

9 April 2020

Regional REIT Limited

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

Regional REIT (LSE: RGL), the regional real estate investment specialist focused on building a diverse portfolio of income producing regional UK core and core plus office and industrial property assets, today announces its full year results for the year ending 31 December 2019.

Financial highlights:

Income focused – Continued reliable strong performance in 2019 from a highly diversified and defensive portfolio coupled with intensive asset management

- EPRA Total return of 43% since IPO in November 2015; representing 9% annualised returns for shareholders*
- Rental and property income remained stable £75.6m (2018: £74.0m)
- EPRA adjusted EPS of 7.8p (2018: 7.5p); EPRA adjusted EPS, including realised disposal proceeds 8.2p (2018:13.7p)
- EPRA NAV per share 112.7p (2018: 115.5p)
- Group cost of debt decreased to 3.5% (2018: 3.8%)
- Net LTV maintained below target of c.40% at 38.9% (2018: 38.3%)
- Weighted average debt duration increased to 7.3 years (2018: 6.4 years)
- Total dividend increased c.2.5% to 8.25p (2018: 8.05p)
- Adjusted EPRA EPS dividend cover of 95% (2018: 93%)

Operational highlights:

Deliberately diversified portfolio by location and tenant – regions remained strong

- Another year of good progress; positive growth and portfolio diversification achieved
- Successful oversubscribed equity raise supported strong performance in transactional activity with £87.1m (before costs) invested in new acquisitions and £24.3m (net of costs) received from three strategic disposals
- Increasingly diversified portfolio of 160 properties (2018: 150), 1,251 units (2018: 1,192) and 904 tenants (2018: 874)
- Core and core plus regional office and industrial property assets represented 93.6% of portfolio by value (with 79.9% in offices and 13.7% in industrial sites)
- Lease renewals for office and industrial assets achieved a 9.8% increase in rental roll YoY
- EPRA Occupancy rates remained robust due to active and intensive asset management at 89.4% (2018: 89.4%)

Post period end

- Continued positive momentum, disposing of two non-core assets totalling £8.6m(before costs) whilst actively managing the portfolio with three further quality lettings
- 24 March 2020, the Company announced as a result of current market volatility caused by the global spread of COVID-19, it was no longer considering an equity fundraise
- 31 March 2020, the Company confirmed its dividend for Q4 2019 of 2.55pps would be paid to shareholders on 9 April 2020. In light of recent events, and until we have greater clarity on the economic outlook, future dividend distributions remain under review, however, the quality and diversity of the Company's tenant base means that it remains in a strong position to deliver one of the sector's best income returns to shareholders.
- Since the period end £30.7m of available borrowing headroom has been drawn down ensuring ample liquidity with a cash balance post dividend of £58.1m
- As at 6 April 2020, the Company had collected 81.6% of the rent due, in comparison to 83.1% at the same date in 2019. Another 4.8% of tenants have switched to monthly payments and have either paid or have agreed to pay. Furthermore, we expect another 2.3% of tenants to settle within 7 days, which in aggregate amounts to 88.7% of rents to be collected. We wholly expect to collect in excess of 90% of rent in due course.

*Equivalent to a 10% internal rate of return

Stephen Inglis, CEO of London and Scottish Property Investment Management, the Asset Manager, commented:

“We are extremely pleased with the good progress achieved to further diversify and strengthen our income and asset mix throughout 2019 and into Q1 2020. A key component of this total return to Shareholders continues to be one of the sector’s leading dividend paying REIT’s, as we increased the dividend again by a further c.2.5%.

The year also marked a considerable milestone in our ongoing ambition to grow the Company, by a highly successful oversubscribed capital raise of £62.5m. Swift deployment of these proceeds helped to contribute to the continued growth in our investment properties under management to £787.9m, up 9.7% from £718.4m in 2018.

Whilst markets are currently experiencing considerable levels of volatility due to the COVID-19, we continue to believe that our highly diversified income led approach to shareholder returns will continue to offer investors the best defensive, risk adjusted income value in the sector. We have a very strong tenant base with c.51% of rents being secured against tenants regarded under the Government’s definition as ‘essential services’ and other Government departments, and with a further c.12% of income secured from large international companies.

We have a hugely experienced senior management team which has delivered great results for shareholders through a number of recessions and downturns over the past 30 years, including most recently the 2008 recession. In the wake of the global financial crisis, we were able to deliver increased income, across a predominantly multi-let office and industrial portfolio, throughout the 2008-2012 period. This experience working with tenants in challenging times will be invaluable in the aftermath of the current COVID-19 crisis.

Our market fundamentals to date remain robust, however, we will inevitably be impacted by COVID-19 and though we are committed to paying a regular quarterly dividend to our shareholders this will be subject to market conditions, the Company’s performance, its financial position and business outlook.

Our unique, vertically integrated, asset management platform continues to deliver considerable value for our shareholders and I believe our encouraging income collection rate for the current quarter is testament to this. Our platform, with so many property managers and asset managers on the ground supported by our accounts team and research enables a joined up, effective and understanding approach to supporting tenants and achieving the best outcome in this uncertain time.

It is these unique aspects to the Company’s proposition that we believe have helped deliver such strong Shareholder returns in 2019, outperforming the FTSE NAREIT Index and providing 43.0% EPRA NAV total return to Shareholders since IPO and will continue to deliver for shareholders over the longer term.”

- ENDS -

A meeting for analysts will be held via a conference call facility at 9.30am (London time, BST) on Thursday, 9 April 2020. If you would like the conference call details please contact Henry Wilson on +44 (0) 207 466 5111 or henryw@buchanan.uk.com.

The presentation slides for the meeting will shortly be available to download from the Investors section of the Group’s website at www.regionalreit.com.

Enquiries:

Regional REIT Limited

Toscafund Asset Management

Tel: +44 (0) 20 7845 6100

Investment Manager to the Group

Adam Dickinson, Investor Relations, Regional REIT Limited

Asset Manager to the Group

Stephen Inglis

Buchanan Communications

Tel: +44 (0) 20 7466 5000

Financial PR

regional@buchanan.uk.com

Charles Ryland / Victoria Hayns / Henry Wilson

About Regional REIT

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries (the "Group") is a United Kingdom ("UK") based real estate investment trust that launched in November 2015. It is managed by London & Scottish Property Investment Management Limited, the Asset Manager, and Toscafund Asset Management LLP, 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 160 properties, 1,251 units and 904 tenants as at 31 December 2019, with a valuation of £787.9m.

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

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

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

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

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

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

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

I am pleased to report that the Group had another very active year and continued to achieve positive growth, with investment properties under management increasing significantly by 9.7% to £787.9m. The EPRA company adjusted diluted earnings per share was 7.8 pence per share ("pps") (2018: 7.5pps). IFRS earnings were 6.6pps (2018: 18.1pps) with the recycling of the 2018 disposal funds into assets which are currently undergoing our intensive asset management initiatives. The total dividend for the year of 8.25pps, is an increase of c. 2.5% on the 8.05pps dividend for 2018. We continued to work closely with our tenants via our distinctive offering of integrated asset, property and finance teams, ensuring we have supportive tenants, which added value to both rental income and capital appreciation.

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

During the year, the Group acquired properties with an aggregate value of £87.1m, before costs, which was in part funded by the successfully oversubscribed £62.5m equity capital raise undertaken in July 2019. This funding enabled us to make opportunistic off-market aggregate property acquisitions of £63.9m (before costs), which further diversified the portfolio not only by property, but also by tenant. In addition, we continued our portfolio enhancement programme, with disposals amounting to £24.3m (net of costs), and our rolling capital expenditure programme amounted to £8.0m.

Furthermore, our debt profile continues to be rationalised with the settlement of the £39.9m 6.5% Zero Dividend Preference Shares ("ZDPs") issued by the Company's indirect subsidiary, Regional REIT ZDP Plc, which matured on 9 January 2019, coupled with the £121m refinancing in June 2019. These successful initiatives resulted in a reduction in the Group's WACD, including hedging costs, to c.3.5% at 31 December 2019 (31 December 2018: 3.8%), and a weighted average debt duration of 7.3 years (31 December 2018: 6.4 years).

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

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

Market Environment

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

Overseas investment in the UK property markets accounted for almost half (48%) of total investment in 2019 according to data from CoStar¹. Furthermore, CoStar estimate that total overseas investment for 2019 reached £21.3 billion, 6% higher than the 10-year average.

¹ CoStar, Investment Volumes, Q4 2019

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

Dividends

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

Performance

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

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

In accordance with the management arrangements, the Asset Manager and Investment Manager are each entitled to a 50% share of a performance fee of 15% of the Total EPRA Accounting Return in excess of an annual hurdle rate of 8%. A performance fee did not crystallise for the period from 1 January 2019 to 31 December 2019.

Management Agreements

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

Shareholder and Stakeholder Engagement

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

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

Annual General Meeting

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

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

Subsequent Events and COVID-19

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

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

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

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

Outlook

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

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

Kevin McGrath

Chairman

8 April 2020

Asset and Investment Managers' Report

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

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

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

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

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

*The Company's continuing focus on income have delivered strong Shareholder returns in 2019, outperforming the FTSE NAREIT Index and providing 43.0% EPRA NAV returns to Shareholders since IPO." **Stephen Inglis, CEO of London & Scottish Property Investment Management, the Asset Manager of Regional REIT Limited.***

Highlights from 2019

- Successfully oversubscribed £62.5m equity capital raise was undertaken in July 2019.
- Disposals during 2019 totalled £24.3m (net of costs) achieving an average uplift against December 2018 valuation of 10.3%, reflecting an average net initial yield of 6.8%.
- Acquisitions in 2019 totalled £87.1m (before costs) for 13 properties, reflecting an average net initial yield of 8.6%.
- Lease renewals for office and industrial assets during 2019 achieved an uplift in gross rental roll of 9.8%.
- Completed 71 new lettings in 2019, totalling 356,446 sq. ft.; when fully occupied, these will provide a gross rental income of c.£3.8m.
- The like-for-like value of the Group's core office and industrial segment (93.6% by value) also increased in 2019 by 1.4%, after adjusting for capital expenditure and disposals during the period.

- Improved WAULT (to first break) by 2.2%, to 3.5 years and improved WAULT (to expiry) by 1.9% to 5.5 years.
- Average rent by let sq. ft. increased by 8.3% from £9.40 per sq. ft. in December 2018 to £10.17 per sq. ft. in December 2019.
- Capital value per sq. ft. increased by 9.1% from £96.64 per sq. ft. in December 2018 to £105.42 per sq. ft..

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

Investment Activity in the UK Commercial Property Market

Investment in the UK commercial property market reached £49.5 billion in 2019, according to research from Lambert Smith Hampton ("LSH")², 13% below the five-year average. Although overall investment in 2019 was lower than 2018, it was 5.2% higher than 2016 levels, a year that was similarly dominated by political uncertainty. Investment in the final quarter of 2019 was slightly higher than Q3 2019 volumes, bringing investment in H2 2019 to £29.5 billion, indicating an increase of 47% when compared to H1 2019, which helped boost overall investment figures for 2019. 2019 proved to be another strong year for investment in portfolio deals, with investment totalling £13.0 billion. Investment in portfolios was particularly strong in the final quarter of 2019, reaching £4.7 billion, 35% higher than the five-year quarterly average.

² Lambert Smith Hampton, UKIT Q4 2019

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

Overseas investment in the UK property markets accounted for almost half (48%) of total investment in 2019 according to data from CoStar³. Overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2019 reaching £7.2 billion, 24% higher than the five-year average. Figures from LSH indicate that North America, Far East and Europe were all net investors in the final quarter of 2019. CoStar estimate that total overseas investment for 2019 reached £21.3 billion, 6% higher than the 10-year average.

³CoStar, Investment Volumes, Q4 2019

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

Overseas investment in the UK property markets accounted for almost half (48%) of total investment in 2019 according to data from CoStar⁴. Despite ongoing political uncertainty, overseas investors continued to take advantage of favourable exchange rates, with investment in the final quarter of 2019 reaching £7.2 billion, 24% higher than the five-year average. Figures from LSH indicate that North America, Far East and Europe were all net investors in the final quarter of 2019. CoStar estimate that total overseas investment for 2019 reached £21.3 billion, 6% higher than the 10-year average.

⁴ CoStar, Investment Volumes, Q4 2019

Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across nine regional office markets⁵ reached 8.8 million sq. ft. in 2019; although this is below the level of take-up recorded in 2018, it is 3.9% above the 10-year average. Take-up during 2019 was marginally higher (+0.7%) than 2016, a year that was similarly dominated by political uncertainty. According to Savills, occupational demand was driven by the technology, media & telecoms sector, which accounted for the highest proportion of take-up at 27%. Following the technology, media & telecoms sector, the serviced office sector and the insurance & financial services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 12% and 10% respectively. Whilst demand from Central Government fell in 2019 in comparison to 2018, Avison Young expect a number of deals to take place in 2020 as part of the next phase of the hub programme.

⁵ Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle

According to Savills, demand for regional office stock led to a decline in availability across nine regional UK markets⁶, with total availability falling by 8% in 2019 to 10.5 million sq. ft., 28% below the 10-year average. This marks the tenth consecutive year that supply of office stock has declined. Cushman & Wakefield research indicates that vacancy rates across the UK's regions fell to 7% in the final quarter of 2019, a decrease from 8% the 12 months previous⁷.

⁶ Nine regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds & Manchester

⁷ Cushman & Wakefield Big Eight Office Report Q4 2019. Eight regional office markets mentioned by Cushman & Wakefield include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Manchester & Newcastle

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

Rental Growth in the UK Regional Office Market

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

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

Regional REIT's Office Assets

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

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

dilapidations settlement has been agreed and an outline residential consent has been obtained for change of use.

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

Occupier Demand in the UK Industrial Market

Take-up in the final quarter of 2019 reached 6.8 million sq. ft., pushing annual take-up during 2019 to 34.5 million sq. ft.; although this is 18% below the record high reported in 2018, demand remained above the 10-year average⁸. CBRE⁹ research shows that 60% of take-up was within the East Midlands and South East as the M1 corridor remains the most attractive location for occupiers. Following this, West Midlands, Yorkshire and North East accounted for 17% and 12% of take-up in 2019, respectively.

⁸ Cushman & Wakefield, Industrial Snapshot, Q4 2019

⁹ CBRE, Market Summary, Q4 2019

BNP Paribas Real Estate research highlights occupier demand was diverse in 2019 with no one sector dominating take-up¹⁰. According to Colliers International, occupier demand was driven by occupier's requirements to future-proof their supply chain operations. Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 19.0% of total retail sales in the UK, according to the ONS¹¹. BNP Paribas Real Estate research shows that Retailers were the most active in terms of take-up throughout 2019, accounting for 37% of annual take-up (including online sales).

¹⁰ BNP Paribas Real Estate, Industrial & Logistics Review, Q4 2019

¹¹ ONS, Retail Sales, Great Britain, January 2020

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

Industrial Rental Growth Continues

Research by BNP Paribas Real Estate illustrates that, although demand for standard industrial space led to rental growth in 2019, there were signs that rental growth cooled following several years of strong growth. Data from the CBRE Monthly Index shows rental growth of 3.1% in the 12 months to the end of December 2019, indicating that rental growth slowed in 2019 from 4.2% for the 12 months to the end of December 2018.

Regional REIT's Industrial Assets

EPRA occupancy of the Group's industrial sites increased to 95.5% (31 December 2018: 94.5%). A like-for-like comparison of the Group's industrial offices' EPRA occupancy, 31 December 2019 versus 31 December 2018, shows that occupancy increased to 95.4% (31 December 2018: 94.2%). WAULT to first break was 5.8 years (31 December 2018: 5.4 years); like-for-like WAULT to first break decreased marginally to 5.8 years (31 December 2018: 5.9 years).

Property Portfolio

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

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

There were 160 properties (31 December 2018: 150) in the portfolio, with 1,251 units (31 December 2018: 1,192) and 904 tenants (31 December 2018: 874). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £77.2m per annum as at 31 December 2019 (31 December 2018: £70.0m).

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

Property Portfolio by Sector

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

Property Portfolio by Region

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

*Table may not sum due to rounding

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

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

*Table may not sum due to rounding

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

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

Property Portfolio Sector and Region Splits by Valuation and Income

By Valuation

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

By Income

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

Lease Expiry Profile

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

Tenants by Standard Industrial Classification as at 31 December 2019

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

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

Top 15 Properties by Sector: Office

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

- **Secure Income** - The leases with Barclays were re-gearred in December 2015, securing income until October 2021 at the earliest.
- **Break Option Removed** - Removal of the University of Glasgow's break option in September 2019, securing income until September 2024.
- **Tenant Expansion** - New 10-year lease agreed with the University of Glasgow for an additional 9,791 sq. ft. in the building, with option to break in September 2024. This lease provides an additional gross rental income of c. £181,000 pa.
- **Future Asset Management Initiatives** - Let of the balance of space on the first floor. Explore refurbishment options should Barclays Execution Services Ltd exercise November 2021 break option. This presents an opportunity for comprehensive repositioning of asset in a market with limited supply of high-quality large floor plates in an improving location.

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

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

Buildings 2 & 3 HBOS Campus, Aylesbury	Market value (£m)	24.9
	Sector	Office
	Annualised gross rent (£m)	2.3
	Lettable area (Sq. Ft.)	140,791
	Anchor tenants	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd
	EPRA Occupancy (%)	95.7
	WAULT (years) (to first break)	4.2 (3.4)

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

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

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

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

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

800 Aztec West, Bristol	Market value (£m)	19.3
	Sector	Office

	Annualised gross rent (£m)	1.5
	Lettable area (Sq. Ft.)	73,292
	Anchor tenants	Edvance SAS, The Secretary of State for Defence
	EPRA Occupancy	100.0
	WAULT (years) (to first break)	8.8 (3.6)

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

One & Two Newstead Court, Annesley	Market value (£m)	16.9
	Sector	Office
	Annualised gross rent (£m)	1.4
	Lettable area (Sq. Ft.)	146,262
	Anchor tenants	E.ON UK Plc
	EPRA Occupancy	100.0
	WAULT (years) (to first break)	5.6 (3.9)

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

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

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

Ashby Park, Ashby De La Zouch	Market value (£m)	13.9
	Sector	Office
	Annualised gross rent (£m)	1.1
	Lettable area (Sq. Ft.)	91,034

Anchor tenants	Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd
EPRA Occupancy (%)	100.0
WAULT (years) (to first break)	2.7 (1.4)

- **Fully Let** - Dilapidations on the inherited vacated space agreed. Jigsaw agreed new lease over revised area with Dunwoody Airline Services taking the remaining void.
- **Asset Management Initiatives** - Re-gear lease with Ceva Logistics to secure longer income and complete lease surrender of Power House with Alstom Power Ltd and back-to-back re-letting to Brush Electrical Machines Ltd on a new 10-year lease.

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

- **Income Profile** - Let to TUI until 2024 on a geared lease with fixed annual uplifts. TUI has sublet the entire space to First Utility that provides an underpinning to the rent.
- **Asset Management Initiatives** - Potential to agree lease surrender with TUI, with benefits of existing sublets to First Utility who have recently been acquired by Shell Petroleum Company Limited.

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

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

Oakland House, Manchester	Market value (£m)	11.3
	Sector	Office
	Annualised gross rent (£m)	1.1
	Lettable area (Sq. Ft.)	160,938

Anchor tenants	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd
EPRA Occupancy (%)	89.5
WAULT (years) (to first break)	5.1 (3.8)

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

Top 15 Properties by Sector: Industrial

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

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

Road 4 Winsford Industrial Estate, Winsford	Market value (£m)	15.7
	Sector	Industrial
	Annualised gross rent (£m)	1.0
	Lettable area (Sq. Ft.)	246,209
	Anchor tenants	Jiffy Packaging Ltd
	EPRA Occupancy (%)	100.0

WAULT (years) (to first break)	14.8 (14.8)
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- **Long-Term Lease** - Let to Jiffy Packaging Limited until 2034.
- **Business Plan** - Tenant company acquired by Airpack Group and lease guarantee assigned to new parent company. Discussions continue with tenant regarding a potential re-gear.

Top 15 Properties by Sector: Other

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

- **Adding Value** - Works undertaken to transform 10 screen multiplex Odeon cinema to 'Odeon Deluxe' brand. Successfully negotiated re-gear of the lease to provide a further 10-year term subject to us contributing to the cost of the upgrade.
- **Asset Management Initiatives** - Let balance of refurbished space

Financial Review

Net Asset Value

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

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

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

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

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

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

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

	Year ended 2019 Pence per share
	£m
Opening EPRA NAV (31 December 2018)	430.5 115.5

Capital raise dilution	60.5	(1.7)
Opening EPRA NAV (incl. net capital raise)	491.0	113.8
Net rental and property income	55.0	12.7
Administration and other expenses	(10.9)	(2.5)
Gain on the disposal of investment properties	1.7	0.4
Change in the fair value of investment properties	(3.5)	(0.8)
Change in value of right of use	(0.2)	(0.0)
EPRA NAV after operating profit	533.0	123.5
Net finance expense	(13.7)	(3.2)
Impairment of goodwill	(0.6)	(0.1)
Taxation	0.4	0.1
EPRA NAV before dividends paid	519.1	120.3
Dividends paid	(32.8)	(7.6)
Closing EPRA NAV (31 December 2019)	486.3	112.7

Table may not sum due to rounding

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

Income Statement

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

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

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

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

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

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

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

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

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

Dividend

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

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

Debt Financing and Gearing

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

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

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

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

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

Debt Profile and LTV Ratios as at 31 December 2019

Lender	Original facility	Outstanding debt*	Maturity date	Gross loan to value**	Annual interest rate	
	£'000	£'000		%	%	
Royal Bank of Scotland	55,000	48,584	Jun-2024	39.8	2.15	over 3 months £ LIBOR
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-2027	45.1	3.28	Fixed
Scottish Widows Ltd.	36,000	36,000	Dec-2028	38.9	3.37	Fixed
Santander UK	65,870	44,416	Jun-2029	26.4	2.20	over 3 months £ LIBOR
	321,870	294,000				
Retail eligible bond	50,000	50,000	Aug-2024	N/A	4.50	Fixed
	371,870	344,000				

* Before unamortised debt issue costs

** Based on Cushman and Wakefield property valuations

Table may not sum due to rounding

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

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

Interest cover, including amortised costs, stands at 3.6 times (31 December 2018: 2.3 times) including the ZDP shares, and 3.6 times excluding the ZDP shares (31 December 2018: 2.7 times). The interest cover, including amortised costs, increase was a result of the reduction of borrowings following the repayment of the ZDP shares on 9 January 2019.

Hedging

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

	31 December 2019	31 December 2018
	%	%
Borrowings interest rate hedged (incl. ZDP)	108.1	102.0
Thereof:		

Fixed	73.0	76.5
Swap	17.6	12.8
Cap	17.6	12.8
WACD ¹	3.5	3.8
WACD - Excluding the ZDPs ²	3.5	3.5

Table may not sum due to rounding

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

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

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

Tax

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

On 9 January 2018, the Company registered for VAT purposes in England.

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

Subsequent Events and COVID-19

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

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

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

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

Principal Risks and Uncertainties

Principal Risks and Uncertainties

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

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

The Group has established a risk management process to monitor and mitigate identifiable risks where possible, rather than eliminating them. The Audit Committee reviews the risk management matrix on a six-monthly basis. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring but does not purport to be an exhaustive list of all the risks faced by the Group.

The Board is aware that material emerging risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified, the Group will put in place controls to monitor and mitigate.

Principal Risk Summary

1. Inappropriate investment strategy ⇔
2. Valuation ⇔
3. COVID-19 ↗
4. Economic and political ⇔
5. Funding ⇔
6. Tenant ⇔
7. Financial and tax changes ⇔
8. Operational ↗
9. Accounting, legal and regulatory ⇔
10. Environmental and efficiency standards ↗

Movement trend in the period

Strategic

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇔
An inappropriate investment strategy could result in lower income and capital returns to Shareholders.	<ul style="list-style-type: none"> 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. Supply and demand market information is reviewed continuously to assist in acquisitions and disposals. 	<ul style="list-style-type: none"> The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Group continues to purchase properties in the UK outside the M25 motorway.
	<ul style="list-style-type: none"> No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate 	<ul style="list-style-type: none"> Tay House (31 December 2018: Tay House) remains

	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.	the highest valued property, which equates to 4.3% (31 December 2018: 4.6%) of the Group's investment properties.
	<ul style="list-style-type: none"> No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant. 	<ul style="list-style-type: none"> The Group's largest single tenant exposure is 2.5% (31 December 2018: 2.7%) of gross rental income, being Barclays Bank PLC (31 December 2018: Barclays Bank PLC).
	<ul style="list-style-type: none"> Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. 	<ul style="list-style-type: none"> No speculative construction was undertaken in the year.
	<ul style="list-style-type: none"> The value of the assets is protected by an active asset management programme, which is regularly reviewed against the business plan for each property. 	<ul style="list-style-type: none"> The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.

Valuation

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
The valuation of the Group's portfolio affects its profitability and net assets.	<ul style="list-style-type: none"> External valuers, Cushman & Wakefield provide independent valuations for all properties and in accordance with the RICS Red Book. The Audit Committee has the opportunity to discuss with the external valuers the basis of their valuations. The Asset Manager's experience and extensive property market knowledge and are able to challenge the external valuers findings. The Company's Auditor to engage an independent third party to evaluate Cushman & Wakefield valuation. 	<ul style="list-style-type: none"> Cushman & Wakefield provide the valuation for the entire portfolio.

COVID-19

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
The economic disruption resulting from COVID-19 virus could impact rental incomes, the ability to access funding at competitive rates, maintain a progressive dividend policy, and adhere to the HMRC REIT regime requirements, especially if associated	<ul style="list-style-type: none"> The retention of the Asset and Investment Manager, will be pivotal in the near-term in maintaining the rental income, given their experience and corporate memory. The Company and the Managers each agreed to waive their right to issue a termination notice on or before 3 November 2020 and the management agreement will now continue in force until 3 November 2023 The Asset Manager stands ready, should it be required, to support tenants in accessing UK Government financial assistance 	<ul style="list-style-type: none"> This was a completely new and unforeseen risk. However, the Group continues to scrutinise all current risk mitigation approaches employed and to work closely with all parties through this disruptive period.

restrictions are in place for greater than one year.	<ul style="list-style-type: none"> • The Asset Manager, where appropriate, has put in place social distancing measures as advised by the government • The available borrowing facility headroom has been drawn down from Santander UK and Royal Bank of Scotland • The Company is no longer considering a potential equity fundraise and any associated property acquisitions • Close relationships with lenders ensuring early dialogue around covenants • Dividend distributions remain under review 	
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Economic and political

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Significant political events could impact the health of the UK economy, resulting in borrowing constraints, change in demand by tenants for suitable properties, the quality of the tenants, and ultimately the portfolio value.	<ul style="list-style-type: none"> • The Group operates with a sole focus on the UK regions, with no foreign currency exchange exposure. It remains well positioned with a deliberately diverse standard industry classification of tenants generating in excess of 900 (31 December 2018: 800) income streams which are located in areas of expected economic growth. • The Board receives advice on macro-economic risks from the Investment Manager and other Advisers and acts accordingly. 	<ul style="list-style-type: none"> • There remains a risk that property valuations and the occupancy market may be impacted by the ongoing negotiations during the Brexit transition period.

Funding

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
The Group may not be able to secure further debt on acceptable terms, which may impinge upon investment opportunities and the ability to grow the Group.	<ul style="list-style-type: none"> • 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 LTV. 	<ul style="list-style-type: none"> • Weighted average debt term increased to 7.3 years from 6.4 years in 2018. • Weighted average cost of capital, including hedging costs was 3.5% (31 December 2018: 3.8%). • LTV increased to 38.9% from 38.3% at 31 December 2018.
Bank reference interest rates may be set to rise accompanying higher inflation.	<ul style="list-style-type: none"> • Policy of hedging at least 90% of variable interest rate borrowings. • Borrowings are currently provided by a range of institutions with targeted staggered maturities. 	<ul style="list-style-type: none"> • Continued adherence to the hedging policy.

Tenant

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio. The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 904 at the year end (31 December 2018: 874).
A high concentration of lease term maturity and/or break options could result in a more volatile contracted rent roll.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The WAULT to first break as at 31 December 2019 was 3.5 years (31 December 2018: 3.4) The largest tenant is 2.5% of the gross rental income, being Barclays Bank PLC (31 December 2018: 2.7%). The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.

Financial and Tax Change

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Changes to the UK REIT and non-REIT regimes, tax and financial legislation.	<ul style="list-style-type: none"> The Board receives advice on these changes where appropriate and will act accordingly. 	<ul style="list-style-type: none"> Advice is received from a number of corporate advisers including Grant Thornton UK LLP and the Group adapts to changes as required.

Operational

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
Business disruption could impinge on the normal operations of the Group.	<ul style="list-style-type: none"> The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group. These plans have been implemented in adherence to COVID-19 government guidelines, with limited disruption to operations. 	<ul style="list-style-type: none"> Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.
	<ul style="list-style-type: none"> An annual due diligence exercise is carried out on all principal third-party service providers. 	<ul style="list-style-type: none"> Annual due diligence visits were undertaken with the

		<p>Company's principal third party service providers.</p> <ul style="list-style-type: none"> There were no concerns identified from these visits.
	<ul style="list-style-type: none"> As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers. 	<ul style="list-style-type: none"> Both the Asset and Investment Manager are viable going concerns.
	<ul style="list-style-type: none"> 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 building, loss of rent and service charge plus terrorism insurance with the exception of a small number of "self-insure" arrangements covered under leases. 	<ul style="list-style-type: none"> The Asset Manager remains vigilant to changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures. The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.

Accounting, Legal, and Regulatory

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Changes to accounting, legal and/or regulatory legislation could result in changes to current operating processes.	<ul style="list-style-type: none"> 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 advisers. The Administrator, in its capacity as Group Accountant, and the Company Secretary attend all Board meetings in order to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Adviser. 	<ul style="list-style-type: none"> The Group continues to receive advice from its corporate advisers and has incorporated changes where required. The Administrator and Company Secretary continue to attend all Board meetings and advise on Listing Rule requirements in conjunction with the Corporate Broker and Financial Adviser.

Environmental and Energy Efficiency Standards

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
The Group's cost base could be impacted, and management time diverted, due to climate changes and associated legislation.	<ul style="list-style-type: none"> The Board receives regular updates on environmental, social, governance and potential legislation changes (e.g. the Government Green Finance Strategy July 2019) from its advisers. The Group is currently reviewing its approach to these emerging risks with the assistance of specialist external advisers. 	<ul style="list-style-type: none"> Additional attention is currently being devoted in this area to ensure the appropriate approach and indicators are applied.
Changes to the environment could impact upon the operations of the Group.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.
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Emerging Risks

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

Changes to the Principal Risks and Uncertainties

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

Going Concern

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

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

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

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

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

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

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

Viability Statement

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

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

Assessment of Review Period

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

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

Assessment of Prospects and Viability

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

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

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

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

The Board's expectation is further underpinned by the regular briefings provided by each of the Asset and Investment Manager. These briefings consider market conditions, opportunities, the ability to raise third-party funds and deploy these promptly, and changes in the regulatory landscape, and the current political and economic risks and uncertainties. These risks, and other potential risks which may arise, continue to be closely monitored by the Board.

Confirmation of Viability

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

The Directors have carefully reviewed areas of potential financial risk. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

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

Total comprehensive income arises from continuing operations.

Earnings per share – basic and diluted	12	6.6p	18.1p
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The notes below are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

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

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

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 8 April 2020 and signed on its behalf by:

Kevin McGrath,
Chairman and Independent Non-Executive Director
8 April 2020

Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

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

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	29.1	-	(930)	(930)
Share issue costs	27	(2)	-	(2)
Dividends paid	13	-	(29,825)	(29,825)
Balance at 31 December 2018		370,316	59,199	429,515

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. Corporate Information

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

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

The Company was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Schemes Rules 2018.

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

The nature of the Group's operations and its principal activities are set out in the Strategic Report which can be found in the full Annual Report.

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 2019 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 2019 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2019 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 8 April 2020.

2.1 Functional and presentation currency

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

2.2 Going concern

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

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

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

this period.

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

2.3 Business combinations

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

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

2.4 New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2019 and have had an impact on the financial statements are as follows:

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, most leased assets are capitalised as "right of use assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments.

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

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

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

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

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

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

**Transactions in the Condensed
Consolidated Statement of Comprehensive
Income**

**Year ended
31 December
2019
£'000**

**Year ended
31 December
2018
£'000**

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

2.5 New standards, amendments and interpretations effective for future accounting periods

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2020 and have not been applied in preparing these financial statements. These are:

Amendments to IFRS 3 'Business Combinations' (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions. As detailed in notes 2.3 and 3.4, careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the Directors do not expect the amendments to this standard to have any significant impact on the financial statements.

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

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1 Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £787,915,000 (31 December 2018: £718,375,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The value of the properties has been assessed in accordance with the relevant parts of the current RICS Red Book. In particular, we have assessed the fair value as referred to in VPS4 item 7 of the RICS Red Book. Under these provisions, the term "Fair Value" means the definition adopted by the International Accounting Standards Board ("IASB") in IFRS 13, namely "The price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in note 14.

In relation to Brexit, the ongoing negotiations with regards to the terms of the UK's exit from the EU has meant that property market uncertainty has increased. The independent property valuation experts are comfortable

that, despite the property market uncertainty, there is sufficient transactional market evidence at the reporting date to support the fair value of investment property.

3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values, including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £1,816,000 (31 December 2018: £337,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

3.1.3 Leases – the Group as lessee

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

3.1.4 Dilapidation income

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

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

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

3.2.1 Operating lease contracts – the Group as lessor

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

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

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

3.2.3 Acquisitions of subsidiary companies

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

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

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

3.2.4 Recognition of income

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

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2018 and have been consistently applied for the year ended 31 December 2019. The significant change arising from accounting standards effective for the first time, IFRS 16 Leases, is detailed in note 2.4.

4.1. Basis of consolidation

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

4.2 Subsidiaries

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

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

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

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

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

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

4.2.1. Disposal of subsidiaries

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

4.3. Segmental information

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

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

statements.

4.4. Investment property

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

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

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

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

4.5. Goodwill

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

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

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

4.6. Derivative financial instruments

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

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

4.7 Financial assets

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

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

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

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

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

4.8. Trade and other receivables

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

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

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

4.9. Cash and cash equivalents

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

4.10. Trade payables

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

4.11. Bank and other borrowings

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

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

4.12 Zero Dividend Preference Shares

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

4.13 Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.14 Rental and property income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental and property income in the Group's Consolidated Statement

of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

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

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

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

Dilapidation income is recognised in the Group's Statement of Comprehensive Income when the right to receive it arises.

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

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

4.15 Property costs

Non recoverable property costs contain service and management charges related to empty properties. For the year ended 31 December 2018 this figure also included ground rents charges. As from 1 January 2019 a right of use asset and a lease liability are recognised instead of a ground rent cost. Please refer to notes 2.4 and 4.23.

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

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

4.16. Interest income

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

4.17. Dividend income

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

4.18. Finance costs

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

4.19. Taxation

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

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

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

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

4.20 Deferred tax

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

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

The current rate of UK Corporation Tax is 19%. Reductions in UK Corporation Tax have been enacted, reducing the rate to 17% from 1 April 2020, however, it has been confirmed in the recent Budget Announcement, on 11 March 2020, that the government will legislate to retain the current 19% rate in April 2020.

4.21. Stated capital

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

4.22. Share-based payments

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

4.23 Leased assets

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. These leased assets are capitalised as “right of use assets” by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments.

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

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

5. Rental and property income

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

6. Property costs

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

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

7. Administrative and other expenses

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

Services provided by the Company's Auditor and its associates

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

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

8. Directors' remuneration

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

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

9. Finance income

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

10. Finance expenses

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

11. Taxation

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

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

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

Deferred tax movement	102	(1,416)
Total	(257)	567

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

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

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

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

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

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

12. Earnings per share

Earnings per share amounts are calculated by dividing profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

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

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

13. Dividends

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

On 21 February 2019, the Company announced a dividend of 2.50 pence per share in respect of the period 1 October 2018 to 31 December 2018. The dividend payment was made on 11 April 2019 to Shareholders on the register as at 1 March 2019.

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

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

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

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

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

14. Investment properties

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

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

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

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

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

Movement in investment properties for the year ended 31 December 2018

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

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

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

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

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

The hierarchy levels are defined in note 30.

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

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

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

Techniques used for valuing investment properties

The following descriptions and definitions relate to valuation techniques and key observable inputs made in determining the fair values: -

Valuation technique: market comparable method

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

Observable input: market rental

The rent at which space could be let in the market conditions prevailing at the date of valuation range: £6,000-£3,092,291 per annum (2018: £1,500- £3,092,226 per annum).

Observable input: rental growth

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

Observable input: net initial yield

The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0.00%-28.70% (2018: 0.00%-26.98%).

Unobservable inputs:

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

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

15. Investment in subsidiaries

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

	Country of incorporation	Ownership %
Blythwood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Bristol Ltd	Jersey	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (South) Limited	Jersey	100%
RR Range Limited	Jersey	100%
RR Sea Dundee Limited	United Kingdom	100%
RR Sea Hannover St. Limited	United Kingdom	100%
RR Sea Lamont I Ltd	Jersey	100%
RR Sea Lamont II Ltd	Jersey	100%
RR Sea Lamont III Ltd	Jersey	100%
RR Sea St. Helens Limited	United Kingdom	100%
RR Sea Stafford Limited	United Kingdom	100%
RR Sea Strand Limited	United Kingdom	100%
RR Sea TAPP Limited	Guernsey	100%
RR Sea TOPP Bletchley Limited	Guernsey	100%
RR Sea TOPP I Limited	Guernsey	100%

RR Skylar Limited	Jersey	100%
RR UK (Central) Limited	Jersey	100%
RR UK (Cheshunt) Limited	Jersey	100%
RR UK (Port Solent) Limited	Jersey	100%
RR UK (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Scotland Limited	Jersey	100%
RR Star Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
RR Falcon Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund Portland Street Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%

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

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

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

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

The companies which make up the View Castle Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	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 (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited (in liquidation)	United Kingdom	100%
Credential Bath Street Limited (in liquidation)	United Kingdom	100%
Credential Charing Cross Limited (in liquidation)	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Residential Finance Limited (in liquidation)	United Kingdom	100%
Credential Tay House Limited (in liquidation)	United Kingdom	100%
Hamiltonhill Estates Limited (in liquidation)	United Kingdom	100%
Lilybank Church Limited (in liquidation)	United Kingdom	100%
Lilybank Terrace Limited (in liquidation)	United Kingdom	100%
Old Mill Studios Limited (in liquidation)	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited (in liquidation)	United Kingdom	100%
Squeeze Newco 2 Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%
View Castle (Properties) Limited	United Kingdom	100%
View Castle (Milton Keynes) Limited	United Kingdom	100%
View Castle Limited	United Kingdom	100%

All of the above entities have been included in the Group's consolidated financial statements up to 31 December 2019.

Business Combinations

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

During the year, there were two subsidiary company acquisitions that took place in order for the Group to acquire the investment property owned by that company. These acquisitions have not been treated as a business combination. For further details see note 3.4. The fair value of investment properties acquired through the purchase of subsidiary companies totalled £45,790,000. Total consideration paid was £45,173,000. The assets and liabilities of the companies acquired included the investment properties, mentioned above, net current liabilities totalling £716,000 (principally comprising debtors, cash, creditors and deferred income) and bank borrowings of £nil.

16. Goodwill

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

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on group pre-tax cash flow projections of cost savings of the Group as a whole as a single cash generating unit, using a discount factor of 6.9% (31 December 2018: 4.8%), which is based on the borrowing margins currently available. If a reasonable change occurs in a key assumption, the recoverable amount of goodwill would still be expected to be equal to the carrying value. The impairment review was conducted over a five-year period, which is predominately derived from the borrowings facility terms, and will result in a nil terminal value.

17. Non-current receivables

17a. Non-current receivables on lease surrender premium

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

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

17b. Non-current receivables on tenant loans

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

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

18. Trade and other receivables

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

Prepayments	<u>16,781</u>	<u>12,198</u>
	<u>32,158</u>	<u>22,163</u>

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

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

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

Provision for impairment of trade receivables movement as follows:

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

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

19. Cash and cash equivalents

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

Restricted cash balances of the Group comprise:

- £124,000 (2018: £20,259,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £2,312,000 (2018: £900,000) of funds which represent tenants' rental deposits.
- £nil (2018: £1,268,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain conditions are met. The restricted funds arose on net proceeds held in relation to rental guarantees given by the seller of properties purchased by the Group. These funds can only be withheld by the lender and used to repay outstanding loans in the event

- of a default.
- £81,000 (2018: £nil) is held in other locked accounts.

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

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

20. Trade and other payables

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

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

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

22. Taxation liabilities

	31 December 2019 £'000	31 December 2018 £'000
Income tax	-	1,129
Deferred tax	736	634
	736	1,763

The movement on deferred tax liability is shown below:

At start of year	634	2,050
Deferred tax on the valuation of investment properties	102	(1,416)
At end of year	736	634

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 yearend are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2019 £'000	31 December 2018 £'000
Bank borrowings drawn at start of year	290,487	339,074
Bank borrowings drawn	22,911	52,919
Bank borrowings repaid	(19,398)	(101,506)
Bank borrowings drawn at end of year	294,000	290,487
Less: unamortised costs at start of year	(4,888)	(4,693)
Less: loan issue costs incurred in the year	(2,168)	(1,367)

Add: loan issue costs amortised in the year	912	1,172
At end of year	287,856	285,599
Maturity of bank borrowings		
Repayable within 1 year	-	400
Repayable between 1 to 2 years	-	400
Repayable between 2 to 5 years	48,584	88,687
Repayable after more than 5 years	245,416	201,000
Unamortised loan issue costs	(6,144)	(4,888)
	287,856	285,599

As detailed in note 25, the Group has £50,000,000 retail eligible bonds in issue.

The table below lists the Group's borrowings.

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value** %	Annual interest rate	Amortisation
Royal Bank of Scotland	55,000	48,584	Jun -24	39.8%	2.15% over 3mth £ LIBOR	Mandatory prepayment
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	45.1%	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	Dec-28	38.9%	3.37% Fixed	None
Santander UK	65,870	44,416	Jun-29	26.4%	2.20% over 3mth £ LIBOR	Mandatory prepayment
Total bank borrowings	321,870	294,000				
Retail eligible bond	50,000	50,000				
Total	371,870	344,000				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

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

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

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

As shown in note 26, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge

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

24. Zero dividend preference shares

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

The Group entity, Regional REIT ZDP PLC, had 30,000,000 zero dividend preference shares ("ZDP shares") in issue, which were listed on the London Stock Exchange (LSE: RGLZ). The ZDP shares were issued at 100 pence per share. The ZDP shares had an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but did not receive any dividends or income distributions. Additional capital accrued to the ZDP shares on a daily basis at a rate equivalent to 6.5% per annum, resulting in a final capital entitlement of 132.9 pence per share, which was paid on 9 January 2019.

25. Retail Eligible Bonds

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

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

26. Derivative financial instruments

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

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

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

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

Lender	Original Facility	Outstanding Debt	Maturity Date	Annual Interest rate	Notional Amount	Rate
	£'000	£'000		%	£'000	%
Royal Bank of Scotland	55,000	49,584	Jun-24	2.15% over 3 months £ LIBOR	£27,500 £27,500	1.26% 1.26%
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	3.28% Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	Dec-28	3.37% Fixed	n/a	n/a
Santander UK	65,870	44,416	Jun-29	2.20% over 3 months £ LIBOR	£33,000 £33,000	1.80% 1.80%
Total	321,870	294,000				

LIBOR = London Interbank Offered Rate (Sterling)

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

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

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

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end, the total proportion of hedged debt equated to 109.5% (31 December 2018: 102.6%), as shown below. The over hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but that the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

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

The Group has not adopted hedge accounting.

27. Stated capital

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

Group	31 December 2019	31 December 2018
	£'000	£'000
Issued and fully paid shares of no par value		
At start of the year	370,316	370,318
Shares issued 23 July 2019	62,500	-

Share issue costs	<u>(1,997)</u>	<u>(2)</u>
At end of the year	<u>430,819</u>	<u>370,316</u>
Number of shares in issue		
At start of the year	372,821,136	372,821,136
Shares issued 23 July 2019	<u>58,685,447</u>	<u>-</u>
At end of the year	<u>431,506,583</u>	<u>372,821,136</u>

28. Net asset value per share (NAV)

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

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

Net asset values have been calculated as follows:

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

29. Notes to the Statement of Cash Flows

29.1. Non cash transactions

The Group has accounted for the following non cash transactions:

- During the year ended 31 December 2018, the Group reversed the total of share-based payment adjustments made in previous years having determined that the Performance Fees would be fully paid by cash (see note 35).

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

31 December 2019	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2019	285,599	39,816	49,136	337	16,545	391,433

Changes from financing cash flows:						
Zero Dividend Preference Shareholders repaid	-	(39,879)	-	-	-	(39,879)
Bank and Bond borrowings advanced	22,911	-	-	-	-	22,911
Bank borrowings repaid	(19,398)	-	-	-	-	(19,398)
Bank and Bond borrowing costs paid	(2,168)	-	(7)	-	-	(2,175)
Lease payments	-	-	-	-	(35)	(35)
Total changes from financing cash flows	1,345	(39,879)	(7)	-	(35)	(38,576)
Amortisation of issue costs	912	3	157	-	-	1,072
Accrued capital entitlement	-	60	-	-	-	60
Change in fair value	-	-	-	1,479	-	1,479
Total other changes	912	63	157	1,479	-	2,611
Balance at 31 December 2019	287,856	-	49,286	1,816	16,510	355,468

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

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

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

30. Financial risk management**30.1 Financial instruments**

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

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

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

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

- The fair value of bank and loan borrowings is determined by reference to mark to market valuations provided by the lenders.
- The fair value of Retail Eligible Bonds is determined by their published market value.

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

- The fair value of interest rate derivatives is recorded in the Consolidated Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the year end.
- The fair value of the lease liability is recorded in the Consolidated Statement of Financial Position calculated as the present value of future cash flows discounted using the Group's incremental borrowing rate.

Fair value hierarchy

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

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

The different levels are defined as follows.

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

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

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

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

There have been no transfers between levels during the year.

30.2 Risk management

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

30.3 Market risk

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

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

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 2019 £'000	31 December 2018 £'000
0.00%	-	-
0.25%	81	102

0.50%	155	24
0.75%	184	307
1.00%	212	409

30.4 Credit risk

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

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

30.5 Credit risk related to trade receivables

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

30.6 Credit risk related to financial instruments and cash deposits

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

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

Bankers	Fitch Ratings
Barclays	A Stable
Royal Bank of Scotland	A Stable
Santander UK	A+ Stable
Aviva	A+ Stable
Scottish Widows*	A+ Stable

* rating relates to parent entity – Lloyds Banking Group plc

30.7 Liquidity risk

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

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

Group at 31 December 2019	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	(20,584)	-	-	-	(20,584)
Bank borrowings	(9,579)	(9,579)	(76,588)	(273,944)	(369,690)
Interest rate derivatives	(487)	(483)	(1,111)	-	(2,081)
Retail eligible bonds	(2,250)	(2,250)	(56,750)	-	(61,250)
Lease liability	(618)	(618)	(1,854)	(50,964)	(54,054)
	(33,518)	(12,930)	(136,303)	(324,908)	(507,659)

Group at 31 December 2018	Within	Between	Between	After
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	1 year £'000	1 to 2 years £'000	2 to 5 years £'000	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)
ZDP 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)

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

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

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

31. Capital management

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

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

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

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

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

32. Operating leases

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

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

The Group has in excess of 910 operating leases. The number of years remaining on these operating leases varies between 1 and 80 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point, a surrender premium will be charged to cover the shortfall in rental income received.

33. Leases

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

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

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

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

34. Segmental information

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

35. Transactions with related parties

Transactions with the Directors

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

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

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

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

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

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

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

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

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

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

* Including irrecoverable VAT charged where appropriate

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee, Chief Legal Counsel of Toscafund Asset Management LLP was appointed as non-executive director on 7 July 2017. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

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

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

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Investment management fees charged	2,356	2,405
Performance fees charged	-	3,523

Total	2,356	5,928
	31 December	31 December
	2019	2018
	£'000	£'000
Total fees outstanding	591	5,044

Performance Fee

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

The Performance Fee for the first Performance Period, 6 November 2015 to 31 December 2018, was paid 50% in cash and 50% in Ordinary Shares which are subject to a one-year lock-up.

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

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

36. Capital commitments

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

37. Subsequent events

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

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

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

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

Regional REIT Limited;
 ISIN: GG00BYV2ZQ34
 SEDOL: BYV2ZQ3
 Legal Entity Identifier: 549300D8G4NKLRIBX73

Company Website
www.regionalreit.com

Forthcoming Events

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

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