22 March 2018

Regional REIT Limited

<u>Audited Preliminary Full Year Results for the Year Ended 31 December 2017</u>

A year of significant growth from strong foundations

Regional REIT Limited (LSE: RGL) ("Regional REIT", the "Group" or the "Company"), the UK regional office and industrial property focused REIT, today announces its audited results for the year ended 31 December 2017.

Financial Highlights for the year ending 31 December 2017:

- Gross investment property portfolio of £737.3m (31 Dec 2016: £502.4m); Like-for-like value increased by 2.6%, adjusting for capital expenditure.
- Acquisitions of £228.1m (before costs) with average net initial yield of c.7.9%. This includes major portfolio acquisitions in both H1 and H2:
    - £129m multi-asset portfolio in March as part of 'NAV-for-NAV' Conygar transaction
    - Acquisition of two portfolios in December for c. £88.3m following the £73m capital raise
- Disposals of £16.9m net, mature and non-core assets to take advantage of current market demand for industrials, at net initial yields of c.6.3%.
- Capital expenditure of £13.4m net relating to refurbishment programmes on properties in Bristol, Aylesbury, Leeds, and Birmingham.
- Gross bank borrowings of £376.5m (31 Dec 2016: £220.1m) increased to fund acquisitions. Cost of debt remains favourable at 3.8% (including hedging costs).
- New 10-year borrowing facility agreed in December extends the weighted average maturity to 6 years.
- Net LTV of the Group reduced to 45%, from peak of c.49% following Conygar portfolio acquisition in H1, and will continue to be managed down towards the Group's long-term target of 40%.
- IFRS NAV – fully diluted 105.1pps (EPRA NAV of 105.9pps) (31 Dec 2016: IFRS NAV 106.3pps; EPRA NAV: 106.9pps) after dividends declared in 2017, predominately due to the issuance of two tranches of new equity and the debt refinancing costs.
- Operating profit before gains and losses of property assets and other investments £36.4m (31 Dec 2016: £29.9m) and Profit before tax of £28.7m (31 Dec 2016: £13.4m), with rental income of £52.3m (31 Dec 2016: £43.0) and an EPRA costs ratio of 29.7% (31 Dec 2016: 29.6%).
- Fully diluted IFRS Earnings per Share ("EPS") of 9.1p (EPRA EPS 8.1p) (2016: IFRS EPS 4.9p; EPRA EPS 7.7p).
- Dividends declared per Share for 2017 amounted to 7.85p (2016: 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.
- Diversified portfolio now sits at 164 properties (31 Dec 2016: 123), 1,368 units (2016: 941) and 1,026 tenants (2016: 717).
- Occupancy (by value) of 85.0% (31 Dec 2016: 82.7%) and Occupancy (by area) 84.3% (31 Dec 2016: 83.8%).
- Portfolio continues to focus on core sectors of office (67.3% by value) and industrial sites (23.3%) across the UK, with England & Wales now accounting for an increased proportionate amount of the portfolio (77.6%).
- Regional REIT senior team strengthened by appointment of Simon Marriott at LSI, with Regional REIT as his primary responsibility.
- LSI offices for Regional REIT now present in Glasgow, Manchester, and Leeds with continued support from nationwide asset manager network.
- Total Shareholder Return of 19.9% since IPO (November 2015) and annualised 8.8% in FY 2017.

After the period end:

- Board strengthened by appointment of Ms. Frances Daley in February 2018 as a Non-Executive Director.

Stephen Inglis, Chief Executive Officer of London & Scottish Investments Limited, the Asset Manager, commented: "*It has been a very active period for the Group. During our second full year as a listed entity, we acquired three major portfolios, successfully raised funds in a difficult market, improved our debt terms, and* *strengthened our management team and regional network. All this while continuing to offer shareholders one of the best yields in the sector. This momentum demonstrates our commitment and belief in the strategy laid out at IPO. Whilst we remain alert to increasing economic uncertainty we remain confident in the strength of our business model."*

A meeting for investors and analysts will be held at 09:30 (London time, BST) on 22 March 2018 at the offices of Peel Hunt. If you would like to attend the meeting please contact Jack Gault, +44 (0) 20 3805 4822 or jgault@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.

Enquiries:

Regional REIT Limited
Press enquiries through Headland PR

Toscafund Asset Management LLP Tel: +44 (0) 20 7845 6100
Investment Manager to the Group
Adam Dickinson, Investor Relations, Regional REIT Limited

London & Scottish Investments Limited Tel: +44 (0) 141 248 4155
Asset Manager to the Group
Stephen Inglis

Headland PR Consultancy LLP Tel: +44 (0) 20 3805 4822
Financial PR
Francesca Tuckett, Jack Gault

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 2017, was spread across 164 regional properties, 1,368 units and 1,026 tenants. As at 31 December 2017, the investment portfolio had a value of £737.3m and a net initial yield of 6.5%. The weighted average unexpired lease term to first break was 3.5 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

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

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

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

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

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

Market Environment

The regional property markets have remained in good health, and whilst letting decisions are taking longer to execute in some instances, we have nonetheless experienced increased tenant demand. There was firm occupational demand for offices and industrial sites in the UK's regions throughout the year. This was evidenced by a steady stream of new lettings and regears, which was particularly pronounced in the second half of the year.

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

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

Dividends

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

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

Shareholder Engagement

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

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

Strong Relationships

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

Board and the Asset and Investment Managers

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

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

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

Performance

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

Subsequent Events

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

Outlook

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

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

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

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Asset and Investment Managers' Report

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

Market Overview

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

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

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

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

Investment Activity in UK Commercial property

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

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

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

Occupational Demand in the UK Regional Office Market

Savills estimates that take-up of office space across ten regional office markets[1] reached 10 million sq. ft. in 2017, higher than the 9.6 million sq. ft. recorded in 2016, and 12% above the 10-year average. Occupational demand was driven by the public sector with large Government Property Unit (GPU) deals resulting in the public sector accounting for the highest proportion of total take-up at 22%. Following the public sector, the technology, media & telecoms sector and the business & consumers services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 19% and 9% respectively. Demand for regional office space also grew within the flexible workspace sector, Cushman & Wakefield expect this trend to continue with flexibility becoming a key driver of leasing activity.[2] A recent forecast by Savills[3] predicts that total office take-up in ten regional office markets will reach 9.5 million sq. ft. in 2018.

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

The most recent Deloitte Crane Survey (January 2018), suggests heightened construction activity in certain regional cities (Birmingham, Manchester, Leeds and Belfast); with a total of approximately 4.2m sq. ft. of office space currently under construction. However, although the supply of office stock is likely to increase, a considerable proportion of office buildings currently under construction are already pre-let, therefore, there is likely to remain a shortage of office stock. Despite a rise in the number of developments currently under construction, JLL[4] estimates that only 1.6m sq. ft. of speculative development space that is currently under construction will be delivered across 2018 and 2019 in the big six regional office markets, noting that the lack of development is increasing demand for refurbished office space in regional cities.

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

[2] http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-office-snapshot/

[3] http://pdf.euro.savills.co.uk/uk/office-reports/market-watch-uk-regional-office-report---spring-2018.pdf

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

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

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

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

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

Occupier Demand Strengthens in the UK Industrial Market
Take-up in 2017 totalled 26.6 million sq. ft., with 6.8 million sq. ft. taken up in the final quarter of 2017.[5] Occupier demand was particularly strong among companies in the manufacturing sector accounting for one third of total take-up with research from Colliers[6] indicating that export and domestic demand for goods remained steady, particularly for investment goods. Knight Frank[7] research shows, that similar to 2016, Midlands, London and the South East continued to account for the highest proportions of take-up in 2017.

In terms of development, Savills indicates that 4.4 million sq. ft. of industrial stock currently under construction will complete in 2018. However, JLL[8] research suggests that supply is constraining demand in the industrial market due to very limited supply and continued demand for new speculative development, particularly for units below 100,000 sq. ft.. The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2018.

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

[5] http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-industrial-snapshot/
[6] http://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_property_snapshot_2018_02.pdf?la=en-GB
[7] http://content.knightfrank.com/research/802/documents/en/logic-uk-overview-h2-2017-5270.pdf
[8] http://www.jll.co.uk/united-kingdom/en-gb/Research/The_JLL_UK_Industrial_Market_Tracker_Spring_2018.pdf?ef6876a8-909a-42f0-a414-4c9c2ebdfce0

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

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

Property Portfolio

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

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

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

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

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

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

Tables may not sum due to rounding.

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

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

Table may not sum due to rounding.

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

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

Table may not sum due to rounding.

Property Portfolio Sector and Region Splits by Valuation and Income

By Valuation
As at 31 December 2017 67.3% (2016: 63.3%) of the portfolio by market value was offices and 23.3% (2016: 29.4%) was industrial. The balance was made up of retail, 8.1% and other, 1.3% (2016: retail and other 7.3%). By UK region, as at 31 December 2017, Scotland represented 22.4% (2016: 26.8%) of the portfolio and England 74.0% (2016: 69.7%); the balance of 3.6% (2016: 3.5%) was in Wales. In England the largest regions were the South East, the Midlands and the North East.

By Income
As at 31 December 2017 66.9% (2016: 63.6%) of the portfolio by income was offices and 23.2% (2016: 29.2%) was industrial. The balance was made up of retail, 8.8% and other, 1.2% (2016: retail and other 7.1%). By UK region, as at 31 December 2017, Scotland represented 25.7% (2016: 29.0%) of the portfolio and England 70.7% (2016: 67.5%); the balance of 3.6% was in Wales (2016: 3.5%). In England, the largest regions were the South East, the Midlands and the North East.

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

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

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

Net Asset Value

In the year to 31 December 2017, the EPRA Net Asset Value ("NAV") of the Group rose to £395.7m from £293.2m as at31 December, which equates to a decrease in diluted NAV of 1 pence per share ("pps") to 105.9pps (31 December 2016: 106.9pps). For the 2017 calendar year the Company has declared of dividends amounting to 7.85pps.

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

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

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

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

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

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

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

Table may not sum due to rounding

Income Statement

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

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

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

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

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

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

Dividend

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

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

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2–to-10 years, with a weighted average maturity of 6.0 years (31 December 2016: 2.9 years).

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

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

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

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

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

* Before unamortised debt issue costs

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

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

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

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

Hedging

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

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

[1] Weighted Average Cost of Debt - Weighted Average Effective Interest Rate including the cost of hedging

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

Tax

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

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

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

Subsequent Events after the Reporting Period

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

Principal Risks and Uncertainties

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

The prospectus issued in December 2017 (available from the Company's website: www.regionalreit.com) includes details of what the Group considers to be the key principal risks faced. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate these.

Strategic Risks

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD [**UNCHANGED]
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	• An annual review of the investment strategy. • A defined investment appraisal process. • Acquire portfolios which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties.	• The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	• Only acquiring office and industrial properties, in the UK and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway.	• The Group continues to purchase properties in the UK outside the M25 motorway.
	• No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's investment property value at the time of investment.	• Tay House is the highest valued property which equates to 4.4% of the Group's investment properties.
	• No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.	• The Group's largest single tenant exposure is 2.6% of gross rental income.
	• Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	• No speculative construction was undertaken in the year.
	• The value of the assets is protected by an active asset management programme, which is regularly reviewed against the business plan for each property.	• The Asset Manager continues to actively manage the investment

		properties in accordance with market conditions and the individual asset programme.

Economic and Political Risk

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** [TRENDING UPWARDS]
Significant political events, including the decision to leave the EU, and the triggering of Article 50 of the Lisbon Treaty on the 29 March 2017 could impact the health of the UK economy, resulting in borrowing constraints, change in demand by tenants for suitable properties and the quality of the tenants.	• The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	• Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.
Bank reference interest rates may be set to rise accompanying higher inflation.	• Policy of hedging at least 90% of variable interest rate borrowings. • Borrowings are currently provided by a range of institutions with targeted staggered maturities. • Funding options are constantly reviewed with an emphasis on lengthening the maturity of borrowings	• Continued adherence to the hedging policy and the increased weighted average duration of debt.

Tenant Risk

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** [UNCHANGED]
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	• An active asset management programme. • Diversified portfolio of properties let, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the UK.	• The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 1,026 as at 31 December 2017.
A high concentration of lease term maturity and/or break options.	• The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. • There is a focus on securing early renewals and increased lease period.	• The WAULT to first break as at 31 December 2017 was 3.5 years. The largest tenant is 2.6% of the gross rental. income.

	• The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents	• The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents

Financial and Tax Change Risk

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD [UNCHANGED]
Changes to the UK REIT and non - REIT regimes, tax and financial legislation.	• The REIT and non-REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.	• Advice is received from a number of corporate advisors and the Group adapts to changes as required.

Operational Risk

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD UNCHANGED]
Business disruption could impinge on the normal operations of the Group.	• The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group.	• Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.
	• An annual due diligence exercise is carried out on all principal vendors.	• Annual due diligence visits were undertaken with the Company's principal vendors.
	• As an externally managed Company, there is a continued reliance on the Asset and Investment Managers.	• Both the Asset and Investment Manager are viable long-term concerns.
	• All properties undergo an annual comprehensive fire risk assessment to ensure correct cladding or construction materials are in place. • Close relationships maintained with Health and Safety Executive.	• The Asset Manager remains vigilant to changes in Health and Safety regulations.

Accounting, Legal, and Regulatory, including Environmental Risk

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD [UNCHANGED]
Changes to the accounting legal and/or regulatory legislation could result in changes to	• Robust processes are in place to ensure adherence to accounting, tax, legal, regulatory requirements, and the Listing Rules. • All contracts are reviewed by the Group's legal	• The Group continues to receive advice from its corporate advisors and has incorporated changes where required.

current operating processes.	advisors. • The Administrator, in its capacity as Group accountant and the Company Secretary attend all Board meetings and provide advice to the Board as required, • All compliance issues are raised with the financial advisor. • Property acquisitions undergo a rigorous due diligence process, including an environmental assessment. • The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process.	• The Company Secretary continues to attend all Board meetings and advise on the Listing Rules in conjunction with the financial advisor.

On behalf of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies (Guernsey) Law 2008, as amended (the "Law") requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority ("FCA") to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company's Financial Statements in accordance with IFRS as adopted by the EU.

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

In preparing the Group and the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state that the Financial Statements have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE CONSOLIDATED ANNUAL REPORT

Each of the Directors, whose names and functions are listed in the full Annual Report and Accounts 2017, confirms that to the best of each person's knowledge:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group and the undertakings included in the consolidation taken as a whole;

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

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

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

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

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

Total comprehensive income arises from continuing operations.

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

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

Consolidated Statement of Financial Position

As at 31 December 2017

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

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

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

Kevin McGrath,
Chairman and Independent Non-Executive Director
21 March 2018

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

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

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

	Notes	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	34	-	115	115
Dividends paid	13	-	(17,139)	(17,139)
Balance at 31 December 2016		274,217	17,518	291,735

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Profit for the year before taxation	**28,692**	13,395
- Change in fair value of investment properties	**(5,893)**	6,751
- Change in fair value of financial derivative instruments	**(217)**	1,097
- Gain on disposal of investment properties	**(1,234)**	(518)
Impairment of goodwill	**557**	557
Finance income	**(215)**	(193)
Finance expense	**14,728**	8,822
Share based payments	**814**	115
Increase in trade and other receivables	**(5,479)**	(716)
Increase in trade and other payables	**8,617**	9
(Decrease)/increase in deferred income	**(119)**	2115
Cash generated from operations	**40,251**	31,434
Financial income	**988**	988
Finance costs	**(10,155)**	(7,614)
Taxation paid	**(236)**	(1,715)
Net cash flow generated from operating activities	**30,848**	23,093
Investing activities		
Purchase of investment properties	**(25,188)**	(144,143)
Sale of investment properties	**16,921**	44,857
Interest received	**25**	60
Acquisition of subsidiaries, net of cash acquired	**(51,866)**	(5,573)
Net cash flow used in investing activities	**(60,108)**	(104,799)
Financing activities		
Proceeds from the issue of shares	**72,654**	-
Share issue costs	**(1,398)**	-
Dividends paid	**(23,321)**	(15,723)
Net costs paid on the disposal of derivatives	**(441)**	-
Bank borrowings advanced	**179,540**	107,762
Bank borrowings repaid	**(165,619)**	(16,345)
Bank borrowing costs paid	**(3,714)**	(1,744)
Net cash flow generated from financing activities	**57,701**	73,950
Net increase/(decrease) in cash and cash equivalents	**28,441**	(7,756)
Cash and cash equivalents at the start of the year	**16,199**	23,955
Cash and cash equivalents at the end of the year	**44,640**	16,199

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

Company Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
Revenue			
Amounts charged to group entities	5b	**920**	837
Administrative and other expenses	7	**(2,765)**	(3,343)
Operating loss		**(1,845)**	(2,506)
Finance income	9	**25,635**	19,061
Profit before tax		**23,790**	16,555
Taxation	11	**-**	-
Total comprehensive income for the year (attributable to equity shareholders)		**23,790**	16,555

Total comprehensive income arises from continuing operations.

Earnings per share - basic	12	**8.0p**	6.0p
Earnings per share - diluted	12	**8.0p**	6.0p

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

Company Statement of Financial Position

As at 31 December 2017

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

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

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

Kevin McGrath,
Chairman and Independent Non-Executive Director
21 March 2018

Company Statement of Changes in Equity
For the year ended 31 December 2017

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

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

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

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

Company Statement of Cash Flows

For the year ended 31 December 2017

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

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

Notes to the Financial Statements

For the year ended 31 December 2017

1. Corporate Information

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

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

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

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

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

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

2. Basis of preparation

In accordance with Section 244 of The Companies (Guernsey) Law 2008, the Group confirms that the financial information for the year ended 31 December 2017 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 2017 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2017 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 21 March 2018.

2.1 Functional and presentation currency

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

2.2 Going concern

The assessments of going concern are prepared in accordance with the FRC Guidance issued September 2014. The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts. Regional REIT ZDP PLC zero dividend preference shares mature on 9 January 2019. The Board of Directors are currently considering refinancing options. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for a period of not less than 12 months from approval of these financial statements. The Directors have satisfied themselves that the Group and the Company has adequate financial resources to continue in operational existence for the foreseeable future.

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

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

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

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

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

2.5 New standards, amendments and interpretations effective for future accounting periods
A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements. These are:

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

The Group anticipates the main impact on the financial statements will be some minor additional disclosures and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

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

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

The Group does not anticipate there will be any impact on the financial statements because the Group's rental contacts are outside the scope of the standard. The Group intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

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

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.

- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1 Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £737,330,000 (31 December 2016: £502,425,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 14.

3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £752,000 (31 December 2016: £1,513,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £1,672,000 (31 December 2016: £2,229,000).

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

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

3.2.1 Operating lease contracts – the Group as lessor

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

3.2.2 Performance Fee

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

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

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

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

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 28 subsidiaries (the "Credential Sub Group") by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement which means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 15.

3.4 Acquisition of subsidiary companies by the issue of share capital

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

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

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

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

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

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

- Investment property is measured at fair value at 30 September 2016, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Interest rate caps are measured at mark-to-market value.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.
- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.
- The liability to Zero Dividend Preference ("ZDP") shareholders is determined by the fair value of the ZDP shares at completion of the acquisition on 24 March 2017. Whilst these preference shares, listed on the London Stock Exchange, had a price of £1.24 per share at that date, the Directors do not consider that this value is an appropriate amount to base the fair value calculation because there was no intention for the ZDP shares to be acquired on the open market. It is intended that the ZDP shares will exist for the full term of the obligation, and thus, the Directors consider that the accrued capital value is the best estimate of the fair value of this liability. This is equivalent to amortised cost as calculated in the books of Regional REIT ZDP PLC excluding the unamortised issue costs concerning the original issue.
- Bank loans have been valued at net present value based on the discounting of future cash flows.

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

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

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

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

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

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

- Investment property is measured at fair value at 8 November 2017, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.
- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.
- Deferred income representing rental income, rent guarantees and top ups received by the companies acquired. The Directors consider that these amounts have a fair value which is the value of the amount received in advance.
- Bank loans taken out at completion have been recognised at the principal issued which on the point of issue is fair value.

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

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

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

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

4. Summary of significant accounting policies

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

4.1. Basis of consolidation

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

4.2 Subsidiaries

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

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

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

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

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

4.8. Trade and other receivables

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

4.9. Cash and cash equivalents

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

4.10. Trade payables

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

4.11. Bank and other borrowings

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

4.12 Zero Dividend Preference Shares

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

4.13 Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.14 Rental income

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

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

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

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

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

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

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

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

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

4.19. Taxation
As the Company is managed and controlled in the UK, it is considered to be tax resident in the UK.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

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

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

4.20 Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) enacted or substantively enacted at the date of the Statement of Financial Position. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

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

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

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

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

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

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

5. Revenue

5a. Rental income

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

5b. Amounts charged to group entities
Amounts charged to group entities of £920,000 (31 December 2016: £837,000) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non-recoverable property costs

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

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

7. Administrative and other expenses

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

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

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

Services provided by the Company's auditor and its associates

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

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

8. Directors' remuneration

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

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

9. Finance income

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

10. Finance expense

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

11. Taxation

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

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

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

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

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

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

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

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

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

Company

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

12. Earnings per share

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

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

Group

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

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

Company specific adjusted earnings per share - basic	**8.6p**	7.8p
Company specific adjusted earnings per share - diluted	**8.6p**	7.8p

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

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

13. Dividends

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

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

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

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

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

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

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

14. Investment properties

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

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

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

Group

Movement in investment properties for the year ended 31 December 2017	**Freehold Property £'000**	**Long Leasehold Property £'000**	**Total £'000**
Valuation at 1 January 2017	**424,310**	**78,115**	**502,425**
Property additions – acquisitions	**212,332**	**18,994**	**231,326**
Property additions – subsequent expenditure	**12,444**	**929**	**13,373**
Property disposals	**(16,921)**	**-**	**(16,921)**
Gain on the disposal of investment properties	**1,234**	**-**	**1,234**
Change in fair value during the year	**3,201**	**2,692**	**5,893**
Valuation at 31 December 2017	**636,600**	**100,730**	**737,330**
Movement in investment properties for the year ended 31 December 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions– acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the period	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016	424,310	78,115	502,425

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

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

Date of valuation:	**Total £'000**	**Quoted active prices (level 1) £'000**	**Significant observable inputs (level 2) £'000**	**Significant unobservable inputs (level 3) £'000**
31 December 2017	**737,330**	**-**	**-**	**737,330**
31 December 2016	502,425	-	504,425	-

The hierarchy levels are defined in note 25.

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Balance at the start of the year	**-**	-
Assets transferred from level 2	**504,425**	-
Additions	**244,699**	-
Disposals	**(16,921)**	-
Gain on the disposal of investment properties	**1,234**	-
Change in fair value during the year	**5,893**	-
Balance at the end of the year	**737,330**	-

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

The current volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2017, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. With greater volatility in the global financial system, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more stable market.

Techniques used for valuing investment properties
The following descriptions and definitions relate to valuation techniques and key observable inputs made in determining the fair values:-

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

Observable Input: Market Rental
The rent at which space could be let in the market conditions prevailing at the date of valuation range: £2,860-£3,092,125 per annum (2016: £3,100 - £3,119,381 per annum).

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

Observable Input: net initial yield
The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0%-29.94 % (2016: 0.28%-29.23%).

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

15. Investment in subsidiaries

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

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

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

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

Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Portland Street Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund South Gyle Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%

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

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

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

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

16. Goodwill

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

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Group's Statement of Comprehensive Income.

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

17. Non-current receivables

17a. Non-current receivables on lease surrender premium

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

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

17b. Non-current receivables on tenant loans

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

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

18. Trade and other receivables

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

	31 December 2017 £'000	31 December 2016 £'000
Company		
Other debtors	**1,113**	837
VAT recoverable	**1,143**	-
Prepayments	**47**	33
	2,303	870

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

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

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

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

Provision for impairment of trade receivables movement as follows:

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

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

19. Cash and cash equivalents

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

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

Restricted cash balances of the Group comprise:

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

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

20. Trade and other payables

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

	31 December 2017 £'000	31 December 2016 £'000
Company		
Withholding tax due on dividends paid	**906**	1,416
Accruals of incidental costs for fund raise	**1,187**	-
Accruals	**1,211**	903
At end of year	**3,304**	2,319

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

22. Taxation liabilities

	31 December 2017 £'000	31 December 2016 £'000
Group		
Income tax	**586**	36
Deferred tax	**2,050**	626
	2,636	662

The movement on Deferred tax liability is shown below:		
At start of year	**626**	612
Deferred tax on the valuation of investment properties	**1,424**	14
At end of year	**2,050**	626

23. Bank and loan borrowings

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

	31 December 2017 £'000	31 December 2016 £'000
Group		
Bank borrowings drawn at start of year	**220,060**	128,643
Bank borrowings drawn	**284,633**	107,762
Bank borrowings repaid	**(165,619)**	(16,345)
Bank borrowings drawn at end of year	**339,074**	220,060
Less: unamortised costs at start of year	**(2,618)**	(1,875)
Less: loan issue costs incurred in the year	**(4,765)**	(1,744)
Add: loan issue costs amortised in the year	**2,690**	1,001
At end of year	**334,381**	217,442
Maturity of bank borrowings		
Repayable within 1 year	**400**	-
Repayable between 1 to 2 years	**65,400**	58,960
Repayable between 2 to 5 years	**108,274**	161,110
Repayable after more than 5 year	**165,000**	-
Unamortised loan issue costs	**(4,693)**	(2,618)
	334,381	217,442

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

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

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

LIBOR = London Interbank Offered Rate (Sterling)
MP = Mandatory prepayment

* Acquired upon the acquisition of the SPV companies from The Conygar Investment Company PLC
** Before unamortised debt issue costs
*** Based upon Cushman & Wakefield and Jones Lang LaSalle property valuations

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

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

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

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

24. Zero dividend preference shares

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

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

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

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

25. Derivative financial instruments

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

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

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

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

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

LIBOR = London Interbank Offered Rate (Sterling)

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

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

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

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

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

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

The different levels are defined as follows.

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

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

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

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

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 2017	**(752)**	**-**	**(752)**	**-**
31 December 2016	(1,513)	-	(1,513)	-

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

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

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

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

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

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

27. Net asset value per share (NAV)

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

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

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

Net asset values have been calculated as follows:

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

Company	**31 December 2017 £'000**	31 December 2016 £'000
Net asset value per Company Statement of Financial Position	**370,796**	272,902
Number of Ordinary Shares in issue	**372,821,136**	274,217,264
Dilutive instruments	**875,752**	107,729
Adjusted number of Ordinary Shares	**373,696,888**	274,324,993
Net asset value per share - basic	**99.5p**	99.5p
Net asset value per share - diluted	**99.2p**	99.5p

28. Notes to the Statement of Cash Flows

28.1. Non cash transactions

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

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

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

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

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

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

29. Financial risk management

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

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

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

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:

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

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

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

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

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

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

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

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

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

29.5 Credit risk related to trade receivables
Trade receivables, primarily tenant rentals, are presented in the Group's Statement of Financial Position net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. Any trade receivables past due as at the year end were received shortly after the year end.

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

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

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

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

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

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

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

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

Company at 31 December 2017	**Within 1 year £'000**	**Between 1 to 2 years £'000**	**Between 2 to 5 years £'000**	**Total £'000**
Trade and other payables	**(3,304)**	**-**	**-**	**(3,304)**

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)

30. Capital management

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

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

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

Based on current market conditions, the Board will target Group net borrowings of 40% of Investment Property Values at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent. of the Investment Property Values at any time without the prior approval of Ordinary shareholders in a General Meeting.

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

31. Operating leases

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

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

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

32. Operating lease commitments

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

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

33. Segmental information

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

34. Transactions with related parties

Transactions with the Directors

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

	Year ended 31 December 2017 £'000
Kevin McGrath	**-**
William Eason	**10**
Daniel Taylor	**16**
Stephen Inglis	**49**
Frances Daley	**-**
Timothy Bee	**11**
Total	**86**

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

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

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

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

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

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

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

	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding **	**1,882**	563

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

Transactions with the Investment Manager, Toscafund Asset Management LLP
Martin McKay was a non-executive Director of Regional REIT Limited and the Chief Financial Officer of Toscafund Asset Management LLP until 7 July 2017. With effect from that date he was replaced on the Board of Regional REIT Limited by Tim Bee, Chief Legal Counsel of Toscafund Asset Management LLP. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

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

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

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

	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding**	**1,378**	609

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

Performance Fee

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

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

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

Based on the EPRA NAV of the Group as at 31 December 2017 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2017 was estimated at £1,859,000 (31 December 2016: £249,000). This fee has been accrued in the consolidated financial statements. To reflect the nature of the future payment of the performance fee charge, 50% of the fee, along with the irrecoverable VAT thereon of £nil (31 December 2016: £19,000), has been accrued as a liability totalling £930,000 (31 December 2016: £134,000) and the 50% of the fee which is payable by the issue of Ordinary Shares has been reflected as a share based payment in the consolidated statement of changes in equity.

35. Subsequent events

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

EPRA Performance Measures

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

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

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2017	31 December 2016
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings EPRA Earnings per share (basic) EPRA Earnings per share (diluted)	**£24,014,000** **8.1p** **8.1p**	£21,073,000 7.7p 7.7p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings EPRA Earnings per share (basic) EPRA Earnings per share (diluted)	**£25,624 ,000** **8.6p** **8.6p**	£21,322,000 7.8p 7.8p
EPRA NAV	Net Asset Value adjusted to include properties and other investment interest at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	EPRA Net Asset Value EPRA NAV per share (basic) EPRA NAV per share (diluted)	**£395,701,000** **106.1p** **105.9p**	£293,248,000 106.9p 106.9p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNAV EPRA NNNAV per share (basic) EPAR NNNAV per share (diluted)	**£392,899,000** **105.4p** **105.1p**	£291,735,000 106.4p 106.3p
EPRA NET INITIAL YIELD	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property with (estimated) purchasers' costs.	EPRA Net Initial Yield	**6.5%**	6.7%
EPRA VACANCY	Estimated Market Rental Value (ERV)	EPRA Vacancy Rate	**15.0%**	17.8%

RATE	of vacancy space divided by ERV of the whole portfolio			
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy divided by gross rental income	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	**29.7%** **19.0%**	29.6% 20.3%

Forthcoming Events

Q1 2018 Trading Update, AGM Statement and Dividend Announcement	17 May 2018
2018 Annual General Meeting	17 May 2018
Q2 2018 Dividend Announcement	31 August 2018
2018 Interim Results Announcement	11 September 2018
Q3 2018 Trading Update and Dividend Announcement	16 November 2018

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

Shareholder Information

Share Register Enquires:

Phone: 0871 664 0300

Calls cost 12p per minute plus your provider's access charge. If outside the United Kingdom call +44 371 664 0300. Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00‑17:30 Monday to Friday (excluding public holidays in England and Wales). For shareholder enquiries please email shareholderenquiries@linkgroup.co.uk.

Dividend History

Period	Announcement Date	Ex-Date	Record Date	Payment Date	Total Dividend Pence per share (pps)
Q4 2017	22 February 2018	1 March 2018	2 March 2018	12 April 2017	**2.45pps** of which PID: 2.205pps of which non-PID:0.245pps
Q3 2017	14 November 2017	23 November 2017	24 November 2017	22 December 2017	**1.80pps** of which PID: 1.62pps of which non-PID:0.18pps
Q2 2017	31 August 2017	7 September 2017	8 September 2017	13 October 2017	**1.80pps** of which PID: 1.08pps of which non-PID: 0.72pps
Q1 2017	25 May 2017	8 June 2017	9 June 2017	14 July 2017	**1.80pps** of which PID: 1.26pps of which non-PID: 0.54pps
Q4 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	**2.40pps** of which PID:2.1600pps of which non-PID:0.2400pps
Q3 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	**1.75pps** of which PID:1.6345pps of which non-PID:0.1155pps
Q2 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	**1.75pps** of which PID: 1.5013pps of which non-PID: 0.2487pps
Q1 2016	27 May 2016	9 June 216	10 June 2016	8 July 2016	**1.75pps** of which PID: 1.3579pps of which non-PID: 0.3921pps
Full Year 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	**1.00pps** of which PID: 0.6572pps of which non-PID: 0.3428pps