7p**	(1.1)p

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

Consolidated Statement of Financial Position
As at 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	**31 December 2016 £'000**	31 December 2015 £'000
Assets			
Non-current assets			
Investment properties	15	**502,425**	403,702
Goodwill	17	**2,229**	2,786
Non-current receivables on lease surrender	18a	**206**	1,004
Non-current receivables on tenant loan	18b	**1,541**	-
		506,401	407,492
Current assets			
Trade and other receivables	19	**11,375**	11,848
Cash and cash equivalents	20	**16,199**	23,955
		27,574	35,803
Total assets		**533,975**	443,295
Liabilities			
Current liabilities			
Trade and other payables	21	**(14,601)**	(12,576)
Deferred income	22	**(8,022)**	(5,906)
Taxation liabilities	23	**(662)**	(2,387)
Bank and loan borrowings	24	**-**	(200)
		(23,285)	(21,069)
Non-current liabilities			
Bank and loan borrowings	24	**(217,442)**	(126,469)
Derivative financial instruments	25	**(1,513)**	(416)
		(218,955)	(126,885)
Total liabilities		**(242,240)**	(147,954)
Net assets		**291,735**	295,341
Equity			
Stated capital	28	**274,217**	274,217
Retained earnings		**17,518**	21,124
Total equity attributable to owners of the parent		**291,735**	295,341
Net assets per share – basic	29	**106.4p**	107.7p
Net assets per share – diluted	29	**106.3p**	107.7p
EPRA net assets per share – basic	29	**106.9p**	107.8p
EPRA net assets per share – diluted	29	**106.9p**	107.8p

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath,
Chairman and Independent Non-Executive Director
22 March 2017

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Stated capital £'000	Retained earnings £'000	Total £'000
		Attributable to owners of the parent		
Balance at 1 January 2016		**274,217**	**21,124**	**295,341**
Total comprehensive income		**-**	**13,418**	**13,418**
Share based payments	**32**	**-**	**115**	**115**
Dividends paid	**14**	**-**	**(17,139)**	**(17,139)**
Total transactions with owners, recognised directly in equity		**-**	**(17,024)**	**(17,024)**
Balance at 31 December 2016		**274,217**	**17,518**	**291,735**

Consolidated Statement of Changes in Equity
For the period 22 June 2015 to 31 December 2015

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Note	Stated capital £'000	Retained earnings £'000	Total £'000
		Attributable to owners of the parent		
Balance at 22 June 2015		-	-	-
Total comprehensive income		-	21,124	21,124
Issue of Shares at no par value	28	274,217	-	274,217
Total transactions with owners, recognised directly in equity		274,217	-	274,217
Balance at 31 December 2015		274,217	21,124	295,341

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit for the year after taxation	**13,418**	21,124
- Change in fair value of investment properties	**6,751**	(23,784)
- Change in fair value of financial derivative instruments	**1,097**	(115)
- Gain on disposal of investment properties	**(518)**	(86)
Impairment of goodwill	**557**	-
Finance income	**(193)**	(177)
Finance expense	**8,822**	997
Share based payments	**115**	-
Taxation	**(23)**	-
Increase in trade and other receivables	**(716)**	(5,358)
Increase in trade and other payables and deferred income	**2,124**	5,167
Cash generated from/(used in) operations	**31,434**	(2,232)
Financial income	**988**	247
Finance costs	**(7,614)**	(671)
Taxation paid	**(1,715)**	-
Net cash flow generated from/(used in) operating activities	**23,093**	(2,656)
Investing activities		
Purchase of investment properties	**(144,143)**	(4,190)
Sale of investment properties	**44,857**	5,347
Interest received	**60**	12
Acquisition of subsidiaries, net of cash acquired	**(5,573)**	26,659
Net cash flow (used in)/generated from investing activities	**(104,799)**	27,828
Financing activities		
Dividends paid	**(15,723)**	-
Bank borrowings advanced	**107,762**	-
Bank borrowings repaid	**(16,345)**	(1,217)
Bank borrowing costs paid	**(1,744)**	-
Net cash flow generated from/(used in) financing activities	**73,950**	(1,217)
Net (decrease)/increase in cash and cash equivalents for the year	**(7,756)**	23,955
Cash and cash equivalents at the start of the year	**23,955**	-
Cash and cash equivalents at the end of the year	**16,199**	23,955

Company Statement of Comprehensive Income
For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	**Year ended 31 December 2016 £'000**	22 June 2015 to 31 December 2015 £'000
Revenue			
Amounts charged to group entities	5b	**837**	-
Administrative and other expenses	7	**(3,343)**	(700)
Operating loss before exceptional items		**(2,506)**	(700)
Exceptional items	9	**-**	(5,296)
Operating loss after exceptional items		**(2,506)**	(5,996)
Finance income	10	**19,061**	5,150
Profit/(loss) before tax		**16,555**	(846)
Taxation	12	**-**	-
Profit/(loss) for the year after tax (attributable to equity shareholders)		**16,555**	(846)
Other comprehensive income		**-**	-
Total comprehensive income/(loss) for the year		**16,555**	(846)
Attributable to:			
Equity shareholders		**16,555**	(846)
		16,555	(846)

Total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	**6.0p**	(0.3)p
Earnings per share attributable to owners of the parent – diluted	13	**6.0p**	(0.3)p

Company Statement of Financial Position
As at 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	**31 December 2016 £'000**	31 December 2015 £'000
Assets			
Non-current assets			
Investment in subsidiaries	16	**274,286**	274,217
		274,286	274,217
Current assets			
Trade and other receivables	19	**870**	3
Cash and cash equivalents	20	**65**	19
		935	22
Total assets		**275,221**	274,239
Liabilities			
Current liabilities			
Trade and other payables	21	**(2,319)**	(868)
Total liabilities		**(2,319)**	(868)
Net assets		**272,902**	273,371
Equity			
Stated capital	28	**274,217**	274,217
Accumulated losses		**(1,315)**	(846)
Total equity		**272,902**	273,371
Net assets per share – basic	29	**99.5p**	99.7p
Net assets per share – diluted	29	**99.5p**	99.7p

These financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath,
Chairman and Independent Non-Executive Director
22 March 2017

Company Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2016		**274,217**	**(846)**	**273,371**
Total comprehensive income		**-**	**16,555**	**16,555**
Share based payments	**32**	**-**	**115**	**115**
Dividends paid	**14**	**-**	**(17,139)**	**(17,139)**
Total transactions with owners, recognised directly in equity		**-**	**(17,024)**	**(17,024)**
Balance at 31 December 2016		**274,217**	**(1,315)**	**(272,902)**

Company Statement of Changes in Equity
For the period 22 June 2015 to 31 December 2015

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Note	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 22 June 2015		-	-	-
Total comprehensive loss		-	(846)	(846)
Issue of Shares at no par value	28	274,217	-	274,217
Total transactions with owners, recognised directly in equity		274,217	-	274,217
Balance at 31 December 2015		274,217	(846)	273,371

Company Statement of Cash Flows
For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit/(loss) for the year after taxation	**16,555**	(846)
Share based payments	**46**	-
Increase in trade and other receivables	**(867)**	(3)
Increase in trade and other payables and deferred income	**35**	868
Cash generated from operations	**15,769**	19
Financial income	**-**	-
Net cash flow generated from operating activities	**15,769**	19
Investing activities		
Acquisition of subsidiaries	**-**	-
Net cash flow used in investing activities	**-**	-
Financing activities		
Dividends paid	**(15,723)**	-
Net cash flow used in financing activities	**(15,723)**	-
Net increase in cash and cash equivalents for the year	**46**	19
Cash and cash equivalents at the start of the year	**19**	-
Cash and cash equivalents at the end of the year	**65**	19

Notes to the Financial Statements
For the year ended 31 December 2016

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2016 comprise the results of the Company and its subsidiaries (together constituting "the Group") and, together with the Company's financial statements, were approved by the Board and authorised for issue on 22 March 2017.

Regional REIT Limited ("the Company") is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (the "Law"). The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority ("UKLA"), a division of the Financial Conduct Authority ("FCA"), and traded on the London Stock Exchange ("LSE").

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

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

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

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

2. Basis of preparation

In accordance with Section 244 of The Companies (Guernsey) Law 2008, the Group confirms that the financial information for the year ended 31 December 2016 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The statutory accounts for the year ended 31 December 2016 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2016 received an unqualified audit opinion and the auditor's report contained no statement under section 263(2) or 263(3) of The Companies (Guernsey) Law 2008.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 22 March 2017.

2.1 Comparative period

The comparative period reported in these financial statements is not a full year as the Group was not in existence for that period, but represents the period disclosed in the preceding financial statements from 22 June 2015 to 31 December 2015, however, trading did not commence until 6 November 2015.

2.2 Functional and presentation currency

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

2.3 Going concern

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

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

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

2.4 Business combinations
The Group may acquire subsidiaries that own investment properties. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. 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.

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.

2.5 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 2016 have not had a significant impact on the preparation of these financial statements.

2.6 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 2017, and have not been applied in preparing these financial statements. These are:

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

IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Other changes include changes to the model for impairments from "expected loss" to "incurred loss".

The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

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

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

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

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

The Group has yet to assess the full impact of the amendments to IFRS 2 and intends to adopt them no later than the accounting period beginning on or after 1 January 2018.

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

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

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 £502,425,000 (31 December 2015: £403,702,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

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

3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the 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 £1,513,000 (31 December 2015: £416,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £2,229,000 (31 December 2015: £2,786,000).

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

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

3.2.1 Operating lease contracts – the Group as lessor

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

3.2.2 Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of Shareholder Returns in excess of the Hurdle Rate of 8% for the relevant performance period. 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.

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

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no Performance Fee is ultimately due. Management have modelled a number of scenarios for the Performance Fee calculation and has concluded that it is appropriate for a liability to be accrued in the consolidated financial statements. Further details are disclosed in note 32.

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

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries (the "Credential Sub Group") by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement which means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 16.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the period ended 31 December 2015 and have been consistently applied for the year ended 31 December 2016. There are no significant changes to the financial statements arising from accounting standards effective for the first time.

4.1. Basis of consolidation

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

4.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

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

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

4.2.1. Disposal of subsidiaries

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

4.3. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Board of Directors.

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

4.4. Investment property

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

Investment property is recognised, usually, on legal completion, when the risks and rewards of ownership have been transferred and is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of being utilised in the manner intended. Subsequent to initial recognition investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Group's Consolidated Statement of Comprehensive Income in the period in which they arise under IAS 40, 'Investment Property'.

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

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset (being the fair value at the start of the financial year) would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Group's Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

4.5. Goodwill

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

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

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

4.6. Derivative financial instruments

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

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

4.7 Financial assets

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables.

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

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

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

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

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

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

4.12. Dividends payable to Shareholders
Equity dividends are recognised when paid.

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

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

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

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

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

4.14 Non recoverable property costs - service and management charges
Service and management charges are recognised in the accounting period in which the services are rendered.

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

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

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

4.18. Finance costs
Finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs, such as arrangement fees, that an entity incurs in connection with bank and other borrowings.

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.

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 subsequently 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.

The current rate of UK Corporation Tax is 20%. Reductions in UK Corporation Tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has been enacted that the rate will be further reduced to 17% from 1 April 2020.

4.21. Stated capital
Stated capital (previously described as share premium) 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 Managers which depend on the growth in the net asset value of the Group exceeding a Hurdle Rate of return over a Performance Period. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a share–based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to Equity reserves.

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

5. Revenue

5a. Rental income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Rental income – freehold property	**36,233**	4,500
Rental income – long leasehold property	**6,761**	861
Total	**42,994**	5,361

5b. Amounts charged to group entities

Amounts charged to group entities of £837,000 (2015: £nil) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non recoverable property costs

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Property insurance expense	**-**	37
Other property expenses and irrecoverable costs	**4,866**	716
Total	**4,866**	753

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

7. Administrative and other expenses

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Investment management fees	**1,914**	264
Property management fees	**1,698**	203
Performance fees	**249**	-
Asset management fees	**1,675**	232
Directors' remuneration (see note 8)	**186**	48
Administration fees	**543**	118
Legal and professional fees	**1,671**	390
Marketing and promotion	**73**	15
Other administrative costs	**184**	82
Bank charges	**24**	1
Total	**8,217**	1,353
Company		
Investment management fees	**1,584**	218
Performance fees	**110**	-
Directors' remuneration (see note 8)	**186**	48
Administration fees	**222**	34
Legal and professional fees	**1,009**	289
Marketing and promotion	**73**	15
Other administrative costs	**159**	96
Total	**3,343**	700

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

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Audit of the annual financial statements	**63**	87
Review of the half year financial statements	**25**	-
Audit of the subsidiaries for their respective periods of account	**131**	105
Corporate finance services in connection with the flotation	**-**	250
Tax compliance services provided to the subsidiaries	**112**	69
Total	**331**	511

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 in the full Annual Report and Accounts.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group & Company		
Directors' fees	**170**	42
Employers National Insurance contributions	**16**	6
Total	**186**	48

9. Exceptional items

There were no exceptional items recognised in the year ended 31 December 2016. Exceptional items of £5,296,000 recognised in the period 22 June 2015 to 31 December 2015 comprise the professional fees and regulatory costs associated with the acquisition and the listing of the shares on the London Stock Exchange.

10. Finance income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest income	**60**	13
Other finance income	**(99)**	99
Unwinding of the discount on financial assets	**232**	65
Total	**193**	177
Company		
Group dividend income	**19,061**	5,150
Total	**19,061**	5,150

11. Finance expense

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest payable on bank borrowings	**7,821**	910
Amortisation of loan arrangement fees	**1,001**	87
Total	**8,822**	997

12. Taxation

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Income tax credit	**(36)**	-
Increase in deferred tax creditor	**13**	-
Total	**(23)**	-

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

Group		
Profit before taxation	**13,395**	21,124
UK Corporation tax rate	**20%**	20%
Theoretical tax at UK Corporation tax rate	**2,679**	4,225
Effects of:		
Revaluation loss/(gain) on investment properties	**1,350**	(4,757)
Profits from tax exempt business	**-**	(359)
Permanent differences	**(3,601)**	1,023
Utilisation of losses brought forward	**14**	(132)
Taxation losses and other timing differences	**(343)**	-
Prior year adjustment	**(122)**	-
Total	**(23)**	-

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

Company		
Profit/(loss) before taxation	**16,555**	(846)
UK Corporation tax rate	**20%**	20%
Theoretical tax at UK Corporation tax rate	**3,311**	(169)
Effects of:		
Permanent differences	**(3,311)**	169
Total	**-**	-

13. Earnings per share

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary shares. As detailed in note 32, an estimate of Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to

31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	**13,418**	21,124
Adjustments to remove:		
Changes in value of investment properties	**6,751**	(23,784)
Changes in fair value of interest rate derivatives and financial assets	**865**	(180)
Gain on disposal of investment property	**(518)**	(86)
Impairment of goodwill	**557**	-
EPRA Net profit/(loss) attributable to Ordinary Shareholders	**21,073**	(2,926)
Add back exceptional items	**-**	5,296
Adjusted Net profit before exceptional items attributable to Ordinary Shareholders	**21,073**	2,370
Weighted average number of Ordinary Shares	**274,217,264**	274,217,264
Dilutive instruments	**107,729**	-
Adjusted weighted average number of Ordinary Shares	**274,324,993**	274,217,264
Earnings per share - basic	**4.9p**	7.7p
Earnings per share - diluted	**4.9p**	7.7p
EPRA Earnings/(loss) per share - basic	**7.7p**	(1.1)p
EPRA Earnings/(loss) per share - diluted	**7.7p**	(1.1)p
Adjusted Earnings per share before exceptional items - basic	**7.7p**	0.9p
Adjusted Earnings per share before exceptional items - diluted	**7.7p**	0.9p

Company

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit/(loss) attributable to Ordinary Shareholders	**16,555**	(846)
Add back exceptional items	**-**	5,296
Net profit attributable to Ordinary Shareholders before exceptional items	**16,555**	4,450
Weighted average number of Ordinary Shares	**274,217,264**	274,217,264
Dilutive instruments	**107,729**	-
Adjusted weighted average number of Ordinary Shares	**274,324,993**	274,217,264
Earnings/(loss) per share - basic	**6.0p**	(0.3)p
Earnings/(loss) per share - diluted	**6.0p**	(0.3)p
Earnings per share before exceptional items – basic	**6.0p**	1.6p
Earnings per share before exceptional items - diluted	**6.0p**	1.6p

14. Dividends

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group and Company		
Dividend of 1.00 pence per Ordinary share (for the period 6 Nov 2015 – 31 Dec 2015)	**2,742**	-
Dividend of 1.75 pence per Ordinary share (for the period 1 Jan 2016 – 31 Mar 2016)	**4,799**	-
Dividend of 1.75 pence per Ordinary share (for the period 1 Apr 2016 – 30 Jun 2016)	**4,799**	-
Dividend of 1.75 pence per Ordinary share (for the period 1 Oct 2016 – 30 Sep 2016)	**4,799**	-
	17,139	-

On 7 March 2016 the Company announced a dividend of 1.00 pence per share in respect of the period 6 November 2015 to 31 December 2015. The dividend payment was made on 15 April 2016 to shareholders on the register as at 18 March 2016.

On 27 May 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 January 2016 to 31 March 2016. The dividend payment was made on 8 July 2016 to shareholders on the register as at 10 June 2016.

On 1 September 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 April 2016 to 30 June 2016. The dividend payment was made on 7 October 2016 to shareholders on the register as at 9 September 2016.

On 17 November 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 July 2016 to 30 September 2016. The dividend payment was made on 22 December 2016 to shareholders on the register as at 25 November 2016.

On 23 February 2017 the Company announced a dividend of 2.40 pence per share in respect of the period 1 October 2016 to 31 December 2016. The dividend will be paid on 13 April 2017 to shareholders on the register as at 3 March 2017. The financial statements do not reflect this dividend.

15. Investment properties

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

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

All corporate acquisitions during the year have been treated as properties purchased rather than business combinations.

Group			
Movement in investment properties for the year ended 31 December 2016	**Freehold Property £'000**	**Long Leasehold Property £'000**	**Total £'000**
Valuation at 1 January 2016	**332,052**	**71,650**	**403,702**
Property additions – acquisitions	**132,827**	**7,883**	**140,710**
Property additions – subsequent expenditure	**5,848**	**3,255**	**9,103**
Property disposals	**(41,907)**	**(2,950)**	**(44,857)**
Gain/(loss) on the disposal of investment properties	**538**	**(20)**	**518**
Change in fair value during the year	**(5,048)**	**(1,703)**	**(6,751)**
Valuation at 31 December 2016	**424,310**	**78,115**	**502,425**
Movement in investment properties for the period 22 June 2015 to 31 December 2015			
Upon acquisition of subsidiaries	319,541	61,448	380,989
Property additions	1,020	3,170	4,190
Property disposals	(5,347)	-	(5,347)
Gain on the disposal of investment properties	86	-	86
Change in fair value during the period	16,752	7,032	23,784
Valuation at 31 December 2015	332,052	71,650	403,702

The historic cost of the properties is £488,104,000 (31 December 2015: £379,918,000).

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

	31 December 2016 £'000	31 December 2015 £'000
As set out in Cushman & Wakefield's valuation report	**502,425**	405,422
Adjustment in respect of Blythswood House disposal after period end	-	(1,720)
As shown in the Consolidated Statement of Financial Position	**502,425**	403,702

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

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

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2016	**502,425**	**-**	**502,425**	**-**
31 December 2015	403,702	-	403,702	-

The hierarchy levels are defined in note 25.

There have been no transfers between levels during the year.

The determination of Fair Value of the investment properties requires the analysis of current and future cash flows from assets (taking into account current income, void holding costs, comparable evidence, tenant covenant strength and potential capital expenditure) and the appropriate capitalisation rates for those assets.

Future revenue streams comprise contracted rent (passing rent), estimated rental value ("ERV") and Market Rental value. In calculating ERV and Market Rent, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2016, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

Techniques used for valuing investment properties
The following descriptions and definitions relate to valuation techniques and key 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: £3,100 - £3,119,381 per annum) (2015: £1-£1,350,000 per annum).

Observable Input: Rental growth
The estimated average increase in rent is based on both market estimations and contractual agreements.

Observable Input: net initial yield
The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 0.28%-29.23%) (2015: 1.84%-23.05%).

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

16. Investment in subsidiaries

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cost at start of year	**274,217**	-
Acquisitions of subsidiaries during the year	**69**	274,217
Cost at end of year	**274,286**	274,217

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.
In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

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

	Country of incorporation	Ownership %
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (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%
Tosca Faraday Close Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Rosalind Ltd	Jersey	100%
Tosca Scotland Limited	Jersey	100%
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund North Esplanade 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%
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%

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

By virtue of the Amended and Restated Call Option Agreement, dated 3 November 2015, the Directors consider that the Group has control of Credential Investment Holdings Limited and its 27 subsidiaries ("the Credential Group").

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

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

The companies which make up the Credential Group are as follows:

List of subsidiaries that are controlled by the Group:

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

Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%

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

Business Combinations

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

During the year there was only one subsidiary company acquisition. The acquisition of Toscafund Strathclyde BP Limited took place in order for the Group to acquire the investment property owned by that company. This acquisition has not been treated as a business combination. For further details please refer to the Group's basis of preparation note 2.4.

17. Goodwill

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	**2,786**	-
Goodwill arising on acquisition of subsidiaries	**-**	2,786
Impairment	**(557)**	-
At end of year	**2,229**	2,786

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-tax cash flow projections of cost savings of the Group as a whole as a single cash generating unit, using a discount factor of 2.3%, which is based on the borrowing margins currently available. If a reasonable change occurs in a key assumption the recoverable amount of goodwill would still be expected to be equal to the carrying value. The impairment review was conducted over a five-year period, which is predominately derived from the borrowings facility terms, and will result in a nil terminal value.

18. Non-current receivables

18a. Non-current receivables on lease surrender premium

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	**1,760**	-
Arising on acquisition of subsidiaries	**-**	1,942
Movement in year	**(988)**	(247)
Unwinding of discount	**232**	65
At end of year	**1,004**	1,760
Assets due within 1 year	**798**	756
Assets due after 1 year	**206**	1,004
	1,004	1,760

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 4-years with the final instalment to be paid in the quarter ending 31 March 2018. The amount due was recognised initially at fair value and subsequently recorded at amortised cost using the effective interest method. The unwinding of the discount is included in finance income.

18b. Non-current receivables on tenant loans

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	**-**	-
Amounts loaned in the year	**1,926**	-
At end of year	**1,926**	-
Asset due within 1 year	**385**	-
Asset due after 1 year	**1,541**	-
	1,926	-

During 2016 the Group entered into a loan agreement with a tenant for £1,926,000. The loan is subject to interest of 4% above the base rate of the Bank of Scotland and is repayable in instalments over 10-years.

19. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Gross amount receivable from tenants	**4,384**	3,246
Less provision for impairment	**(258)**	(228)
Net amount receivable from tenants	**4,126**	3,018
Current receivables – surrender premium (note 18a)	**798**	756
Current receivables – tenant loans (note 18b)	**385**	-
Other receivables	**2,487**	5,257
Prepayments	**3,579**	2,817
	11,375	11,848

	31 December 2016 £'000	31 December 2015 £'000
Company		
Other debtors	**837**	-
Prepayments	**33**	3
	870	3

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

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

	31 December 2016 £'000	31 December 2015 £'000
Current	**1,176**	1,485
< 30 days	**1,692**	571
30-60 days	**806**	550
> 60 days	**710**	640
	4,384	3,246
Less provision for impairment	**(258)**	(228)
	4,126	3,018

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 2016 £'000	31 December 2015 £'000
Group		
At start of year	**228**	-
Arising on acquisition of subsidiaries	**-**	228
Provision for impairment in the year	**184**	-
Receivables written off as uncollectable	**(7)**	-
Unused provision reversed	**(147)**	-
At end of year	**258**	228

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

20. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Group		
Cash held at bank	**10,850**	15,155
Restricted cash held at bank	**5,349**	8,800
At end of year	**16,199**	23,955

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cash held at bank	**65**	19
Restricted cash held at bank	**-**	-
At end of year	**65**	19

Restricted cash balances of the Group comprise:

- £2,000 (2015: £6,349,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £4,025,000 (2015: £2,171,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £1,322,000 (2015: £280,000) of funds which represent tenants' rental deposits.

All restricted cash balances will be available before 31 March 2017.

21. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Withholding tax due on dividends paid	**1,416**	-
Trade payables	**3,381**	2,513
Other payables	**5,164**	5,095
Value added tax	**1,136**	1,092
Accruals	**3,504**	3,876
At end of year	**14,601**	12,576

	31 December 2016 £'000	31 December 2015 £'000
Company		
Withholding tax due on dividends paid	**1,416**	-
Accruals	**903**	868
At end of year	**2,319**	868

22. Deferred income

Deferred rental income represents rent received in advance from tenants.

23. Taxation liabilities

	31 December 2016 £'000	31 December 2015 £'000
Group		
Income tax	**36**	1,775
Deferred tax	**626**	612
	662	2,387

24. 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 2016 £'000	31 December 2015 £'000
Group		
Bank borrowings drawn at start of year	**128,643**	-
Bank borrowings drawn	**107,762**	128,643
Bank borrowings repaid	**(16,345)**	-
Bank borrowings drawn at end of year	**220,060**	128,643
Less: unamortised costs	**(874)**	(1,875)
Less: loan issue costs incurred in the period	**(1,744)**	-
Less: adjustment through finance income	**-**	(99)
At end of year	**217,442**	126,669
Maturity of bank borrowings		
Repayable within 1 year	**-**	200
Repayable between 1 to 2 years	**58,960**	200
Repayable between 2 to 5 years	**158,482**	126,269
	217,442	126,669

During the year, largely to fund property acquisitions, the Group increased its borrowings and refinanced existing facilities. The total outstanding debt drawn is less than the total of the original facility due to the repayment of debt following the sale of one of the assets on which borrowings were secured. At 31 December 2016 the amount of undrawn debt was £nil (31 December 2015: £nil). The weighted average term to maturity of the Group's debt at the year end was 2.9 years (31 December 2015: 3.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the year end was 3.3% (31 December 2015: 4.1%).

Lender	**Original Facility £'000**	**Outstanding Debt £'000**	**Maturity Date**	**Gross LTV**	**Interest cost per annum**	**Amortisation**
Santander UK	48,300	45,432	Dec -18	43.0%	2% over 3mth LIBOR	Mandatory prepayment
Santander UK	25,343	14,340	Dec -18	34.2%	2% over 3mth LIBOR	Mandatory prepayment
Royal Bank of Scotland	25,000	24,450	Jun -19	42.1%	2.15% over 3mth LIBOR	None
ICG Longbow Limited	65,000	65,000	Aug -19	44.3%	5% par for term	None
Royal Bank of Scotland	40,000	39,848	Mar -21	50.2%	2.4% over 3mth LIBOR	Mandatory prepayment
Santander UK	30,990	30,990	Jan - 21	48.1%	2.15% over 3mth LIBOR	Mandatory prepayment
	234,633	220,060				

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

As shown in note 25, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. The Group's exposure to interest rate volatility is minimal.

25. Derivative financial instruments

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

	31 December 2016 £'000	31 December 2015 £'000
Group		
Fair value at start of year	**(416)**	-
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	**-**	(531)
Fair value (loss)/gain	**(1,097)**	115
Fair value at end of year	**(1,513)**	(416)

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

The fair value of derivative financial instruments has decreased in the year due to the Group entering into a number of interest rate caps and swaps in the year as detailed below:

	Loan Details				**Swap Details**	
Lender	**Original Facility £'000**	**Outstanding Debt £'000**	**Maturity Date**	**Interest cost per annum**	**Notional Amount £'000**	**Rate %**
Santander UK	48,300	45,432	Dec -18	2% over 3mth LIBOR	6,000 18,150	1.867 1.014
Santander UK	25,343	14,340	Dec -18	2% over 3mth LIBOR	3,400 9,271	2.246 1.010
Royal Bank of Scotland	25,000	24,450	Jun -19	2.15% over 3mth LIBOR	12,480 20	1.790 1.110
ICG Longbow Limited	65,000	65,000	Aug -19	5% par for term	n/a	n/a
Royal Bank of Scotland	40,000	39,848	Mar -21	2.4% over 3mth LIBOR	19,900	1.395
Santander UK	30,990	30,990	Jan - 21	2.15% over 3mth LIBOR	9,375 6,920 5,280	1.086 1.203 1.444
	234,633	220,060			90,796	

The weighted average cap and swap rate for the Group as at the year end was 3.5% (31 December 2015: 4.4%), with a Group weighted average effective interest rate of 3.7% (31 December 2015: 4.5%) inclusive of hedging costs.

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 106.5% (31 December 2015: 90.1%), as shown below. The over-hedge at 31 December 2016 is the result of a property disposal and the hedging position was under review, subsequent to the year end the over hedged position has been reduced to 101.6%.

	31 December 2016 £'000	31 December 2015 £'000
Total bank borrowings	**220,060**	128,643
Notional value of interest rate caps and swaps	**169,441**	50,825
Value of fixed rate debts	**65,000**	65,000
	234,441	115,825
Proportion of hedged debt	**106.5%**	90.1%

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

The different levels are defined as follows.

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

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

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

For assets and liabilities that are recognised in the 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.

Interest rate derivatives	**Total £'000**	**Quoted active prices (level 1) £'000**	**Significant observable inputs (level 2) £'000**	**Significant unobservable inputs (level 3) £'000**
31 December 2016	**(1,513)**	**-**	**(1,513)**	**-**
31 December 2015	(416)	-	(416)	-

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

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

26. Financial risk management

26.1 Financial instruments

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

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

Group	**31 December 2016**		31 December 2015	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets – measured at amortised cost				
Trade and other receivables	**9,543**	**9,543**	10,035	10,035
Cash and short-term deposits	**16,199**	**16,199**	23,954	23,954
Financial liabilities – measured at amortised cost				
Trade and other payables	**(15,263)**	**(15,263)**	(14,963)	(14,963)
Bank and loan borrowings	**(217,442)**	**(217,442)**	(126,669)	(126,669)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	**(1,513)**	**(1,513)**	(416)	(416)

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

	31 December 2016		31 December 2015	
Company	**Book value £'000**	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets – measured at amortised cost				
Trade and other receivables	**837**	**837**	-	-
Cash and short-term deposits	**65**	**65**	19	19
Financial liabilities – measured at amortised cost				
Trade and other payables	**(2,319)**	**(2,319)**	(868)	(868)

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

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

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

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

Interest rate increase	Increase to the annual interest charge £'000
0.00%	-
0.25%	186
0.50%	372
0.75%	529
1.00%	592

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

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

26.5 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.

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

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

Bankers	Fitch Ratings
Barclays	A
Royal Bank of Scotland	BBB+
Santander UK	A

26.7 Liquidity risk

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

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

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

Group at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(14,963)	-	-	(14,963)
Bank borrowings	(5,275)	(5,275)	(135,410)	(145,960)
Interest rate derivatives	(464)	(464)	(495)	(1,423)
	(20,702)	(5,739)	(135,905)	(162,346)

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

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

Company at 31 December 2016	**Within 1 year £'000**	**Between 1 to 2 years £'000**	**Between 2 to 5 years £'000**	**Total £'000**
Trade and other payables	**(2,319)**	**-**	**-**	**(2,319)**

Company at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(868)	-	-	(868)

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

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

The Group's policy on borrowings is as follows: the level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, while maintaining flexibility in the underlying security requirements, and the structure of both the portfolio and of Regional REIT.

Based on current market conditions, the Board will target Group net borrowings of 35% of Investment Property Values at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent. of the Investment Property Values at any time without the prior approval of Ordinary shareholders in a General Meeting.

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

28. Stated capital
Stated capital (previously described as share premium) represents the consideration received by the Company for the issue of Ordinary shares.

Group & Company	**31 December 2016 £'000**	31 December 2015 £'000
Issued and fully paid shares at £1 per share	**274,217**	274,217
Number of shares in issue		
At start of the year	**274,217,264**	-
Initial issued share capital	**-**	1
Shares issued	**-**	274,217,263
At end of the year	**274,217,264**	274,217,264

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

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

On 6 November 2016 the Company issued 274,217,260 ordinary shares of no par value to the general partners of four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) in consideration for their shares in Regional Commercial MIDCO Limited. The fair value of the shares issued amounted to £274,217,260 and the shares issued have the same rights as the other shares in issue.

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

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

Dilutive instruments to future the partial settlement of the Performance Fee by the future issue of Ordinary shares. As detailed in note 32, an estimate Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

Net asset values have been calculated as follows:

Group	**31 December 2016 £'000**	31 December 2015 £'000
Net asset value per Consolidated Statement of Financial Position	**291,735**	295,341
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	**1,513**	416
EPRA net assets	**293,248**	295,757
Number of Ordinary Shares in issue	**274,217,264**	274,217,264
Dilutive instruments	**107,729**	-
Adjusted number of Ordinary Shares	**274,324,993**	274,217,264
Net asset value per share – basic	**106.4p**	107.7p
Net asset value per share - diluted	**106.3p**	107.7p
EPRA net asset value per share – basic	**106.9p**	107.8p
EPRA net asset value per share – diluted	**106.9p**	107.8p

Company	**31 December 2016 £'000**	31 December 2015 £'000
Net asset value per Company Statement of Financial Position	**272,902**	273,371
Number of Ordinary Shares in issue	**274,217,264**	274,217,264
Dilutive instruments	**107,729**	-
Adjusted number of Ordinary Shares	**274,324,993**	274,217,264
Net asset value per share - basic	**99.5p**	99.7p
Net asset value per share - diluted	**99.5p**	99.7p

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

Group	**31 December 2016 £'000**	31 December 2015 £'000
Receivable within 1 year	**37,950**	3,842
Receivable between 1 – 2 years	**-**	-
Receivable between 2 – 5 years	**100,292**	55,958
Receivable after 5 years	**88,243**	87,374
	226,485	147,174

The Group has in excess of 684 operating leases. The number of years remaining on these operating leases varies between 1 and 61 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.

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

Segmental reporting information was disclosed in the previous annual report and financial statements for the period ending 31 December 2015. This was a short period of trading and at the time of reporting it was unclear on whether the business would be split into segments for the purpose of reporting.

32. Transactions with related parties
Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited

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

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

In respect of each portfolio property the Asset Manager has procured and shall, with the Company in future, procure that London & Scottish Property Asset Management Limited is appointed as the Property Manager. A property management fee of 4% per 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 2016 £'000	22 June 2015 to 31 December 2015 £'000
Asset management fees charged*	**1,675**	232
Property management fees charged*	**1,698**	165
Performance fees charged	**115**	-
Total	**3,488**	397

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding **	**563**	397

*Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

On 20 September 2016 Regional REIT's wholly-owned subsidiary, Regional Commercial Midco Limited agreed to acquire from London & Scottish Investments Limited ("LSI"), the Asset Manager, the entire issued share capital of Toscafund Strathclyde BP Limited (a company incorporated in Jersey).

Toscafund Strathclyde BP Limited owns a portfolio of 6 office pavilions at Strathclyde Business Park, Bellshill, Scotland. The buildings cover 0.09m sq. ft. and provide a net income of £762,000 per annum with a net initial yield of 12.0% after deductions of costs. The consideration for the acquisition was £5,500,000 in cash, which represents the fair value of the portfolio as determined by Knight Frank, an independent valuer. The Group also paid £132,000 to LSI, representing 38.5% of the total costs incurred by the Asset Manager in the original purchase of the properties.

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

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

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 2016 £'000	22 June 2015 to 31 December 2015 £'000
Investment management fees charged*	**1,914**	264
Performance fees charged	**115**	-
Irrecoverable VAT on performance fees charged	**19**	-
Total	**2,048**	264

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding**	**609**	264

*Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

Performance Fee

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

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

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

Based on the EPRA Net Asset Value of the Group as at 31 December 2016 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2016 was estimated at £249,000 (31 December 2015: £95,000). This fee has been accrued in the consolidated financial statements for the year ended 31 December 2016 but none in the comparative period. To reflect the nature of the future payment of the performance fee charge, 50% of the fee along with the irrecoverable VAT thereon of £19,000 has been accrued as a liability of £134,000 and the 50% of the fee which is payable by the issue of Ordinary shares has been reflected as a share based payment in the Consolidated Statement of Changes in Equity.

33. Operating lease commitments

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

Group	**31 December 2016 £'000**	31 December 2015 £'000
Payable within 1 year	**485**	261
Payable between 1 – 2 years	**485**	261
Payable between 2 – 5 years	**1,456**	783
Payable after 5 years	**37,794**	18,240
	40,220	19,545

34. Subsequent events

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC ("Conygar") to acquire an investment portfolio of 31 regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants, and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited. Ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations on zero dividend preference shares total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares and the two banks currently providing secured lending to Conygar. Once the transaction completes, the Group will consider if it is to be treated as a business combination under IFRS 3 or an asset acquisition.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

The Company's Annual Report and Accounts for the year to 31 December 2016 will be released on Thursday 13 April 2017.

Forthcoming Events

Q1 2017 Trading Update, AGM Statement and Dividend Announcement	25 May 2017
2017 Annual General Meeting	25 May 2017
Q2 2017 Dividend Announcement	31 August 2017
2017 Interims Results Announcement	14 September 2017
Q3 2017 Trading Update and Dividend Announcement	16 November 2017

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