28 March 2019

REGIONAL REIT Limited

("Regional REIT", the "Group" or the "Company")

Preliminary Announcement of the Audited Full Year Results for the Year Ended 31 December 2018

Record Total Returns Achieved

Regional REIT Limited (LSE: RGL), the REIT focused on income producing regional UK core and core plus office and industrial property assets, today announces its audited results for the year ended 31 December 2018.

Financial highlights:

3% increase in dividend, with active portfolio management increasing the NAV 9%

- Total shareholder return of 37.5% since IPO in November 2015; 2018 16.6%; representing 10.6% annualised returns for shareholders
- Record net profit of £67.4m significantly increased by 149% (2017: £27.1m)
- Net rental income up 19% to £54.4m (2017: £45.8m)
- EPRA NAV per share increased 9% to 115.5p (2017: 105.9p)
- EPRA adjusted EPS of 7.5p following asset disposals (2017: 8.6p)
- Group cost of debt reduced to 3.5% as at 9 January 2019 (2017: 3.8%)
- Net LTV reduced below target of c.40% to 38.3% (2017: 45.0%)
- Weighted average debt duration increased to 7.1 years as at 9 January 2019 (2017: 6.0 years)
- Total dividend increased c.3% to 8.05p (2017: 7.85p); an 8.7% yield to the share price at 31 December 2018
- Adjusted EPRA EPS dividend cover of 93%, plan to return to fully covered during 2019

Operational Highlights:

Strong demand continues for the diversified regional portfolio

- 2018 a successful year with much strategic progress achieved
- Strong performance in transactional activity with £73.3m (before costs) invested in new acquisitions and £149.3m (net of costs) received from strategic disposals
- Diversified portfolio of 150 properties (2017: 164), 1,192 units (2017: 1,368) and 874 tenants (2017: 1,026)
- Core and core plus regional office and industrial property assets, an asset class increasingly sought after in the UK, represents 91.6% of portfolio by value (with 76.1% in offices and 15.5% in industrial sites)
- EPRA Occupancy rates improved further to 89.4% (2017: 88.2%); by value 87.3% (2017: 85.0%)

Post period end

- £39.9m repayment of Regional REIT ZDP plc preference shares; reducing the weighted average cost of debt to c.3.5% as at 9 January 2019 (2017: c.3.8%)
- Acquisition of Norfolk House, Birmingham for £20.0m, with a net yield of 7.9%

Stephen Inglis, Chief Executive Officer of London & Scottish Investments, commented: *"I am delighted to announce that 2018 was a good year for Regional REIT as the company exceeded all of its objectives and achieved significant strategic progress. We continued with our proactive property management strategy which included the sale of 30 properties and the* *acquisition of 16 others, with EPRA occupancy levels increasing to 89.4% across a highly diversified tenant base. Additionally, we continued to reduce the portfolio exposure to Scotland, which now comprises less than a fifth of the portfolio. The net loan to value fell below our c. 40% target to 38.3%, and from 9 January 2019 the cost of debt was reduced by 30 bps."*

"Looking ahead occupational demand in our markets remains robust. We are seeing no shortage of opportunities, and the Board continues to pursue a progressive dividend policy."

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About Regional REIT

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

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

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional core and core plus property assets. It aims to deliver an attractive total return to its Shareholders, targeting greater than 10%

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

per annum, with a strong focus on income supported by additional capital growth prospects.

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.

ESMA Legal Entity Identifier ("LEI"): (549300D8G4NKLRIKBX73)

Chairman's Statement

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

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

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

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

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

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

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

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

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

Market Environment

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

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

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

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

Dividends

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

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

Shareholder Engagement

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

Board of Directors

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

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[2] CoStar UK Commercial Property Investment Review Q4 2018

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

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

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

Strong Relationships

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

Performance

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

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

Subsequent Events

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

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

Outlook

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

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

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

Asset and Investment Managers' Report

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

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

Highlights from 2018:

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

4.2%.

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

Investment Activity in UK Commercial Property

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

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

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

Overseas investment in the UK property markets accounted for almost half (49%) of total investment in 2018, according to data from CoStar[6]. Despite ongoing uncertainty surrounding

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

[4] https://www.propertyweek.com/news/investment-volumes-plunge-ahead-of-brexit/5101760.article

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

[6] CoStar UK Commercial Property Investment Review Q4 2018

Brexit, overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2018 reaching £8.1 billion, 16% higher than the five-year average. Figures from CoStar indicate that 2018 was a record year for capital inflows from South Korea and Singapore, which helped support overall Far East investment during the year despite a fall in spend from China/Hong Kong. Conversely, North American investors became net sellers in 2018. LSH estimate that total overseas investment for 2018 reached £27.9 billion, 33% higher than the 10-year average.

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

Occupational Demand in the UK Regional Office Market

Savills estimates that take-up of office space across nine regional office markets[7] reached 7 million sq. ft., 3% higher than the 6.8 million sq. ft. recorded in 2017, and 25% above the 10-year average. Occupational demand was driven by the public sector, with another strong year of take-up from Central Government, which included the final two Government Property Unit (GPU) deals[8], resulting in the public sector accounting for the highest proportion of take-up at 18%. Following the public sector, the technology, media & telecoms sector and the business & consumer services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 11% and 10% respectively. Demand for regional office space also grew within the flexible workspace sector; Cushman & Wakefield expect this trend to continue, with flexibility becoming a key driver of leasing activity[9]. Additionally, GVA predicts that take-up in the flexible workspace sector will be over 0.5 million sq. ft. in 2019 for the third year in a row.

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

The most recent Deloitte Crane Survey (January 2019), suggests heightened construction activity in certain regional cities (Birmingham, Manchester, Leeds and Belfast); with a total of approximately 4.7m sq. ft. of office space currently under construction. However, although the supply of office stock is likely to increase, a considerable proportion of office buildings currently under construction are already pre-let. Therefore, there is likely to remain a shortage of office stock, with Cushman & Wakefield[11] highlighting that the vacancy rate for new and refurbished stock in the regions is only 1.9%, which has driven pre-let activity. The expectation is that demand for pre-lets will increase across the regional markets. According to GVA, build cost inflation and

[7] Nine regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds and Manchester
[8] https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf
[9] http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/uk/united-kingdom-office-snapshot
[10] Savills, Regional Office Market Q4 2018
[11] Cushman & Wakefield, UK Pre-Let Report- Race for Space 2019

future economic uncertainty are continuing to restrict new development[12].

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

Rental Growth in the UK Regional Office Market

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

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

Regional REIT's Office Assets

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

Occupier Demand Strengthens in the UK Industrial Market

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

Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 18.8% of total retail sales in the UK, according to the ONS[17]. Cushman and Wakefield research highlights that eRetailers were the

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[12] https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf
[13] https://www2.avisonyoung.co.uk/media/55201/the-big-nine-q4-2018.pdf
[14] http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/uk/united-kingdom-office-snapshot
[15] https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_real_estate_investment_forecasts_q4_2018.pdf?la=en-GB
[16] https://www.cbre.co.uk/research-and-reports/United-Kingdom-Logistics---The-Property-Perspective-H2-2018
[17] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/january2019#whats-the-story-in-online-sales

most active in terms of take-up throughout 2018, accounting for 26% of annual take-up.

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

Industrial Rental Growth Continues

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

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

Regional REIT's Industrial Assets

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

Property Portfolio

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

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

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

[18] https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_property_snapshot_january_2019.pdf?la=en-GB

2017: £73.8m).

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

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

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

Tables may not sum due to rounding

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

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

The Brunel Centre, Bletchley	Retail	Wilkinson Hardware Stores Ltd, Poundland Ltd, Boots The Chemist Ltd, WHSmith Plc	10.4	1.5%	98,351	90.8%	94.0%	1.0	1.6%	3.4
Total			**264.0**	**36.7%**	**2,153,474**	**95.0%**	**94.0%**	**21.0**	**35.2%**	**3.5**

*Tables may not sum due to rounding

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

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

Aviva Health UK Ltd	Hampshire Corporate Park, Eastleigh	Financial and insurance activities	0.0	42,612	0.7	1.1%
Total			**3.6**	**1,225,882**	**15.1**	**25.3%**

Property Portfolio Sector and Region Splits by Valuation and Income

By Valuation

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

By Income

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

Lease Expiry Profile

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

Tenants by Standard Industrial Classification as at 31 December 2018

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

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

Net Asset Value

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

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

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

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

	Year ended	Year ended

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

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

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

Table may not sum due to rounding

Income Statement

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

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

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

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

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

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

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

The Company is a member of the Association of Investment Companies ("AIC"). In accordance with the AIC Code of Corporate Governance, the ongoing charges for the period ending 31 December 2018 were 4.4% (31 December 2017: 4.5%). The Total EPRA Return to Shareholders from 6 November 2015 to 31 December 2018 was 37.5% (31 December 2017: 19.9%), an annualised rate of 10.6% pa (31 December 2017: 8.8% pa).

Dividend

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

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

1 Apr 2018 to 30 Jun 2018	31 Aug 2018	13 Sep 2018	15 Oct 2018	1.85p
1 Jul 2018 to 30 Sep 2018	15 Nov 2018	22 Nov 2018	21 Dec 2018	1.85p
1 Oct 2018 to 31 Dec 2018	21 Feb 2019	28 Feb 2019	11 Apr 2019	2.50p

Debt Financing and Gearing

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

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

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

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

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

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

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

Retail Eligible Bond	50,000	50,000	Aug-24	N/A	4.50%	Fixed
	380,366	**380,307**				

* Before unamortised debt issue costs

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

*** Table may not sum due to rounding

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

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

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

Hedging

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

	31 December 2018	31 December 2017
Borrowings interest rate hedged (incl. ZDP)	**102.0%**	89.8%
Thereof:		
Fixed	**76.5%**	71.0%
Swap	**12.8%**	9.4%
Cap	**12.8%**	9.4%
WACD[1]	**3.8%**	3.8%
WACD - Excluding the ZDPs[2]	**3.5%**	3.5%

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

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

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

Tax

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

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

At 31 December 2018, the Group's taxation charge amounted to £0.6m, which comprised of corporation tax of £1.6m for the sale of a property held for trading within the Hamilton Hill Estates Ltd, an offsetting £1.4m of deferred tax raised in the prior year for the same property subsequently released in 2018, and £0.4m of tax on revenue incurred by activity external to the REIT regime.

Subsequent Events after the Reporting Period

Please see note 36 below.

Principal Risks and Uncertainties

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

While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks where possible, rather than eliminating them. The Audit Committee reviews the risk management matrix on a six-monthly basis. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified, the Group will put in place controls to monitor and mitigate.

Strategic Risks

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** UNCHANGED
An inappropriate investment strategy could result in lower income and capital returns to Shareholders.	• An annual review of the investment strategy. • A defined and rigorous investment appraisal process. • Acquire portfolios which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties.	• 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 4.6% of the Group's investment properties.
	• No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.	• The Group's largest single tenant exposure is 2.7% of gross rental income, being Barclays Bank PLC.
	• Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	• 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.

Valuation Risk

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** TRENDING UPWARDS
The valuation of the Group's portfolio affects its profitability and net assets.	• External valuers, Cushman & Wakefield and Jones Lang Lasalle, provide independent valuations for all properties. • The Audit Committee discuss with the external valuers the basis of their valuations.	• There has been no change in the external valuers.

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

Funding Risk

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** TRENDING UPWARDS
The Group may not be able to secure further debt on acceptable terms, which may impinge upon investment opportunities and the ability to grow the Group.	• Borrowings are currently provided by a range of institutions with targeted staggered maturities. • Strong relationships with key long-term lenders. • Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity. • Continual monitoring of loan to value.	• Weighted average debt term increased to 6.4 years from 6.0 years in 2017 and increased to 7.1 years following settlement of the ZDPs on 9 January 2019. • Weighted average cost of capital, including hedging costs was 3.8% (31 December 2017 3.8%)

		and following settlement of the ZDPs on 9 January 2019 reduces to 3.5%. • Loan to value decreased to 38.3% from 45.0% at 31 December 2017.
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.	• Continued adherence to the hedging policy.

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 with a focus on the Asset Manager working with individual tenants to assess any occupational issues and to manage any potential bad debts. • Diversified portfolio of properties let, where possible, to a large number of low risk tenants across a wide range of different standard industrial classifications throughout the UK. • Potential acquisitions are reviewed for tenant overlap.	• The tenant mix and their underlying activity remains diversified, with the number of tenants amounting to 874 (31 December 2017: 1,026).
A high concentration of lease term maturity and/or break options, could result in a more volatile contracted rent roll.	• 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 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 WAULT to first break as at 31 December 2018 was 3.4 years. • The largest tenant is 2.7% of the gross rental income, being Barclays Bank PLC. • 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 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 suppliers.	• Annual due diligence visits were undertaken with the Company's principal suppliers.
	• As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers.	• Both the Asset and Investment Manager are viable going concerns.
	• All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk. • The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive buildings, loss of rent and service charge plus terrorism insurance with the exception of a small number of "self-insure" arrangements covered under leases.	• The Asset Manager remains vigilant to changes in Health and Safety regulations. • The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.

Accounting, Legal, and Regulatory

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD UNCHANGED
Changes to the accounting legal and/or regulatory legislation could result in changes to current operating processes.	• Robust processes are in place to ensure adherence to accounting, legal, regulatory requirements, and Listing Rules. • All contracts are reviewed by the Group's legal advisors. • The Administrator, in its capacity as Group Accountant, and the Company Secretary attends all Board meetings in order to be aware of all announcements that need to be made. • All compliance issues are raised with the Financial Advisor.	• The Group continues to receive advice from its corporate advisors and has incorporated changes where required. • The Administrator continues to attend all Board meetings and advise on Listing Rules in conjunction with the Financial Advisor.

Environmental and Energy Efficiency Standards

POTENTIAL IMPACT	**MITIGATION**	**MOVEMENT IN THE PERIOD** UNCHANGED
Changes to the environment could impact upon the operations of the Group.	• 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 rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.
An Energy Performance Rating of E and below is required for each asset in order to be let or sold.	• The Group continues to review each property to ensure adherence with Energy Performance Rating requirements. • The energy efficiency of investment acquisitions is fully considered as part of the buying due diligence.	• The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.

On behalf of the Board

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

Each of the Directors, whose names and functions are listed in the full Annual Report and Accounts 2018, will confirm that to the best of each person's knowledge:

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

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

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

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

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

Total comprehensive income arises from continuing operations.

Earnings per share - basic	12	**18.1p**	9.1p
Earnings per share - diluted	12	**18.1p**	9.1p

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	**31 December 2018 £'000**	31 December 2017 £'000
Assets			
Non-current assets			
Investment properties	14	**718,375**	737,330
Goodwill	16	**1,115**	1,672
Non-current receivables on tenant loan	17b	**1,396**	1,926
		720,886	740,928
Current assets			
Trade and other receivables	18	**22,163**	21,947
Cash and cash equivalents	19	**104,823**	44,640
		126,986	66,587
Total assets		**847,872**	807,515
Liabilities			
Current liabilities			
Trade and other payables	20	**(30,663)**	(26,941)
Deferred income	21	**(11,043)**	(12,667)
Taxation liabilities	22	**(1,763)**	(2,636)
Bank and loan borrowings	23	**(400)**	(400)

Zero dividend preference shares	24	**(39,816)**	-
		(83,685)	(42,644)
Non-current liabilities			
Bank and loan borrowings	23	**(285,199)**	(333,981)
Zero dividend preference shares	24	**-**	(37,239)
Retail eligible bonds	25	**(49,136)**	-
Derivative financial instruments	26	**(337)**	(752)
		(334,672)	(371,972)
Total liabilities		**(418,357)**	(414,616)
Net assets		**429,515**	392,899
Equity			
Stated capital	27	**370,316**	370,318
Retained earnings		**59,199**	22,581
Total equity attributable to owners of the parent company		**429,515**	392,899
Net asset value per share – basic	28	**115.2p**	105.4p
Net asset value per share – diluted	28	**115.2p**	105.1p

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

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 27 March 2019 and signed on its behalf by:

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

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

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

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities		
Profit for the year before taxation	**67,940**	28,692
- Change in fair value of investment properties	**(23,881)**	(5,893)
- Change in fair value of financial derivative instruments	**(415)**	(217)
- Gain on disposal of investment properties	**(23,127)**	(1,234)
Impairment of goodwill	**557**	557
Finance income	**(268)**	(215)
Finance expense	**15,983**	14,728
Share based payments	**(930)**	814
Increase in trade and other receivables	**(7)**	(5,479)
Increase in trade and other payables	**5,323**	8,617
Decrease in deferred income	**(2,358)**	(119)
Cash generated from operations	**38,817**	40,251
Financial income	**250**	988
Finance costs	**(12,173)**	(10,155)
Taxation paid	**(1,467)**	(236)
Net cash flow generated from operating activities	**25,427**	30,848
Investing activities		
Purchase of investment properties	**(48,675)**	(25,188)
Sale of investment properties	**149,276**	16,921
Interest received	**220**	25
Acquisition of subsidiaries, net of cash acquired	**(32,629)**	(51,866)
Net cash flow generated from/(used in) investing activities	**68,192**	(60,108)
Financing activities		
Proceeds from the issue of shares	**-**	72,654
Share issue costs	**(1,190)**	(1,398)
Dividends paid	**(29,429)**	(23,321)

Net costs paid on the disposal of derivatives	**-**	(441)
Bank borrowings advanced	**50,959**	179,540
Bank borrowings repaid	**(101,506)**	(165,619)
Bank borrowing costs paid	**(1,345)**	(3,714)
Proceeds from Bond issue	**50,000**	-
Bond issue costs paid	**(925)**	-
Net cash flow (used in)/generated from financing activities	**(33,436)**	57,701
Net increase in cash and cash equivalents	**60,183**	28,441
Cash and cash equivalents at the start of the year	**44,640**	16,199
Cash and cash equivalents at the end of the year	**104,823**	44,640

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. Corporate Information

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

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

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

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

The nature of the Group's operations and its principal activities are set out in the Strategic Report in the full Annual Report and Accounts 2018.

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 2018 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 2018 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2018 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 27 March 2019.

2.1 Functional and presentation currency

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

2.2 Going concern

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

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts. Regional REIT ZDP PLC zero dividend preference shares matured on 9 January 2019 and, as detailed in note 36 below, zero dividend preference shareholders were paid after the year end. No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of not less than 12 months. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

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

2.3 Business combinations

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

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

2.4 New standards, amendments and interpretations
New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2018 have had an impact on the financial statements as follows:

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

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

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

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

2.5 New standards, amendments and interpretations effective for future accounting periods
A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. These are:

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

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

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

3. Significant accounting judgements, estimates and assumptions
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates

could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3.1. Critical accounting estimates and assumptions

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

3.1.1 Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £718,375,000 (31 December 2017: £737,330,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

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

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

3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values, including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £337,000 (31 December 2017: £752,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

3.1.3 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £1,115,000 (31 December 2017: £1,672,000).

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

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

3.2.1 Operating lease contracts – the Group as lessor

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

3.2.2 Performance Fee

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

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

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

Management considered that up until 9 November 2018, the Group had de facto control of View Castle Limited (previously known as Credential Investment Holdings Limited), and its 27 subsidiaries (the "Credential Sub Group") by virtue of the amended and restated Call Option Agreement dated 3 November 2015. Following a restructure of the Credential Sub Group, the majority of properties held within the Credential Sub Group were transferred into two new SPVs with two additional properties to be transferred into these SPVs at a later date. A new call option was entered into dated 9 November 2018 with View Castle Limited and 5 of its subsidiaries (the "View Castle Group"). As per the previous amended and restated Call Option Agreement, under this new option the Group may acquire any of the properties held by the View Castle Group for a nominal consideration. Despite having no equity holding, the Group controls the View Castle Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the View Castle Group through its power to control. The View Castle Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 15.

3.4 Acquisitions of subsidiary companies
During the year, the Group has made two purchases of subsidiary companies which own investment properties. For each acquisition, the Directors consider whether the acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities.

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

The companies acquired in the year have comprised portfolios of investment properties and existing leases with multiple tenants over varying periods, with little in the way of processes acquired. It has therefore concluded in each case that the acquisitions did not meet the criteria for the acquisition of a business as outlined IFRS 3 above.

4. Summary of significant accounting policies
The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2017 and have been consistently applied for the year ended 31 December 2018. The no significant changes arising from accounting standards effective for the first time. As detailed in note 2.4 rental income and property expenses have been grossed up for service charge income and expenditure however there is no overall impact on profits or assets of the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.10. Trade payables
Trade payables are initially recognised at their fair value; being at their invoiced value inclusive of any VAT

that may be applicable. Payables are subsequently measured at amortised cost using the effective interest method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.22. Share based payments
The Group has entered into Performance Fee arrangements with the Asset Manager and Investment Manager which depend on the growth in the net asset value of the Group exceeding a Hurdle Rate of return over a Performance Period. The fee will be partly settled in cash and partly in equity and the equity portion is therefore a share–based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to equity reserves. If circumstances change and the fee is no longer settled by the issue of shares then the amounts previously credited to Equity reserves are reversed.

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

5. Rental income

	Year ended	Year ended

	31 December 2018 £'000	31 December 2017 Restated £'000
Rental income – freehold property	**54,107**	44,505
Rental income – long leasehold property	**7,968**	7,844
Recoverable service charge income and other similar items	**11,944**	9,261
Total	**74,019**	61,610

Comparative figures have been updated as detailed in note 2.4

6. Non-recoverable property costs

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

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

Comparative figures have been updated as detailed in note 2.4

7. Administrative and other expenses

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

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

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

Services provided by the Company's auditor and its associates

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

	Year ended	Year ended

	31 December 2018 £'000	31 December 2017 £'000
Audit of the consolidated and parent company financial statements	**78**	70
Audit related services in respect of the half year financial statements	**26**	30
Audit of the subsidiaries for their respective periods of account	**171**	140
Fees associated with share issue	**-**	108
Total	**275**	348

8. Directors' remuneration

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Directors' fees	**216**	170
Employers National Insurance contributions	**19**	20
Total	**235**	190

9. Finance income

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

10. Finance expense

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

11. Taxation

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

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

Profit before taxation	**67,940**	28,692
UK Corporation tax rate	**19.00%**	19.25%
Theoretical tax at UK Corporation tax rate	**12,909**	5,523
Effects of:		
Revaluation gain on investment properties	**(4,537)**	(1,134)
Adjustments to tax charge in respect of previous periods	**25**	-
Permanent differences	**1,592**	461
Profits from the tax exempt business	**(8,006)**	(4,642)
Deferred tax movement	**(1,416)**	1,424
Total	**567**	1,632

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

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

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

UK Corporation tax and UK income tax arise on entities which form part of the Group consolidated accounts but do not form part of the REIT group.

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

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

12. Earnings per share

Earnings per share ("EPS") amounts are calculated by dividing profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year. As there were dilutive instruments outstanding at 31 December 2018, both basic and diluted earnings per share are disclosed below.

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary Shares.

As detailed in note 35, a Performance Fee for the period from commencement of trading to 31 December 2017 was recognised in the financial statements. An estimate was made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the Performance Fee period is from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the fee charge will be based on the EPRA NAV as at 31 December 2018.

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

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

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

13. Dividends

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Dividend of 2.45 (2017: 2.40) pence per Ordinary Share		

for the period 1 October 2017 - 31 December 2017	**9,134**	6,581
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 January 2018 – 31 March 2018	**6,897**	5,410
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 April 2018 – 30 June 2018	**6,897**	5,410
Dividend of 1.85 (2017: 1.80) pence per Ordinary Share for the period 1 July 2018 – 30 September 2018	**6,897**	5,410
	29,825	22,811

On 22 February 2018, the Company announced a dividend of 2.45 pence per share in respect of the period 1 October 2017 to 31 December 2017. The dividend payment was made on 12 April 2018 to shareholders on the register as at 2 March 2018.

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

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

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

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

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

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

Movement in investment properties for the year ended 31 December 2017

Valuation at 1 January 2017	424,310	78,115	502,425
Property additions– acquisitions	212,332	18,994	231,326
Property additions – subsequent expenditure	12,444	929	13,373
Property disposals	(16,921)	-	(16,921)
Gain/(loss) on the disposal of investment properties	1,234	-	1,234
Change in fair value during the period	3,201	2,692	5,893
Valuation at 31 December 2017	636,600	100,730	737,330

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

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

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

Date of valuation:	**Total £'000**	**Quoted active prices (level 1) £'000**	**Significant observable inputs (level 2) £'000**	**Significant unobservabl e inputs (level 3) £'000**
31 December 2018	**718,375**	**-**	**-**	**718,375**
31 December 2017	737,330	-	-	737,330

The hierarchy levels are defined in note 26.

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Balance at the start of the year	**737,330**	-
Assets transferred from level 2	**-**	504,425
Additions	**83,313**	244,699
Disposals	**(149,276)**	(16,921)
Gain on the disposal of investment properties	**23,127**	1,234
Change in fair value during the year	**23,881**	5,893
Balance at the end of the year	**718,375**	737,330

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

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

Valuation technique: market comparable method

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

Observable input: Market rental
The rent at which space could be let in the market conditions prevailing at the date of valuation range: £1,500-£3,092,226 per annum (2017: £2,860- £3,092,125per annum).

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

Observable input: Net initial yield
The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0.00%-26.98% (2017: 0.00%-29.23%).

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

15. Investment in subsidiaries

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

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

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

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

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

Under this option, the Group has the ability to acquire any of the properties held by the Credential Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice will be obliged to convey its title within one month after receipt of the option notice.

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

The companies which make up the View Castle 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 (in liquidation)	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%

Credential Bath Street Limited	United Kingdom	100%
Credential Charring Cross Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Muirhouse Limited (in liquidation)	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Credential SHOP Limited (in liquidation)	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
Douglas Shelf Seven Limited (in liquidation)	United Kingdom	100%
Dumbarton Road Limited (in liquidation)	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
London & Scottish Property Management Limited (in liquidation)	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Squeeze Newco 2 Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%
View Castle (Properties) Limited	United Kingdom	100%
View Castle (Milton Keynes) Limited	United Kingdom	100%
View Castle Limited	United Kingdom	100%

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

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

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

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

During the year, there were two subsidiary company acquisitions that took place in order for the Group to acquire the investment property owned by that company. These acquisitions have not been treated as a business combination. For further details see note 3.4. The fair value of investment properties acquired through the purchase of subsidiary companies totalled £36,300,000. Total consideration paid was £33,740,000. The assets and liabilities of the companies acquired included the investment properties, mentioned above, net current liabilities totalling £600,000 (principally comprising debtors, cash, creditors and deferred income) and bank borrowings of £1,960,000.

16. Goodwill

	31 December 2018 £’000	31 December 2017 £’000
Group		
At start of year	**1,672**	2,229
Impairment	**(557)**	(557)
At end of year	**1,115**	1,672

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on group pre-tax cash flow projections of cost savings of the Group as a whole as a single cash generating unit, using a discount factor of 4.8%, which is based on the borrowing margins currently available. If a reasonable change occurs in a key assumption, the recoverable amount of goodwill would still be expected to be equal to the carrying value. The impairment review was conducted over a five-year period, which is predominately derived from the borrowings facility terms, and will result in a nil terminal value.

17. Non-current receivables

17a. Non-current receivables on lease surrender premium

	31 December 2018 £'000	31 December 2017 £'000
At start of year	**206**	1,004
Movement in year	**(250)**	(988)
Unwinding of discount	**44**	190
At end of year	**-**	206
Asset due within 1 year	**-**	206
Asset due after 1 year	**-**	-
	-	206

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

17b. Non-current receivables on tenant loans

	31 December 2018 £'000	31 December 2017 £'000
At start of year	**1,926**	1,926
Amounts loaned in the year	**-**	-
At end of year	**1,926**	1,926
Asset due within 1 year	**530**	-
Asset due after 1 year	**1,396**	1,926
	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 2018 £'000	31 December 2017 £'000

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

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

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

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

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

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

19. Cash and cash equivalents

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

Restricted cash balances of the Group comprise:

- £20,259,000 (2017: £2,499,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £2,780,000 (2017 £4,198,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £900,000 (2017: £2,144,000) of funds which represent tenants' rental deposits.
- £1,268,000 (2017: 1,957,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain conditions are met. The restricted funds arose on net proceeds held in relation to rental guarantees given by the seller of properties purchased by the Group. These funds can only be withheld by the lender and used to repay outstanding loans in the event of a default. £1,256,000 of this balance will be released to free cash before 31 March 2019.
- £0 (2017: 409,000) of funds held in blocked rent accounts which are controlled by one of the Group's lenders and will be released to free cash post year end without restriction.

All restricted cash balances will be available before 31 March 2019.

20. Trade and other payables

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

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

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

22. Taxation liabilities

	31 December 2018 £'000	31 December 2017 £'000
Income tax	**1,129**	586
Deferred tax	**634**	2,050
	1,763	2,636
The movement on deferred tax liability is shown below:		
At start of year	**2,050**	626
Deferred tax on the valuation of investment properties	**(1,416)**	1,424
At end of year	**634**	2,050

23. Bank and loan borrowings

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

	31 December 2018	31 December 2017

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

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

The table below lists the Group's borrowings.

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

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

* 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 6.4 years (31 December 2017: 6.0 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.7% (31 December 2017: 3.7%).

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

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

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

24. Zero dividend preference shares

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

The Group entity Regional REIT ZDP PLC, has 30,000,000 zero dividend preference shares ("ZDP shares") in issue. The ZDP shares were originally issued at 100 pence per share. The ZDP shares have an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but do not receive any dividends or income distributions. Additional capital accrues to the ZDP shares on a daily basis at a rate equivalent to 6.5% per annum, resulting in a final capital entitlement of 132.9 pence per share. The ZDP shares are listed on the London Stock Exchange (LSE: RGLZ). As detailed in note 36, the repayment of the Regional REIT ZDP Plc 6.5% ZDP shares in full took place after the year end.

During the period, the Group accrued £2,430,000 (31 December 2017: £1,769,000) of capital payable. The total amount repayable at maturity will be £39,879,269.

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

25. Retail Eligible Bonds

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

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

26. Derivative financial instruments

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

	31 December 2018 £'000	31 December 2017 £'000
Group		
Fair value at start of year	**(752)**	(1,513)
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	**-**	103
Net costs of disposing of derivative financial instruments	**-**	441
Revaluation in the year	**415**	217
Fair value at end of year	**(337)**	(752)

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

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

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

LIBOR = London Interbank Offered Rate (Sterling)

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

The Group weighted average effective interest rate was 3.5% (31 December 2017: 3.5%) inclusive of hedging costs but excluding the ZDP.

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

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end, the total proportion of hedged debt equated to 102.6% (31 December 2017: 88.5%), as shown below. The over hedged position has arisen due to debt repayments during 2018.

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

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 unobservabl e inputs (level 3) £'000**
31 December 2018	**(337)**	**-**	**(337)**	**-**
31 December 2017	(752)	-	(752)	-

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

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

27. Stated capital

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

Group	**31 December 2018**	31 December 2017
Issued and fully paid	**£'000**	£'000
shares of no par value		
At start of the year	**370,318**	274,217

Shares issued 24/03/2017	**-**	25,687
Shares issued 21/12/2017	**-**	73,000
Share issue costs	**(2)**	(2,586)
At end of the year	**370,316**	370,318
Number of shares in issue		
At start of the year	**372,821,136**	274,217,264
Shares issued 24/03/2017	**-**	26,326,644
Shares issued 21/12/2017	**-**	72,277,228
At end of the year	**372,821,136**	372,821,136

28. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing the net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year.

As there were dilutive instruments outstanding at 31 December 2017, both basic and diluted earnings per share are disclosed below.

Dilutive instruments relate to the partial settlement of the Performance Fee by the future issue of Ordinary Shares. As detailed in note 35, a Performance Fee for the period from commencement of trading to 31 December 2017 was recognised in the financial statements. An estimate was made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the shares issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

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

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

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

Net asset values have been calculated as follows:

Group	**31 December 2018 £'000**	31 December 2017 £'000
Net asset value per Consolidated Statement of Financial Position	**429,515**	392,899
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	**337**	752
Deferred tax liability	**634**	2,050
EPRA net assets	**430,486**	395,701
Number of Ordinary Shares in issue	**372,821,136**	372,821,136
Dilutive instruments	**-**	875,752

Adjusted number of Ordinary Shares	**372,821,136**	373,696,888
Net asset value per share – basic	**115.2p**	105.4p
Net asset value per share - diluted	**115.2p**	105.1p
EPRA net asset value per share – basic	**115.5p**	106.1p
EPRA net asset value per share – diluted	**115.5p**	105.9p

29. Notes to the Statement of Cash Flows

29.1. Non cash transactions

The Group has accounted for the following non cash transactions:

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

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

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

31 December 2017	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Total £'000
Balance at 1 January 2017	217,442	-	-	1,513	218,955
Changes from financing cash flows:					
Net costs paid on the disposal of derivatives	-	-	-	(441)	(441)
Bank borrowings advanced	179,540	-	-	-	179,540
Bank borrowings repaid	(165,619)	-	-	-	(165,619)
Bank borrowing costs paid	(3,714)	-	-	-	(3,714)
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

30. Financial risk management

30.1 Financial instruments

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

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

Group	**31 December 2018**		31 December 2017	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets – measured at amortised cost				
Trade and other receivables	**11,891**	**11,891**	13,985	13,985
Cash and short-term deposits	**104,823**	**104,823**	44,640	44,640
Financial liabilities – measured at amortised cost				

Trade and other payables	**(29,361)**	**(29,361)**	(26,035)	(26,035)
Bank and loan borrowings	**(285,599)**	**(285,599)**	(334,381)	(334,381)
Zero dividend preference shares	**(39,816)**	**(39,150)**	(37,239)	(38,550)
Retail Eligible Bonds	**(49,136)**	**(50,038)**	-	-
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	**(337)**	**(337)**	(752)	(752)

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

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

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

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

Interest rate increase	**Increase to the annual interest charge**	
	31 December 2018 £'000	31 December 2017 £'000
0.00%	**-**	-
0.25%	**102**	184
0.50%	**24**	368
0.75%	**307**	552
1.00%	**409**	737

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

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

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

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

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

Bankers	Fitch Ratings
Barclays	A+ Rating Watch Negative
Royal Bank of Scotland	A+ Rating Watch Negative
Santander UK	A+ Rating Watch Negative
HSBC	AA- Rating Watch Negative
Aviva	A+ Stable
Scottish Widows*	A+ Stable

* rating relates to parent entity – Lloyds Banking Group plc

30.7 Liquidity risk

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

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

Group at 31 December 2018	**Within 1 year £'000**	**Between 1 to 2 years £'000**	**Between 2 to 5 years £'000**	**After 5 years £'000**	**Total £'000**
Trade and other payables	**(29,361)**	**-**	**-**	**-**	**(29,361)**
Bank borrowings	**(8,926)**	**(8,959)**	**(113,026)**	**(228,717)**	**(359,628)**
Interest rate derivatives	**(264)**	**(244)**	**(418)**	**-**	**(926)**
Zero Dividend Preference Shares	**(39,879)**	**-**	**-**	**-**	**(39,879)**
Retail eligible bonds	**(2,250)**	**(2,250)**	**(6,750)**	**(52,250)**	**(63,500)**
	(80,680)	**(11,453)**	**(120,194)**	**(280,967)**	**(493,294)**

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)

31. Capital management

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

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

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

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

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

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

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

The Group has in excess of 889 operating leases. The number of years remaining on these operating leases varies between 1 and 80 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point a surrender premium will be charged to cover the shortfall in rental income received.

33. Operating lease commitments
The Group's operating lease commitments at the year end were spread across 13 separate operating leases with the two largest leases at Basingstoke and Witham making up 41% of the balance.
Total commitments on operating leases in respect of land and buildings are as follows:

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

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

35. Transactions with related parties
Transactions with the Directors
Directors' remuneration is disclosed within the Remuneration Report and note 8 to the financial statements. Directors' beneficial interests in the Ordinary Shares of the Company are disclosed within the Directors' Report. During the year, the following dividends were received by the Directors (and their spouses or minor

children) on the holdings:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Kevin McGrath	**24**	-
William Eason	**16**	10
Daniel Taylor	**28**	16
Stephen Inglis	**60**	49
Frances Daley	**2**	-
Timothy Bee	**12**	11
Total	**142**	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, reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

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

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

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

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

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

* Including irrecoverable VAT charged where appropriate

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

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

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

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

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

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

Performance Fee

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

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

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

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

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

Changes in Equity.

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

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

EPRA Performance Measures

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

EPRA have developed and defined the following performance measures to give transparency, comparability and 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 2018**	31 December 2017
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings	**£20,892,000**	£24,014,000
		EPRA Earnings per share (basic)	**5.6p**	8.1p
		EPRA Earnings per share (diluted)	**5.6p**	8.1p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings	**£27,938,000**	£25,624 ,000
		EPRA Earnings per share (basic)	**7.5p**	8.6p
		EPRA Earnings per share (diluted)	**7.5p**	8.6p
EPRA NAV	Net Asset Value adjusted to include properties and other investment interest at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	EPRA Net Asset Value	**£430,486,000**	£395,701,000
		EPRA NAV per share (diluted)	**115.5p**	105.9p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNAV	**£427,966000**	£391,588,000
		EPAR NNNAV per share (diluted)	**115.1p**	104.8p

EPRA NET INITIAL YIELD	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property with (estimated) purchasers' costs.	EPRA Net Initial Yield	**6.5%**	6.5%
EPRA 'TOPPED-UP' NIY	This measure incorporates an adjustment to the ERA NIY in respect of the expiration of rent-free-periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	EPRA 'Topped-up' Net Initial Yield	**6.6%**	6.6%
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio	EPRA Vacancy Rate	**10.6%**	11.8%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy divided by gross rental income	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	**40.1%** **29.9%**	29.7% 19.0%

Notes to the calculation of EPRA performance measures

1. **EPRA earnings**
   For calculations, please refer to note 12 to the financial statements.

2. **EPRA NAV**

	31 December 2018 £'000	31 December 2017 £'000
NAV per the financial statements	**429,515**	382,899
Effect of dilutive instruments	**-**	-
Diluted NAV	**429,515**	382,899
Fair value of derivative financial instruments	**337**	752
Deferred tax liability	**634**	2,050
EPRA NAV	**430,486**	395,701
Dilutive number of shares	**372,821,136**	373,696,888
EPRA NAV per share	**115.5p**	105.9p

3. EPRA NNNAV

	31 December 2018 £'000	31 December 2017 £'000
EPRA NAV	**430,486**	395,701
Fair value of derivative financial instruments	**(337)**	(752)
Adjustment for the fair value of debt:		
Bank and loan borrowings	**-**	-
Zero Dividend Preference Shares	**666**	(1,311)
Retail eligible bonds	**(902)**	-
Deferred tax liability	**(634)**	(2,050)
EPRA NNNAV	**429,279**	391,588
Dilutive number of shares	**372,821,136**	373,696,888
EPRA NAV per share	**115.1p**	104.8p

4. EPRA Net Initial Yield

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

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

5. EPRA Vacancy Rate

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

6. EPRA Cost Ratios

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

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

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

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

Property Related Capital Expenditure Analysis

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

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

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

Forthcoming Events

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

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

Shareholder Information

Share Register 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
Q4 2018	21 February 2019	28 February 2019	1 March 2019	11 April 2019	**2.50pps** of which PID: 2.50pps
Q3 2018	15 November 2018	22 November 2018	23 November 2018	21 December 2018	**1.85pps** of which PID: 1.85pps
Q2 2018	31 August 2018	13 September 2018	14 September 2018	15 October 2018	**1.85pps** of which PID: 1.85pps
Q1 2018	17 May 2018	24 May 2018	25 May 2018	13 July 2018	**1.85pps** of which PID: 1.85pps
Q4 2017	22 February 2018	1 March 2018	2 March 2018	12 April 2017	**2.45pps** of which PID: 2.205pps of which non-PID:0.245pps
Q3 2017	14 November 2017	23 November 2017	24 November 2017	22 December 2017	**1.80pps** of which PID: 1.62pps of which non-PID:0.18pps
Q2 2017	31 August 2017	7 September 2017	8 September 2017	13 October 2017	**1.80pps** of which PID: 1.08pps of which non-PID: 0.72pps
Q1 2017	25 May 2017	8 June 2017	9 June 2017	14 July 2017	**1.80pps** of which PID: 1.26pps of which non-PID: 0.54pps
Q4 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	**2.40pps** of which PID:2.1600pps

					of which non-PID:0.2400pps
Q3 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	**1.75pps** of which PID:1.6345pps of which non-PID:0.1155pps
Q2 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	**1.75pps** of which PID: 1.5013pps of which non-PID: 0.2487pps
Q1 2016	27 May 2016	9 June 2016	10 June 2016	8 July 2016	**1.75pps** of which PID: 1.3579pps of which non-PID: 0.3921pps
Full Year 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	**1.00pps** of which PID: 0.6572pps of which non-PID: 0.3428pps