

Regional REIT Limited

Interim Results for the Half-Year Ended 30 June 2017 (Unaudited)

**Continued growth of regional office and industrial portfolio;
confidence in the continued strength of business model**

Regional REIT Limited (LSE: RGL) (“Regional REIT”, the “Group” or the “Company”), the UK regional office and industrial property focused REIT, today announces its results for the six months ended 30 June 2017.

Financial Highlights for the half-year to 30 June 2017 (unaudited):

- Gross investment property portfolio of £640.4m (31 Dec 2016: £502.4m); valuation increase was £7.5m. Like-for-like value increased 2.2%.
- In a ‘NAV-for NAV’ transaction the Group acquired a mixed portfolio of office, industrial, retail and leisure properties for c. £129m.
- Gross bank borrowings of £298.7m (31 Dec 2016: £220.1m), the increase part-funding the acquisition referred to above; the cost of bank debt declined to 3.3% pa (including hedging costs). As part of the acquisition the Group also acquired Zero Dividend Preference Shares; £36.2m outstanding as at 30 June 2017.
- Net LTV of the Group reduced to 47.3%, from c. 49% following the acquisition, and will continue to be managed down towards the Group’s long-term target.
- Operating profit increased to £21.8m (H1 2016: £12.1m) including the £7.5m investment property gain; Operating profit before property gain increased to £14.3m (H1 2016: £13.4m).
- Fully diluted EPRA NAV of 107.3 pence per share (“pps”) (31 Dec 2016: 106.9pps), the property valuation gain in the first-half offset by the Q4 2016 dividend and the Performance Fee accrual.
- Dividends declared in relation to H1 2017 amounted to 3.60pps, an increase of 2.9% on H1 2016.

Operational Highlights included:

- The Group continued its approach of active asset management - to improve and generate additional income through lease renewals, re-gears and new lettings - and delivered on its strategy and the commitments made at the time of the IPO (November 2015).
- A diversified portfolio of 150 properties (31 Dec 2016: 123), 1,093 units (31 Dec 2016: 941) and 823 tenants (31 Dec 2016: 717); with the acquisition of a further 31 properties in March 2017.
- Occupancy (by value) of 83.3% (31 Dec 2016: 82.7%) and (by area) 83.1% (31 Dec 2016: 83.8%), reflecting significant property refurbishment programmes.
- Offices amount to 62.8% (by value) of the portfolio and industrial sites 26.0%, post the recent acquisition, with an increased share in England & Wales to 75.1% (31 Dec 2016: 73.2%). Retail and other, at 11.2%, remain non-core to the Group.
- Portfolio continues to be based on a broad mix of business activities, with a limited exposure to finance activities, reflecting the UK-wide economy. The largest single tenant is 3.0% of gross rental income and the largest property 5.0% of the portfolio.
- Total shareholder return since IPO of 17.8%, an annualised rate of 10.7% (excluding IPO launch costs, 20.0% and 12.1%).

After the period end:

- Acquisition of Woodlands Court, Bristol, for £6.55m, and the disposal of St James House, Bath, for £4.6m. New letting agreed for an industrial warehouse of 65,503 sq. ft., at Juniper Park, Basildon, and for 50,661 sq. ft. at Heathhall Industrial Estate, Dumfries.
- The Managers are in advanced refinancing discussions for long-term funding.

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited, commented: *“It has been a very active period for the Group. We have seized the opportunity to expand our portfolio, increasing the scale and diversity of our business across the UK’s regions. We are reassured by the steady level of tenant interest for offices and light industrial sites, which can be expected to increase occupancy. In addition, we are seeing momentum in rentals, particularly for industrial properties. Whilst we remain alert to increasing economic uncertainty we remain committed to our strategy and confident in the strength of our business model.”*

A meeting for investors and analysts will be held at 09:30 (London time, BST) on 14 September 2017 at the offices of Peel Hunt. If you would like to attend the meeting please contact Charlie Twigg, +44 (0) 20 3805 4842 or ctwigg@headlandconsultancy.com. The presentation slides for the meeting will shortly be available to download from the Investors section of the Group's website at www.regionalreit.com.

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

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About Regional REIT

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

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

The Group's investment portfolio, as at 30 June 2017, was spread across 150 regional properties, 1,093 units and 823 tenants. As at 30 June 2017, the investment portfolio had a value of £640.4m and a net initial yield of 6.7%. The weighted average unexpired lease term to first break was 3.5 years.

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

Cautionary Statement

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

CHAIRMAN'S STATEMENT

I am pleased to report that the Company has delivered positive growth in the first six months of 2017, through a combination of new lettings, re-gearing of existing lettings and the significant expansion of its asset base with the acquisition of the portfolio of investment assets from The Conygar Investment Company PLC ("Conygar"). In keeping with our business strategy we continue to deliver consistent recurring income, while also improving occupancy and increasing rental rates across our large and diverse portfolio of properties and tenants. Our active asset management expertise continues to ensure that we do all the things good property managers should do, and do them consistently, to deliver benefits to our tenants and our shareholders, alike. We have maintained a net initial yield of 6.7% (31 December 2016: 6.7%) with an equivalent yield of 8.3% (31 December 2016: 8.6%), well in excess of the all-in cost of debt of 3.7%, thereby offering an attractive risk-weighted income investment. Furthermore, the valuation uplift in the first six months of 2017 amounted to £7.5m, with 2.2% like-for-like, reflecting the benefits of active asset management as well as the longer-term structural strength of regional property.

For the first six months of 2017 our Gross rental income increased 16.6% and Operating profit increased 6.6%, against the first-half of 2016. The lower rate of growth in Operating profit resulted from a combination of factors: a number of key properties being vacant and/or undergoing refurbishment; the absence of rental top-up guarantees received in the half-year 2016; and increased letting agent costs for tenant acquisition. Additionally, we have now accrued in full the Manager's Performance Fee to date, having completed the first performance period and achieved an annualised Total Shareholder Return (EPRA NAV plus dividends) from the IPO to 30 June 2017 of 10.7% pa. The Board is very pleased with this performance and the positive growth trend, and we are mindful that it is the nature of the property business that growth in profits will vary from period-to-period relative to growth in income and assets, as the business incurs expenses and voids associated with refurbishments to create future profits and value. We are comforted that our shares have traded well relative to much of the property sector, at or around the EPRA NAV throughout the period.

The c. £129m acquisition of the property portfolio from Conygar was the major event in the period. The portfolio of 31 office, retail, industrial and leisure properties complements our existing portfolio and offers significant asset management opportunities. We welcome Conygar as a major new shareholder. Additionally, we have continued to work to realise the benefits from our "Wing" and "Rainbow" acquisitions in the first-half of 2016 and at the same time we have progressed with our plans to invest in the enhancement of our property portfolio. We have announced planned capital expenditure this year to date of some £17m, targeted to particularly attractive letting prospects in Aylesbury, Birmingham, Bristol and Leeds.

The Company expects regional offices and industrial property to maintain rental growth for the medium-term. The current key advantages of the regions are lower rental levels than London, a lack of supply of prime properties, buoyant demand in key centres, and the broader business base of the economy outside of London. The Board believes that the Company is well positioned to capture these late-cycle benefits and its current occupancy level of 83.3% (by value) provides scope to do so, along with expected higher rental income on renewals, and achieving cost efficiencies with the increasing scale of the business. Recent levels of enquiries and completions have been high and, along with lease renewals and holdovers, have buoyed our expectations for occupancy levels and rental growth. Brexit and general economic uncertainty will continue to dampen and delay some letting commitments, but we believe that the regional focus of the Company, the scale and diverse exposures of tenants' businesses, as well as the office and industrial mix, will enable us to manage much of the broader economic uncertainty we face. The Asset Manager's experience and knowledge of the tenants and assets is an additional assurance.

The Board believes that there remain opportunities to acquire additional portfolios and the Company is evaluating these opportunities as they arise. In addition, the Company is actively seeking to extend the term of its debt financing for which it is in advanced discussions with lenders.

In early July we announced that Mr Martin McKay was stepping down as a Non-Executive Director, having been in this role from the inception of the Company. We are very grateful for the valuable support that Martin provided Regional REIT. We were pleased to confirm the immediate appointment of Mr Tim Bee in his stead.

Dividend

Dividends are a major element of our Shareholders' Total Return; our 2016 yield on the IPO issue price (100p) was 7.7%. The dividends declared for the first and second quarters of 2017 each amounted to 1.80p. This is an increase of 2.9% on the comparable periods of the prior year.

The Company expects to declare dividends at the same level for the first three quarters of the 2017 financial year and then declare a dividend for the fourth quarter (in early 2018) to at least manage compliance with the 90% minimum REIT distribution requirement.

Outlook

We remain positive on UK regional office and industrial property. Our confidence is underpinned by the continued strength evident in the occupational market and in the investment market, notably for industrial property. The eventual impact of Brexit remains unclear, but we believe that the scale and diversity of our portfolio positions us well to maintain the consistency of our rental income and to navigate much of the increased economic uncertainty.

We continue to be well positioned for 2017 and our IPO objectives, with the second-half's results set to benefit from seasonality, a full period contribution from the assets acquired in the first-half and the expected progress across the portfolio. It remains the overriding objective of the Board to deliver an attractive total return to shareholders, of 10-15% per annum, a significant element of which will be the dividend.

Kevin McGrath

Chairman and Independent Non-Executive Director

13 September 2017

ASSET AND INVESTMENT MANAGERS' REPORT

Market Overview

In the first-half of 2017, the value of commercial property investment experienced only a marginal increase on the same period in 2016. However, there was a marked rise in overseas investors' activity; a feature that is expected to continue, supported by the depreciation in Sterling. The Asset Manager anticipates that the UK's regional commercial property markets will remain attractive to investors with capital values less volatile, which will likely result in investors increasing their exposure in the regional markets and lead to heightened activity in the second-half of 2017. The Asset Managers' view is that the UK's regional commercial real estate market will remain robust through 2017-18, from both occupational and investment perspectives, which could result in the resumption of the narrowing of the yield gap between prime and secondary property.

In the period there was a decline in the availability of property, and consequently vacancy rates, across the big 10 regional commercial property markets due to strong occupier demand, limited supply and a lack of new-build schemes in the market. Conversely, the central London property market experienced an increase in supply as well as a fall in occupier demand, which resulted in a rise in the vacancy rate. The majority of market sectors, led by industrial, are expected to experience rental growth throughout 2017, according to the latest forecasts from the Investment Property Forum. The Asset Manager anticipates that the supply-demand dynamics of our core office and industrial markets will continue to support higher rental growth across the UK's regions.

Regional REIT has been active and opportunistic throughout the first-half of 2017. The Group undertook one significant property portfolio acquisition of c. £129m, with a net initial yield of 7.0%; disposals of non-core assets amounted to £3.7m net (£3.7m before costs) with a net initial yield of 7.5%. Occupancy (by value) increased to 83.3%, from 82.7% as at 31 December 2016, mainly as a result of completing 46 new leases in the first-half of 2017, totalling c. 173,000 sq. ft.; these will provide approximately c. £1.6m pa of contracted rental income. In addition, 63 leases came up for renewal over the period, totalling 407,229 sq. ft.. Including tenants that are currently holding over, lease renewals, and the acquisition of new replacement tenants, c. 80% (by value) of the units with lease renewals in the period remain occupied.

Investment Activity in UK Commercial Property

In the first-half of 2017 total investment in UK commercial property was £27.2bn, according to research from Savills¹, a 1% increase on the same period in 2016. There was a contrasting investment performance between the first two quarters of 2017, with the regions outperforming London in Q1 2017 but with Q2 2017 seeing a reversal and London outperforming.

Investment continued to shift away from London in Q1 2017 whilst investment in the regions rose, with Scotland and the west of England doing particularly well, and overall investment for the regions was up 15% year-on-year. In Q2 2017, however, contrasting with the general downward trend of recent quarters, investment volumes in London rose to £7.1bn, 10% above the five-year quarterly average. The resurgence in London was affected by a number of big-ticket deals completing during the second quarter of 2017¹. The investment performance across the regions was, however, more mixed in Q2 2017, according to data from CoStar. Investment in Scotland was £330m (42% below the five-year quarterly average), contrasting with the strong performance in Wales and the East of England, where investment was 117% and 50% respectively above their five-year quarterly averages.

Research from CoStar shows that the increase in overseas investment seen in Q4 2016 continued throughout the first-half of 2017. Foreign investment as a share of total spending reaching record levels in Q2 2017 at 52%, accounting for £6.5bn of the total spend, up 41% from the same quarter last year. Inward investment from overseas was predominately focused on London which led to the stronger performance of London in Q2 2017.

¹ 20 deals over £100m were completed, including the £1.15bn sale of the Leadenhall Building to Hong Kong investor CC Land - compared with 13 in Q1 2017 and only 6 in Q2 2016.

Occupational Demand in the UK Regional Office Market

CBRE estimates that the take-up of office space across ten key regional cities² reached 2.8 million sq. ft. in the first-half of 2017, 5% lower than the take-up in the first-half of 2016. Additionally, the take-up in the first-half of 2017 was 4% below the average of the same period over the last five years. Although some regions have experienced a reduced take-up in comparison to previous periods, demand proved resilient in the first half of this year in cities such as Edinburgh, Leeds and Manchester, all of which experienced increased levels of occupier demand for space in comparison to the first-half of 2016.

In terms of the new development of office space in regional cities, research from Savills highlights that approximately 38% of speculative development over the next three years will be in the form of refurbishment, which in turn is set to increase average rents throughout the UK. Occupier demand is likely to continue throughout 2017, this combined with limited supply and lack of development makes for a positive outlook and upward pressure on rents in the regional markets.

Rental Growth Continues in the UK Regional Office Market

According to Savills, a shortage in Grade A office space in regional markets is likely to put upward pressure on rents during the second-half of 2017. The strongest rental growth is expected in cities with lower levels of available Grade A office space, including Bristol and Manchester. It is anticipated that the lack of supply will also result in rental growth for newly refurbished office space in the core regional markets.

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

The Asset Manager anticipates that positive sentiment will result in continued demand for regional office space throughout 2017, with limited supply of prime properties resulting in rising demand for high-quality secondary properties and recently refurbished office buildings.

Regional REIT's Office Assets

Occupancy by value of the Group's regional offices was 81.6% (30 June 2016: 80.0%; 31 December 2016: 80.5%), with the acquisition of the Conygar portfolio in the period; occupancy by area was 81.6% (30 June 2016: 81.9%; 31 December 2016: 82.2%). A like-for-like comparison of the Group's regional offices occupancy by value, 30 June 2017 versus 31 December 2016, shows that occupancy fell marginally to 80.3% (31 December 2016: 80.4%), affected by the ongoing property refurbishment programme. WAULT to first-break was 3.1 years (30 June 2016: 3.3 years; 31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.3 years (31 December 2016: 3.5 years).

Occupier Demand Strengthens in the UK Industrial Market

In the first-half of 2017, take-up on units over 50,000 sq. ft. in the UK industrial and logistics market totalled 16.5 million sq. ft.³. Despite this take up being below the level of demand experienced in the second-half of 2016, it indicates a 2% increase above the level recorded during the first-half of 2016. In terms of regional markets, occupier demand in the Midlands remained particularly strong in the first-half of 2017, representing 32% of total take-up recorded. Other regions which experienced continued demand were the North West, London and the South East, contributing 30% of overall demand.

Research shows that the online retail market grew by c.16% in 2016, totalling £133 billion⁴, with a continued move from in-store to online shopping. Forecasts for 2017 anticipate continued growth in online retailing of approximately 14%. According to Cushman & Wakefield, e-commerce related occupiers accounted for 30% of total take-up figures throughout the UK in Q1 2017.

² Ten regional markets monitored by CBRE include: Aberdeen, Belfast, Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Southampton

³ Knight Frank Logistics & Industrial Occupier & Investment Market Commentary H1 2017

⁴ IMRG-Capgemini eRetail Sales Index

Cushman & Wakefield has highlighted that a fall in suitable speculative development has resulted in a rise in the number of occupiers choosing purpose-built solutions. Recent research indicates that the 12-month development pipeline was 10% lower in Q1 2017 when compared to the same period last year; speculative development only accounted for 35% of the overall development pipeline.

The Asset Manager anticipates the combination of growing demand, limited supply, and lower levels of development, will deliver rental growth throughout 2017.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced the highest rental value growth in 2016, showing a c. 4% increase according to IPD. However, the most recent figures from IPD indicate that rental growth slowed slightly in June 2017, to 3.9% annualised⁵.

According to the Investment Property Forum UK Consensus Forecast, rental growth forecasts for all property rose to 0.9% as at September 2017. Industrial market forecasts are set to experience the highest rental value growth of c. 3% in 2017 according to IPF. Additionally, estimates indicate average rental growth rates for 2018 and 2019 of 2.1% and 1.7% respectively.

Research by Cushman & Wakefield indicates that the supply-demand imbalance will result in an upward pressure on prime industrial rents throughout 2017. Annual prime rental growth ranged from 3.1% in the West Midlands to 13% in Yorkshire (for units 100,000 sq. ft. or larger) during Q1 2017.

Regional REIT's Industrial Assets

Occupancy by value of the Group's industrial sites was 84.1% (30 June 2016: 84.2%; 31 December 2016: 86.2%), with the inclusion of the Conygar assets in the period; occupancy by area was 84.0% (30 June 2016: 82.3%; 31 December 2016: 85.3%). A like-for-like comparison of the Group's industrial sites occupancy by value, 30 June 2017 versus 31 December 2016, shows that occupancy fell to 83.9% (31 December 2016: 86.7%). This reduction follows the expiry of the leases at Cortonwood Business Park, Barnsley (57,372 sq. ft.) and Unit C Manor Road, Erith (9,370 sq. ft.) during the first-half of 2017. The business plan for both properties envisaged these expiries, with opportunities to then refurbish and re-let at significantly higher rentals. Currently there is interest in Barnsley with the potential to achieve a significant valuation uplift. Following earlier refurbishments at Erith, Unit A (7,088 sq. ft.) was re-let in December 2016 and Unit D (9,370 sq. ft.) let in August 2017, both at significantly improved rental rates. Additionally, an agreement for a lease is close to being signed for Unit B (9,370 sq. ft.). Industrial occupancy will also be improved following the imminent completion of a letting agreement of Unit 131B Heathhall Industrial Estate, Dumfries (50,661 sq. ft.); further, Unit 1A (65,603 sq. ft.), Juniper Park, Basildon has been let from 1 September 2017. In total Barnsley, Basildon, Dumfries and Erith represent 5.7 percentage points of the overall estimated rental value of the industrial section of the portfolio. WAULT to first-break was 3.8 years (30 June 2016: 3.7 years; 31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.5 years (31 December 2016: 3.5 years).

Active Asset Management in the six-months to June 2017

The Company maintained a high level of asset management activity in the first-half of 2017, with an extensive number of new lettings and regears, as outlined above. There has also been capital expenditure in refurbishing attractive lettings for an occupancy market that remains buoyant, and which can be expected to be value accretive when completed and let.

Highlights of the lettings and regears in the period include:

- 9 Portland Street, Manchester. Final available floor space let to an existing tenant, Mott MacDonald Limited, along with the removal of a break in their existing letting; Mott MacDonald is secured for an 8-year term. With 100% occupancy, the property yields an annual rental income of £756,150 pa. Since refurbishment the rental value has been improved 44%, to £19.50 psf. With a current average rental of £13.75 psf there is the potential for significant reversionary growth on lease renewals and rent reviews.

⁵ Data taken from Colliers International Research & Forecast Report (July 2017)

- Tokenspire Business Park, Beverley. Letting of 28,527 sq. ft. of space in January-February 2017, comprised five separate deals ranging from 2,000 sq. ft. to 9,626 sq. ft., to produce a headline rent of £63,500 pa.
- Hampshire House, Hampshire Corporate Park, Chandlers Ford. Commenced and completed the final stage of refurbishment of the 20,000 sq. ft. first floor in the period, following the expiry of the lease to Aviva in December 2016. Subsequently completed lettings of the vacant first-floor to internet and telecoms provider, Daisy, and to Utilita Energy, a leading supplier of 'pay as you go' energy in the UK. Each occupy 10,000 sq. ft. on new 10-year leases, at a rent of £19.75 psf.
- Donegal House, Bromley. Following completion of a full refurbishment, the letting of available units was completed with an ERV uplift to £20 psf, from £15 psf.
- Brennan House, Farnborough. Following its purchase in March 2017 as part of a portfolio, and having already been comprehensively refurbished, the entire building was taken by Fluor Limited on a 7-year lease, subject to break options, at a headline rent of £756,536 pa (£24.50 psf). Brennan House is a self-contained Grade A office building of 30,879 sq. ft. with its own car parking facilities.

In addition the Company announced in the period that it had commenced and/or planned gross capital expenditure (before dilapidations and other recoveries) of c. £17 m for 2017. Four major projects represent some £13m gross of the projected capital expenditure:

- 'Blue Leanie', Aylesbury. An extensive £3.3m refurbishment of all floors following the expiry of the previous lease to Scottish Widows. There is strong tenant interest in the vacant two floors that will be available in December 2017.
- 2800 The Crescent, Birmingham. A comprehensive refurbishment programme, investing £2.4m, in the 29,935 sq. ft. office building. Expected to complete in Q4 2017 the refurbishment will include a remodelled entrance and core, offering a business headquarters in a premier business park of the West Midlands.
- 800 Aztec West Park Avenue, Bristol. A comprehensive refurbishment, investing £6.3m, in the 71,651 sq. ft. three storey office building, acquired as part of the £80m "Rainbow Portfolio" acquisition, March 2016. Strong occupier interest, with limited competing space in the region. The refurbishment is expected to complete at the end of Q4 2017.
- Arena Point, Leeds. Commencement and completion of the first phase of refurbishment of the 20-storey office, initially investing £1.1m. The building was originally acquired in March 2016, as part of the "Wing Portfolio". Pursuing a progressive approach to lettings in an attractive location, aimed at securing an increase in rents with each phase.

Since the 30 June 2017 Phase One of the Arena Point, Leeds, refurbishment has been completed and further new lettings have been secured. The Phase Two (fourth and fifth floors) has commenced and is due to be completed by end of September 2017, with the final phase of refurbishment to follow (second- third floors) and to be completed by the year end. Further new lettings and regears have been achieved at a number of office and industrial properties.

Furthermore, the Group completed the acquisition of Woodlands Court, Bristol, for £6.55m, a development of four single-storey office buildings totalling 37,952 sq. ft., providing a rental income of £595,000 pa. The property is located proximate to Regional REIT's existing properties in the north Bristol area.

In addition, the Group has disposed of St James House, Bath, a fully let modern office development over the ground and three upper floors, totalling 14, 507 sq. ft. with 30 parking spaces, situated to the south of Bath city centre, producing a rental income of £297,662 pa. The property was sold for £4.6m, a net initial yield of 6.1% including costs, well ahead of its 31 December 2016 valuation.

The Group has secured a number of additional lettings and regears since the 30 June 2017. Most notably, the Group agreed a letting with SCS of Unit 1A, a 65,503 sq. ft. industrial warehouse, the largest void at Juniper Park, Basildon, effective September 2017. The lease will be for 10 years, with a break at year 5, at an initial average rent of some £328,000 pa. In addition, industrial occupancy will also be improved following a lease agreement and the imminent completion of landlord works at Unit 131B Heathhall Industrial Estate, Dumfries (50,661 sq.ft.).

Property Portfolio

As at 30 June 2017, the Group's property portfolio was valued at £640.4m (30 June 2016: £501.3m; 31 December 2016: £502.4m), with contracted rental income of £54.6m (30 June 2016: £43.7m; 31 December 2016: £44.0m), and an occupancy rate by value of 83.3% (30 June 2016: 81.4%; 31 December 2016: 82.7%). On a like-for-like basis the occupancy rate by value was 82.0%, versus 31 December 2016 at 82.8%. The decrease results from previously mentioned vacancies and refurbishments. There were 150 properties (30 June 2016: 128; 31 December 2016: 123) in the portfolio, with 1,093 units (30 June 2016: 974; 31 December 2016: 941) and 823 tenants (30 June 2016: 719; 31 December 2016: 717), following the acquisition of a portfolio of 31 properties in the first quarter of 2017.

Occupancy by area amounted to 83.1% (30 June 2016: 81.8%; 31 December 2016: 83.8%). On a like-for-like basis, versus 31 December 2016, occupancy was 82.7% (31 December 2016: 84.1%). If the portfolio was fully occupied, at Cushman & Wakefield's and Jones Lang LaSalle's view of market rents, the gross rental income would be £65.1 million per annum as at 30 June 2017 (30 June 2016: £51.9m; 31 December 2016: £53.1m).

As at 30 June 2017 the net initial yield on the portfolio was 6.7% (30 June 2016: 7.1%; 31 December 2016 6.7%), the equivalent yield was 8.3% (30 June 2016: 8.5%; 31 December 2016: 8.6%), and the reversionary yield was 9.2% (30 June 2016: 9.3%; 31 December 2016: 9.5%).

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (by value)	Occupancy (by area)	WAULT to first break	Gross rental income	Net rental income	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m		(mil)	(%)	(%)	(yrs)	£m	£m	£psf	£m	£psf	Net initial	Equivalent	Reversionary
Office	75	402.0	62.8%	3.25	81.6%	81.6%	3.1	34.4	29.4	12.98	42.0	123.70	6.7%	8.3%	9.2%
Industrial	40	166.6	26.0%	4.44	84.1%	84.0%	3.8	14.0	12.5	3.74	16.6	37.52	6.4%	8.4%	9.4%
Retail	33	62.0	9.7%	0.59	91.7%	89.5%	4.2	5.5	4.5	10.54	5.8	105.69	6.8%	8.1%	8.5%
Other	2	9.9	1.5%	0.12	94.8%	61.1%	10.1	0.7	0.7	9.54	0.8	80.28	6.5%	7.8%	7.3%
Total	150	640.4	100.0%	8.40	83.3%	83.1%	3.5	54.6	47.1	7.82	65.1	76.25	6.7%	8.3%	9.2%

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (by value)	Occupancy (by area)	WAULT to first break	Gross rental income	Net rental income	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m		(mil)	(%)	(%)	(yrs)	£m	£m	£psf	£m	£psf	Net initial	Equivalent	Reversionary
Scotland	46	159.4	24.9%	2.64	86.6%	83.7%	3.5	15.2	13.8	6.90	17.6	60.49	8.1%	9.2%	10.2%
South East	26	154.9	24.2%	1.33	88.9%	85.9%	2.8	12.8	11.3	11.13	14.2	116.08	6.6%	7.3%	8.0%
North East	19	83.8	13.1%	1.36	79.2%	83.6%	2.3	6.8	6.1	5.97	8.5	61.50	6.9%	8.5%	9.4%
Midlands	31	109.9	17.2%	1.32	83.7%	81.5%	3.3	9.4	8.2	8.75	10.6	83.39	6.8%	8.1%	8.7%
North West	17	75.1	11.7%	1.10	83.0%	86.4%	5.3	6.1	5.5	6.46	7.8	68.40	6.8%	8.9%	9.6%
South West	8	31.6	4.9%	0.26	54.7%	60.5%	3.5	2.2	0.6	13.59	4.0	120.15	1.6%	8.2%	9.9%
Wales	3	25.7	4.0%	0.39	87.1%	80.0%	6.4	2.2	1.5	7.00	2.4	66.31	5.5%	7.9%	8.6%
Total	150	640.4	100.0%	8.40	83.3%	83.1%	3.5	54.6	47.1	7.82	65.1	76.25	6.7%	8.3%	9.2%

Tables may not sum due to rounding

Top 15 Investments (by market value) as at 30 June 2017

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (Sq. ft.)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.3	5.0%	157,525	87.4%	2.2	4.0
Juniper Park, Basildon	Industrial	Schenker Limited, Vanguard Logistics Services Limited, Telent Technology Services Limited, Tigers Global Logistics Limited	22.5	3.5%	295,950	70.0%	1.5	0.9
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Scottish Widows Limited, The Equitable Life Assurance Society	22.3	3.5%	146,936	73.9%	1.8	4.7
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited	19.4	3.0%	707,775	89.1%	2.3	2.1
Hampshire Corporate Park, Eastleigh	Office	Aviva Health UK Limited, Royal Bank of Scotland plc, Daisy Wholesale Limited, Utilita Energy Limited	16.4	2.6%	85,422	99.2%	1.4	3.2
One & Two Newstead Court, Annesley	Office	E.ON UK plc	15.4	2.4%	146,262	100.0%	1.4	3.1
Columbus House, Coventry, Coventry	Office	TUI Northern Europe Limited	14.6	2.3%	53,253	100.0%	1.4	6.5
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.7	2.1%	246,209	100.0%	0.9	17.3
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Limited, Alstom UK Limited, Hill Rom UK Limited, Jigsaw Solutions Limited	13.5	2.1%	91,752	96.6%	1.0	3.0
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	12.5	2.0%	54,959	100.0%	0.8	3.3
Arena Point, Leeds	Office	JD Wetherspoon PLC, Expotel Hotel Reservations Limited	12.3	1.9%	98,852	46.2%	0.6	2.0
The Point, Glasgow, Glasgow	Industrial	See Woo Foods (Glasgow) Limited, The University Court of the University of Glasgow, Euro Car Parts Limited	12.0	1.9%	169,190	94.1%	0.9	6.1
1-4 Llansamlet Retail Park, Nantyffin Rd, Swansea	Retail	Wren Living Limited, Steinhoff UK Group Property Limited, A Share & Sons Limited	11.9	1.9%	71,615	100.0%	1.1	5.6
The Brunel Centre, Bletchley	Retail	Wilkinson Hardware Stores Limited, Poundland Limited, Boots The Chemist Limited	11.7	1.8%	98,351	92.2%	1.0	2.5
Oakland House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.4	1.6%	161,768	80.0%	1.1	3.6
Total			240.8	37.6%	2,585,819		19.3	4.2

Table may not sum due to rounding.

Top 15 Tenants (by share of rental income) as at 30 June 2017

Tenant	Property	Sector	WAULT to first break (Years)	Lettable area (Sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	4.4	78,044	3.0%
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.1	146,262	2.6%
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	6.5	53,253	2.5%
Scottish Widows Limited	Buildings 3 HBOS Campus, Aylesbury	Financial and insurance activities	4.4	80,103	2.5%
Aviva Insurance Ltd	CGU House, Leeds	Financial and insurance activities	0.3	50,763	1.9%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	17.3	246,209	1.7%
Sec of State for Communities & Local Govt	Sheldon Court, Solihull, Solihull, Bennett House, Hanley, Oakland House, Manchester	Public Sector	0.4	74,886	1.7%
Frontica Business Solutions Ltd	Craigievar House, Aberdeen	Professional, scientific and technical activities	0.5	58,826	1.6%
Fluor Limited	Brennan House, Farnborough	Construction	1.9	29,707	1.4%
The Secretary of State for Transport	St James Court & St Brendans Court, Bristol, Festival Court, Glasgow	Public Sector	3.0	55,586	1.3%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Financial and insurance activities	0.9	48,372	1.2%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Financial and insurance activities	1.5	42,612	1.2%
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Public Sector	0.3	51,914	1.1%
Entserv UK	Birchwood Park, Warrington	Information and communication	3.5	50,549	1.1%
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	4.0	66,436	1.1%
Total			3.8	1,133,522	25.9%

Table may not sum due to rounding.

Property Portfolio Sector and Region by Valuation and Income

By Valuation

As at 30 June 2017 62.8% (30 June 2016: 62.5%; 31 December 2016: 63.3%) of the portfolio by market value was offices and 26.0% (30 June 2016: 29.1%; 31 December 2016: 29.4%) was industrial. The balance was made up of retail, 9.7%, and other, 1.5% (30 June 2016: retail and other 8.4%; 31 December 2016: retail and other 7.3%). By UK region, as at 30 June 2017, Scotland represented 24.9% (30 June 2016: 26.5%; 31 December 2016: 26.8%) of the portfolio and England 71.1% (30 June 2016: 69.9%; 31 December 2016: 69.7%); the balance of 4.0% (30 June 2016: 3.6%; 31 December 2016: 3.5%) was in Wales. In England, the largest regions were the South East, the Midlands and the North East.

By Income

As at 30 June 2017 63.0% (30 June 2016: 63.4%; 31 December 2016: 63.6%) of the portfolio by income was offices and 25.6% (30 June 2016: 29.1%; 31 December 2016: 29.2%) was industrial. The balance was made up of retail, 10.1% and other, 1.3% (30 June 2016: retail and other 7.5%; 31 December 2016: 7.1%). By UK region, as at 30 June 2017, Scotland represented 27.9% (30 June 2016: 28.1%; 31 December 2016: 29.0%) of the portfolio and England 68.2% (30 June 2016: 68.5%; 31 December 2016: 67.5%); the balance of 4.0% was in Wales (30 June 2016: 3.4%; 31 December 2016: 3.5%). In England, the largest regions were the South East, the Midlands and the North East.

Lease Expiry Profile

The WAULT on the portfolio is 5.3 years (30 June 2016: 5.0 years; 31 December 2016: 5.2 years); WAULT to first break is 3.5 years (30 June 2016: 3.6 years; 31 December 2016: 3.6 years). As at 30 June 2017, 18.6% (30 June 2016: 14.1%; 31 December 2016: 15.2%) of income was from leases which will expire within 1 year, 17.1% (30 June 2016: 29.2%; 31 December 2016: 22.5%) between 1 and 3 years, 21.2% (30 June 2016: 12.7%; 31 December 2016: 19.2%) between 3 and 5 years and 43.0% (30 June 2016: 44.0%; 31 December 2016: 43.1%) after 5 years.

Tenants by Standard Industrial Classification as at 30 June 2017

As at 30 June 2017, 14.1% of income was from tenants in the Wholesale and retail trade sector, 11.8% Professional, scientific and technical activities, 9.8% from the Public sector and 9.8% for Finance and insurance activities (other) (excluding banking) sector. Manufacturing amounts to 9.7%. The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 30 June 2017, the largest being 3.0%.

Net Asset Value

Between 1 January 2017 and 30 June 2017, the EPRA (“European Public Real Estate Association”) Net Asset Value (“NAV”) of the Group rose to £323.0m, from £293.2m, equating to an increase in diluted NAV of 0.4pps to 107.3pps (30 June 2016: 108.0pps; 31 December 2016: 106.9pps). This is after the declaration of dividends in the period amounting to 4.20pps.

The EPRA NAV increase of some £29.7m since 31 December 2016 is predominately from the issuance of 26,326,644 ordinary shares, undertaken in March 2017, at an adjusted EPRA NAV of 106.347pps, and from the revaluation of the Investment Property portfolio in the first half of 2017, amounting to an increase of £7.5m. These were partially offset by the dividend distributions in the period.

On 24 March 2017 the Group completed a c. £129m acquisition, excluding transaction costs, of investment properties from Conygar, the consideration for which comprised the assumption of £105m of borrowings with the balance satisfied by the issuance of shares as mentioned above.

The Investment Property portfolio valuation as at 30 June 2017 totalled £640.4m, (30 June 2016: £501.3m; 31 December 2016: £502.4m). The increase since the December 2016 year end is largely a reflection of the aforementioned acquisition. In the six months to 30 June 2017 the valuation increased on a like-for-like basis by 2.2%.

In the six months to 30 June 2017, the Group completed property acquisitions of £128.7m; gross, including transaction costs, of £129.6m (six months to 30 June 2016: £128.1m, gross £135.0m; year ended 31 December 2016: £133.6m, gross £140.7m). In the period net disposals amounted to £3.7m, and gross, excluding transaction costs, £3.7m (six months to 30 June 2016: £40.4m, gross £41.2m; year ended 31 December 2016: £44.9m, gross £45.9m).

Net capital expenditure amounted to £4.5m (six months to 30 June 2016: £4.2m; year ended 31 December 2016 £9.1m), after dilapidations. Gross capital expenditure was £4.6m.

The diluted NAV increased over the first six months of 2017 to 107.0pps (31 December 2016: 106.3pps) over the period. The EPRA NAV is reconciled in the table below.

	Six months to 30 June 2017	Six months to 30 June 2016***	Year ending 2016***
	Pence per Share	Pence per Share	Pence per Share
Opening IFRS NAV per share	105.6*	107.7	107.7
Net rental income	6.5	6.3	13.9
Administration and other expenses	(1.6)	(1.4)	(3.0)
Gain on the disposal of investment properties	(0.0)	0.0	0.2
Change in the fair value of investment properties	2.5	(0.5)	(2.5)
Operating profit before exceptional items	112.9	112.1	116.3
Finance expense	(1.9)	(1.5)	(3.1)
Impairment of Goodwill	(0.1)	0.0	(0.2)
Movement in fair value of derivative financial instruments	0.1	(0.7)	(0.4)
Operating profit after finance item	111.1	109.9	112.6
Income tax	(0.0)	0.0	0.0
Operating profit after taxation	111.1	109.9	112.7
Dividends paid	(4.2)	(2.8)	(6.3)
Performance Fee Shares	0.1	0.0	0.0
Closing IFRS Net Asset Value	107.0	107.1	106.4
EPRA NAV Adjustments (see Note 18)	0.3	0.9	0.5
Closing EPRA NAV per share	107.3	108.0	106.9

* Opening 1 January 2017 adjusted for 26,326,644 shares issued in the period. Originally declared as 107.1p for 31 December 2016

** Table may not sum due to roundings

*** Undiluted

Income Statement

The operating profit before gains and losses on property assets and other investments for the six months to 30 June 2017 amounted to £14.3m (six months to 30 June 2016: £13.4m). Profit after finance items and before taxation was £16.2m (six months to 30 June 2016: £5.9m). The six months to 30 June 2017 included a full rent roll of properties held as at 31 December 2016, plus the partial rent roll for properties acquired during the period, but which will impact the whole of the second-half of 2017. The change in the fair value of investment properties amounted to a gain of £7.5m (six months to 30 June 2016: £1.3m loss).

Rental income amounted to £23.0m (six months to 30 June 2016: £19.7m), the increase being primarily a result of the enlarged Investment Property portfolio. Gross rental income was adversely affected in comparison to the first-half of 2016, reflecting two main factors. First, whilst there was a good flow of lettings and regears in the first-half of 2017, these were offset by a number of key properties being vacated and/or under ongoing refurbishment programmes – also impacting voids - along with higher agency costs for tenant acquisition. Second, the absence of rental top-up agreements received in the first-half of 2016.

Currently more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were minimal (six months 30 June 2016: minimal).

The EPRA cost ratio was 37.7% (six months to 30 June 2016: 31.8%). The increase was predominately a consequence of the Performance Fee, which accounted for 3.9 percentage points and the increase in void costs when compared to the six months to 30 June 2016. Excluding the Performance Fee, the underlying administration costs ratio is trending down, with the benefit of the increasing scale of the Group's business and as it matures as a public company. There was also the benefit of a reduced level of refinancing and substitution activity in the period compared to the same period in 2016.

Administrative expenses include an accrual of £0.9m for the initial Performance Fee, for the period of 6 November 2015 to 31 December 2018 (period to 30 June 2016: nil; year to 31 December 2016: £0.25m). As at 30 June 2017, the aggregate accrual was some £1.2m. The Total Return to Shareholders from 6 November 2015 to 30 June 2017 was 17.8%, an annualised rate of 10.7% pa. Excluding IPO launch costs of 1.9pps the total return to shareholders is 20.0% or 12.1% annualised.

Finance expense increased due to the increased amount of debt. The increase reflected the portfolio acquisition in March 2017, £69.4m of bank debt and £30m nominal of Zero Dividend Preference shares.

Interest cover stands at 2.7 times (30 June 2016: 3.6 times; 31 December 2016: 3.8 times) including the ZDP, and 3.1 times excluding the ZDP (acquired March 2017).

Dividend

In the six months 1 January 2017 to 30 June 2017, the Company declared dividends totalling 4.20pps (for the six month period to 30 June 2016: 2.75pps), consisting of the Q4 2016 dividend, 2.40pps, and Q1 2017 dividend, 1.80pps.

Since the end of the period, the Company has declared a dividend for the second quarter of 2017, amounting to 1.80pps.

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

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 18 months to 5 years. For the six months to 30 June 2017 the weighted average maturity was 2.3 years (30 June 2016: 3.4 years; 31 December 2016: 2.9 years), or 2.4 years excluding the Zero Dividend Preference shares.

The Group's borrowing facilities are with Santander UK, Royal Bank of Scotland, Lloyds Banking Group, HSBC and ICG Longbow Ltd and have all been fully drawn. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing amounted to £298.7m (30 June 2016: £217.8m; 31 December 2016: £220.1m) (before unamortised debt issuance costs). The Lloyds and HSBC facilities were acquired with the purchase of the Conygar investment properties portfolio in late March 2017, totalling £69.4m.

At 30 June 2017 the Group's cash and cash equivalent balances amounted to £32.2m (30 June 2016: £23.7m; 31 December 2016: £16.2m).

The Group's net loan-to-value ratio stands at 47.3% (30 June 2016: 38.7%; 31 December 2016: 40.6%) before unamortised issue costs. This has been managed down from the c. 49% in the aftermath of the acquisition of

investment properties from Conygar in March 2017. The Board continues to manage down the Group's net loan to value ratio to its long-term target of around 35%.

The table below sets out the borrowings the Group had in place as at 30 June 2017:

Debt Profile and Loan-to-Value Ratios as at 30 June 2017

Lender	Original Facility	Outstanding Debt**	Maturity Date	Gross Loan to Value***	Annual Interest Rate
	£'000	£'000			
Santander UK	£48,300	£48,298	Dec-18	46.2%	2.00% over 3mth £ LIBOR
Santander UK	£25,343	£20,840	Dec-18	49.4%	2.00% over 3mth £ LIBOR
Lloyds Banking Group*	£48,100	£48,100	Apr-19	53.8%	2.15% over Bank of England Base Rate
Royal Bank of Scotland	£25,000	£24,450	Jun-19	41.1%	2.15% over 3mth £ LIBOR
ICG Longbow Ltd	£65,000	£65,000	Aug-19	42.4%	5.00% pa for term
Santander UK	£30,990	£30,990	Jan-21	46.7 %	2.15% over 3mth £ LIBOR
Royal Bank of Scotland	£40,000	£39,848	Mar-21	48.4%	2.40% over 3mth £ LIBOR
HSBC*	£21,397	£21,197	Dec-21	54.1%	2.15% over 3mth £ LIBOR
	£304,130	£298,723			
Zero Dividend Preference Shares*	£39,879	£36,235	Jan-19	N/A	6.5% pa to maturity
	£344,009	£334,958			

*Assumed as part of the consideration for the portfolio acquisition of 24 March 2017

**Including unamortised debt issue costs

*** Based upon Cushman & Wakefield and Jones Lang LaSalle property valuations.

The Managers are actively pursuing refinancing options for long-term funding at a reduced cost. Discussions are at an advanced stage.

As at 30 June 2017, the Group had substantial headroom against its borrowing covenants. The borrowing facilities allow the Group to potentially utilise further borrowings in excess of 20% of its current NAV.

The net gearing ratio, net debt to ordinary shareholders' equity (diluted), of the Group was 94.0% as at 30 June 2017 (30 June 2016: 65.0%; 31 December 2016: 69.9%). The increase is predominantly a result of the borrowings acquired in the first-half of 2017.

Hedging

The Group applies an interest rate 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.

	30 Jun 2017	30 Jun 2016	31 Dec 2016
Borrowings interest rate hedged (inc ZDP)	91.9%	107.6%	106.5%
Thereof :			
Fixed rate	30.2%	29.8%	29.5%
Swap	27.1%	42.4%	41.3%
Cap	34.5%	35.4%	35.7%
WACC ¹	3.7%	3.8%	3.7%
WACC - Excluding the ZDPs ²	3.3%	n/a	n/a

1. Weighted Average Cost of Capital - Weighted Average Effective Interest Rate including the cost of hedging
2. Zero Dividend Preference Shares which were assumed from 24 March 2017

Tax

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

The taxation charge of £11,000 is corporation tax arising on the non-REIT regime rental properties.

Subsequent Events after the Reporting Period

On 7 July 2017 Mr Martin McKay stepped down as a Non-Executive Director of the Company and Mr Tim Bee was appointed in his stead.

The Group completed the acquisition of Woodlands Court, Bristol, for £6.55m, a development of four single-storey offices buildings totalling 37,952 sq. ft., providing a rental income of £595,000 pa. The property is located proximate to Regional REIT's existing properties in the north Bristol area.

The Group disposed of St James House, Bath, a fully let modern office development over the ground and three upper floors, totalling 14,507 sq. ft. with 30 parking spaces, situated to the south of Bath city centre, producing a rental income of £297,662 pa. The property was sold for £4.6m, a net initial yield of 6.1% including costs, well ahead of its 31 December 2016 valuation.

The Group has secured a number of additional lettings and regears since the 30 June 2017. Most notably the Group agreed a letting with SCS of Unit 1A, a 65,503 sq. ft. industrial warehouse, the largest void at Juniper Park, Basildon, effective September 2017. The lease will be for 10-years, with a break at year 5, at an initial average rent of some £328,000 pa. In addition, industrial occupancy will also be improved following a lease agreement and the imminent completion of landlord works at Unit 131B Heathhall Industrial Estate, Dumfries (50,661 sq.ft.).

DIRECTORS' STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties the Group faces are summarised below and described in detail on pages 46 to 48 of the 2016 Annual Report, which is available on the Group's website at www.regionalreit.com - Annual Report 2016. The Audit Committee, which assists the Board with its responsibilities for managing risk, considers that there have been no changes to these principal risks since the publication of the Annual Report and Accounts 2016.

Investment risk

Investment decisions could result in lower dividend income and capital returns to our Shareholders.

Tenant risk

Type and concentration of tenants could result in a lower rental income.

Economic and political risk

The macro-health of the UK economy could impact on borrowing and hedging costs, demand by tenants for suitable properties and the quality of the tenants.

Financial and tax change risk

Changes to UK financial legislation and the tax regime could result in lower rental income.

Operational risk

Business disruption could result in lower rental income.

Accounting, legal, and regulatory risk

Changes to accounting, legal and regulatory legislation could affect the Board's ability to achieve the investment objectives and provide favourable returns to our Shareholders.

The United Kingdom's vote to secede from the European Union

Following the majority vote, on 23 June 2016, to end the UK's membership of the European Union, there is a risk that property valuations may be impacted while this period of uncertainty is negotiated. The Board remains vigilant as to any consequences that may arise.

RSM UK Audit LLP

The condensed consolidated financial statements for the period from 1 January 2017 to 30 June 2017 are unaudited and do not constitute annual statutory accounts for the purposes of the Companies (Guernsey) Law, 2008, as amended.

Going Concern

The financial statements continue to be prepared on a going concern basis. The Directors have reviewed areas of potential financial risk and cash flow forecasts. No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of not less than 12 months. Accordingly, the Board of Directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

In accordance with the Disclosure Guidance and Transparency Rules 4.2.10R we, the Directors of the Company (whose names are listed in full at the end of this report), confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, as required by the Disclosure Guidance and Transparency Rule DTR 4.2.4R, and gives a true and fair view of the assets, liabilities, financial position and profit of the Group;
- b) the Interim Report, which comprises the Chairman's Statement and the Asset and Investment Managers' Report sections of this report, includes a fair review, under DTR 4.2.7R, of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- c) the Interim Report, which comprises the Chairman's Statement and the Asset and Investment Managers' Report sections of this report, includes a fair review, under DTR 4.2.8R, of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position and or performance of the Group during that period; and any changes in the related party transaction described in the last Annual Report that could do so.

This Interim Report was approved by the Board of Directors on 13 September 2017 and the above responsibility statement was signed on its behalf by Mr Kevin McGrath, Chairman.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Continuing Operations				
Revenue				
Rental income	5	22,964	19,699	42,994
Non-recoverable property costs	6	(3,480)	(2,328)	(4,866)
Net rental income		19,484	17,371	38,128
Administrative and other expenses	7	(5,166)	(3,935)	(8,217)
Operating profit before gains and losses on property assets and other investments		14,318	13,436	29,911
(Loss)/gain on disposal of investment properties	12	(41)	(75)	518
Change in fair value of investment properties	12	7,504	(1,254)	(6,751)
Operating profit		21,781	12,107	23,678
Finance income		107	40	193
Finance expense	8	(5,872)	(4,176)	(8,822)
Impairment of goodwill	13	(279)	-	(557)
Net movement in fair value of derivative financial instruments	16	447	(2,024)	(1,097)
Profit before tax		16,184	5,947	13,395
Taxation	9	(11)	-	23
Total comprehensive income for the period (attributable to equity shareholders and owners of the parent Company)		16,173	5,947	13,418

Total comprehensive income arises from continuing operations.

Earnings per share - basic	10	5.6p	2.2p	4.9p
Earnings per share - diluted	10	5.6p	2.2p	4.9p
EPRA earnings per share - basic	10	2.9p	3.3p	7.7p
EPRA earnings per share - diluted	10	2.9p	3.3p	7.7p

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Assets				
Non-current assets				
Investment properties	12	640,405	501,255	502,425
Goodwill	13	1,950	2,786	2,229
Derivative financial instruments	16	72	-	-
Non-current receivables on lease surrender		-	610	206
Non-current receivables on tenant loan		1,445	-	1,541
		<u>643,872</u>	<u>504,651</u>	<u>506,401</u>
Current assets				
Trade and other receivables		14,642	11,845	11,375
Cash and cash equivalents		32,229	23,739	16,199
		<u>46,871</u>	<u>35,584</u>	<u>27,574</u>
Total assets		<u>690,743</u>	<u>540,235</u>	<u>533,975</u>
Liabilities				
Current liabilities				
Trade and other payables		(24,529)	(19,378)	(14,601)
Deferred income		(10,244)	(8,660)	(8,022)
Taxation		(1,098)	(1,239)	(662)
Bank and loan borrowings	14	(400)	-	-
		<u>(36,271)</u>	<u>(29,277)</u>	<u>(23,285)</u>
Non-current liabilities				
Bank and loan borrowings	14	(295,429)	(214,771)	(217,442)
Zero dividend preference shares	15	(36,010)	-	-
Derivative financial instruments	16	(1,035)	(2,440)	(1,513)
		<u>(332,474)</u>	<u>(217,211)</u>	<u>(218,955)</u>
Total liabilities		<u>(368,745)</u>	<u>(246,488)</u>	<u>(242,240)</u>
Net assets		<u>321,998</u>	<u>293,747</u>	<u>291,735</u>
Equity				
Stated capital	17	299,880	274,217	274,217
Retained earnings		22,118	19,530	17,518
Total equity attributable to owners of the parent		<u>321,998</u>	<u>293,747</u>	<u>291,735</u>
Net assets per share – basic				
Net assets per share – diluted				
EPRA net assets per share – basic				
EPRA net assets per share – diluted				
		107.1p	107.1p	106.4p
		107.0p	107.1p	106.3p
		107.5p	108.0p	106.9p
		107.3p	108.0p	106.9p

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Note	Attributable to owners of the parent		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017		274,217	17,518	291,735
Total comprehensive income		-	16,173	16,173
Share based payments		-	419	419
Issue of share capital	17	25,687	-	25,687
Share issue costs	17	(24)	-	(24)
Dividends paid	11	-	(11,992)	(11,992)
Balance at 30 June 2017		299,880	22,118	321,998

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Note	Attributable to owners of the parent		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		-	5,947	5,947
Dividends paid	11	-	(7,541)	(7,541)
Balance at 30 June 2016		274,217	19,530	293,747

Condensed Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Attributable to owners of the parent		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		-	13,418	13,418
Share based payments		-	115	115
Dividends paid	11	-	(17,139)	(17,139)
Balance at 31 December 2016		274,217	17,518	291,735

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Cash flows from operating activities			
Profit for the period before taxation	16,173	5,947	13,418
- Change in fair value of investment properties	(7,504)	1,254	6,751
- Change in fair value of financial derivative instruments	(447)	2,024	1,097
- Loss/(gain) on disposal of investment properties	41	75	(518)
Impairment of goodwill	279	-	557
Finance income	(107)	(40)	(193)
Finance expense	5,872	4,176	8,822
Share based payments	419	-	115
Taxation	11	-	(23)
(Increase)/decrease in trade and other receivables	(43)	24	(716)
Increase in trade and other payables and deferred income	4,227	3,489	2,124
Cash generated from operations	18,921	16,949	31,434
Financial income	493	493	988
Finance costs	(4,599)	(3,591)	(7,614)
Taxation received/(paid)	51	-	(1,715)
Net cash flow generated from operating activities	14,866	13,851	23,093
Investing activities			
Purchase of investment properties	(4,557)	(139,251)	(144,143)
Sale of investment properties	3,657	40,369	44,857
Interest received	8	19	60
Acquisition of subsidiaries net of cash acquired	209	-	(5,573)
Net cash flow used in investing activities	(683)	(98,863)	(104,799)
Financing activities			
Share issue costs	(24)	-	-
Dividends paid	(7,014)	(2,742)	(15,723)
Bank borrowings advanced	10,000	105,287	107,762
Bank borrowings repaid	(735)	(16,108)	(16,345)
Bank borrowing costs paid	(380)	(1,641)	(1,744)
Net cash flow generated from financing activities	1,847	84,796	73,950
Net increase/(decrease) in cash and cash equivalents for the period	16,030	(216)	(7,756)
Cash and cash equivalents at the start of the period	16,199	23,955	23,955
Cash and cash equivalents at the end of the period	32,229	23,739	16,199

Details of a significant non-cash transaction in the period are contained within note 3.4.
The notes below are an integral part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

1. Corporate Information

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 comprise the results of the Company and its subsidiaries (together constituting “the Group”) and were approved by the Board and authorised for issue on 14 September 2017.

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

Regional REIT Limited was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Schemes Rules 2015.

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

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

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

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA (previously the Financial Services Authority) and with IAS 34, Interim Financial Reporting, as adopted by the European Union.

The condensed consolidated financial statements have been prepared on a historical cost basis, as modified for the Group’s investment properties and certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The condensed consolidated interim financial information should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU.

2.1 Comparative period

The comparative financial information presented herein for the six months ended 30 June 2016 does not constitute full annual statutory accounts within the meaning of The Companies (Guernsey) Law, 2008, as amended. The Group’s Annual Report and Accounts for the year ended 31 December 2016 were delivered to the Guernsey Financial Services Commission (“GFSC”). The Group’s independent auditor’s report on those Accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

2.2 Functional and presentation currency

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

2.3 Going concern

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

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

2.4 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.

3. Significant accounting judgements, estimates and assumptions

The preparation of the condensed consolidated 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 £640,405,000 (30 June 2016: £501,255,000; 31 December 2016: £502,425,000) is determined, by independent property valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm’s length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 Investment Property (“IAS 40”) and IFRS 13 Fair Value Measurement (“IFRS 13”).

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors (“RICS”) Valuation – Professional Standards (January 2014) (the “Red Book”). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 12.

3.1.2 Fair valuation of interest rate derivatives

In accordance with IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”), the Group values its interest rate derivatives at fair value. The fair values are estimated by the loan counterparty with a revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimates of 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 £963,000 (30 June 2016: £2,440,000; 31 December 2016: £1,513,000).

3.1.3 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £1,950,000 (30 June 2016: £2,786,000; 31 December 2016: £2,229,000).

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

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

3.2.1 Operating lease contracts – the Group as lessor

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

3.2.2 Performance Fee

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

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

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no performance fee is ultimately due. Management have modelled a number of scenarios for the Performance Fee calculation and has concluded that it is appropriate for the liability to be accrued in the consolidated financial statements. Further details are disclosed in note 20.

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

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

3.4 Acquisition of subsidiary companies by the issue of share capital

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

The Directors considered whether this acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities, however, it was concluded the acquisition did not meet the criteria for the acquisition of a business as outlined IFRS 3. Furthermore, as the consideration for the acquisition was in the form of the issue of Ordinary Shares, the accounting treatment follows the rules outlined in IFRS 2 share-based payments as detailed below.

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

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

- Investment property is measured at fair value at 30 September 2016, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Interest rate caps are measured at mark-to-market value.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.
- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.
- The liability to Zero Dividend Preference ("ZDP") shareholders is determined by the fair value of the ZDP shares at completion of the acquisition on 24 March 2017. Whilst these shares, listed on the London Stock

Exchange, had a price of £1.24 per share at that date, the Directors do not consider that this value is an appropriate amount to base the fair value calculation because there was no intention for the ZDP shares to be acquired on the open market. It is intended that the ZDP shares will exist for the full term of the obligation, and thus, the Directors consider that the accrued capital value is the best estimate of the fair value of this liability. This is equivalent to amortised cost as calculated in the books of Regional REIT ZDP PLC excluding the unamortised issue costs concerning the original issue.

- Bank loans have been valued at net present value based on the discounting of future cash flows.

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

	30 June 2017 (unaudited) £'000
Investment properties acquired	128,665
Derivative financial instruments	103
Trade and other receivables	3,316
Cash and cash equivalents	1,940
Deferred income, trade and other payables	(2,946)
Taxation liabilities	(374)
Bank and loan borrowings	(69,397)
Zero dividend preference shares	(35,620)
Total	25,687

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the year ended 31 December 2016 and are expected to be consistently applied for the current year ending 31 December 2017. There are no significant changes to the condensed consolidated financial statements arising from accounting standards effective for the first time. The following accounting policies below clarify the treatment of new items arising in these condensed consolidated financial statements for the first time.

4.1 Zero Dividend Preference Shares

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

4.2 Share based payments

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

5. Rental income

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Rental income – freehold property	19,915	16,205	36,233
Rental income – long leasehold property	3,049	3,494	6,761
Total	22,964	19,699	42,994

6. Non-recoverable property costs

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Property expenses and irrecoverable costs	3,480	2,328	4,866

7. Administrative and other expenses

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Investment management fees	923	967	1,914
Property management fees	914	808	1,698
Performance fees	905	-	249
Asset management fees	802	850	1,675
Directors' remuneration	95	94	186
Administration fees	303	228	543
Legal and professional fees	886	857	1,671
Marketing and promotion	37	15	73
Other administrative costs	286	103	184
Bank charges	15	13	24
Total	5,166	3,935	8,217

8. Finance expense

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Interest payable on bank borrowings	4,599	3,711	7,821
Accrued capital entitlement on ZDP shares	615	-	-
Amortisation of loan arrangement fees	619	465	1,001
Amortisation of ZDP share acquisition costs	39	-	-
Total	5,872	4,176	8,822

9. Taxation

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 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.

Tax charges in the condensed statement of comprehensive income arise in the Credential Sub Group which does not form part of the Group for the purposes of UK REIT rules.

10. Earnings per share

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary Shares. As detailed in note 20, an estimate of the Performance Fee for the period from commencement of trading to 30 June 2017 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV as at 30 June 2017. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the shares issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

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

	Six months ended 30 June 2017 (unaudited) £'000	Six month ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Net profit attributable to Ordinary Shareholders	16,173	5,947	13,418
Adjustments to remove:			
Changes in value of investment properties	(7,504)	1,254	6,751
Changes in fair value of interest rate derivatives and financial assets	(547)	1,904	865
Loss/(gain) on disposal of investment property	41	75	(518)
Impairment of goodwill	279	-	557
EPRA Net profit attributable to Ordinary Shareholders	8,442	9,180	21,073
Weighted average number of Ordinary Shares	288,616,920	274,217,264	274,217,264
Dilutive instruments	497,018	-	107,729
Adjusted weighted average number of Ordinary Shares	289,113,938	274,217,264	274,324,993
Earnings per share - basic	5.6p	2.2p	4.9p
Earnings per share - diluted	5.6p	2.2p	4.9p
EPRA Earnings per share - basic	2.9p	3.3p	7.7p
EPRA Earnings per share - diluted	2.9p	3.3p	7.7p

11. Dividends

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Dividends			
Dividend of 2.40 (2016: 1.00) pence per Ordinary share for the period 1 October – 31 December	6,582	2,742	2,742
Dividend of 1.80 (2016: 1.75) pence per Ordinary share for the period 1 January – 31 March	5,410	4,799	4,799
Dividend of 1.75 pence per Ordinary share for the period 1 April – 30 June	-	-	4,799
Dividend of 1.75 pence per Ordinary share for the period 1 July – 30 September	-	-	4,799
Total	11,992	7,541	17,139

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

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

On 31 August 2017 the Company announced a dividend in respect of the period 1 April 2017 to 30 June 2017 of 1.80 pence per share, which will be paid on 13 October 2017 to shareholders on the register as at 8 September 2017. These condensed consolidated financial statements do not reflect this dividend, amounting to £5,410,000.

12. 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, and Jones Lang LaSalle who are both accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

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

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

	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the six months ended 30 June 2017			
Valuation at 1 January 2017	424,310	78,115	502,425
Property additions - acquisitions	114,391	15,226	129,617
Property additions – subsequent expenditure	3,909	648	4,557
Property disposals	(3,657)	-	(3,657)
Loss on the disposal of investment properties	(41)	-	(41)
Change in fair value during the period	6,619	885	7,504
Valuation at 30 June 2017 (unaudited)	545,531	94,874	640,405
	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the six months ended 30 June 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions	130,226	9,025	139,251
Property disposals	(37,419)	(2,950)	(40,369)
Loss on the disposal of investment properties	(55)	(20)	(75)
Change in fair value during the period	(2,834)	1,580	(1,254)
Valuation at 30 June 2016 (unaudited)	421,970	79,285	501,255
	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions -acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the period	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016 (audited)	424,310	78,115	502,425

The historic cost of the properties was £619,657,000 (30 June 2016: £481,563,000; 31 December 2016: £488,104,000).

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

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
30 June 2017	640,405	-	640,405	-
30 June 2016	501,255	-	501,255	-
31 December 2016	502,425	-	502,425	-

The hierarchy levels are defined in note 16.

There have been no transfers between levels during the period.

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

The current volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 30 June 2017, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. With greater volatility in the global financial system, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more stable market.

Techniques used for valuing investment properties

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

Valuation technique: market comparable method

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

Observable Input: Market Rental

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £2,860-£3,119,381 per annum (30 June 2016: £3,100-£3,161,581 per annum; 31 December 2016: £3,100-£3,119,381 per annum)).

Observable Input: Rental growth

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

Observable Input: net initial yield

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 1.43% - 25.74% (30 June 2016: 0.84% - 24.34%; 31 December 2016: 0.28% - 29.23%)).

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

13. Goodwill

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
At start of period	2,229	2,786	2,786
Impairment	(279)	-	(557)
At end of period	1,950	2,786	2,229

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

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

14. 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 period end are offset against amounts drawn on the facilities as shown in the table below:

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Bank borrowings drawn at start of period	220,060	128,643	128,643
Bank borrowings drawn	79,398	105,287	107,762
Bank borrowings repaid	(735)	(16,108)	(16,345)
Bank borrowings drawn at end of period	298,723	217,822	220,060
Less: unamortised costs at start of period	(2,618)	(1,875)	(1,875)
Less: loan issue costs incurred in the period	(895)	(1,641)	(1,744)
Add: loan issue costs amortised in the period	619	465	1,001
At end of period	295,829	214,771	217,442
Maturity of bank borrowings			
Repayable within 1 year	400	-	-
Repayable between 1 to 2 years	95,300	-	58,960
Repayable between 2 to 5 years	200,129	214,771	158,482
Total	295,829	214,771	217,442

During the period, the Group assumed new loan facilities which were held in the group of subsidiary companies acquired from Conygar. As detailed in note 15 the Group also has 30,000,000 ZDP shares in issue.

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

Lender	Original Facility £'000	Outstanding Debt** £'000	Maturity Date	Gross Loan to Value*** %	Annual Interest rate	Amortisation
Santander UK	48,300	48,298	Dec-18	46.2	2.00% over 3mth £ LIBOR	MP
Santander UK	25,343	20,840	Dec-18	49.4	2.00% over 3mth £ LIBOR	MP
Lloyds Banking Group *	48,100	48,100	Apr-19	53.8	2.15% over BoE Base Rate	MP
Royal Bank of Scotland	25,000	24,450	Jun-19	41.1	2.15% over 3mth £ LIBOR	none
ICG Longbow Ltd	65,000	65,000	Aug-19	42.4	5.00% pa for term	none
Santander UK	30,990	30,990	Jan-21	46.7	2.15% over 3mth £ LIBOR	MP
Royal Bank of Scotland	40,000	39,848	Mar-21	48.4	2.40% over 3mth £ LIBOR	MP
HSBC*	21,397	21,197	Dec-21	54.1	2.15% over 3mth £ LIBOR	MP
Total bank borrowings	304,130	298,723				
ZDP Shares	39,879	36,235	Jan-19	n/a	6.5% pa to maturity	none
Total	344,009	334,958				

BoE = Bank of England

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Acquired upon the acquisition of the SPV companies from Conygar

** Including unamortised debt issue costs

*** Based upon Cushman & Wakefield and Jones Lang LaSalle property valuations

The weighted average term to maturity of the Group's debt at the period end was 2.3 years (30 June 2016: 3.4 years; 31 December 2016: 2.9 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.4% (30 June 2016: 3.5%; 31 December 2016: 3.3%).

The interest cost on debt, including hedging costs, at the period end amounted to 3.7% pa (30 June 2016: 3.5% pa; 31 December 2016: 3.3% pa).

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

As shown in note 16, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. The Group's exposure to interest rate volatility is minimal.

15. Zero dividend preference shares

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Fair value at start of period	-	-	-
Fair value arising on the acquisition of subsidiaries	35,620	-	-
Acquisition costs	(264)	-	-
Amortisation of acquisition costs	39	-	-
Accrued capital entitlement	615	-	-
Fair value at end of period	36,010	-	-

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

During the period, the Group accrued £615,000 (30 June 2016: £nil; 31 December 2016: £nil) of additional capital. The total amount repayable at maturity will be £39,879,269.

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

16. 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.

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Fair value at start of period	(1,513)	(416)	(416)
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	103	-	-
Revaluation in the period	447	(2,024)	(1,097)
Fair value at end of period	(963)	(2,440)	(1,513)
Derivative assets	72	-	-
Derivative liabilities	(1,035)	(2,440)	(1,513)
Total	(963)	(2,440)	(1,513)

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

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Annual Interest rate	Notional Amount £'000	Rate %
Santander UK	48,300	48,298	Dec-18	2.00% over 3mth £ LIBOR	4,000 20,150	1.867% 1.014%
Santander UK	25,343	20,840	Dec-18	2.00% over 3mth £ LIBOR	2,900 9,770	2.246% 1.010%
Lloyds Banking Group	48,100	48,100	Apr-19	2.15% over BoE Base Rate	n/a	n/a
Royal Bank of Scotland	25,000	24,450	Jun-19	2.15% over 3mth £ LIBOR	12,480 200	1.790% 1.110%
ICG Longbow Ltd	65,000	65,000	Aug-19	5.00% pa for term	n/a	n/a
					9,375	1.086%
					6,920	1.203%
Santander UK	30,990	30,990	Jan-21	2.15% over 3mth £ LIBOR	5,280	1.444%
Royal Bank of Scotland	40,000	39,848	Mar-21	2.40% over 3mth £ LIBOR	19,900	1.395%
HSBC	21,397	21,197	Dec-21	2.15% over 3mth £ LIBOR	n/a	n/a
Total	304,130	298,723				

BoE = Bank of England

LIBOR = London Interbank Offered Rate (Sterling)

As at 30 June 2017, the swap notional arrangements were £90.9m (30 June 2016: £92.4m; 31 December 2016: £90.8m). Under the swap agreements, the notional amount reduces on a quarterly basis.

The weighted swap rate for the Group as at the period end was 3.5% (30 June 2016: 3.5%; 31 December 2016: 3.5%), with a Group weighted average effective interest rate of 3.3% (30 June 2016: 3.8%; 31 December 2016: 3.7%) inclusive of hedging costs but excluding the ZDP.

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

It is the Group's target to hedge at least 90% of the total loan portfolio using fixed-rate facilities or interest rate derivatives. As at the period end date the total proportion of hedged debt equated to 90.9% (30 June 2016: 107.6%; 31 December 2016: 106.5%) excluding the ZDP, as shown below.

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Total bank borrowings	298,723	217,822	220,060
Notional value of interest rate caps and swaps	206,481	169,480	169,441
Value of fixed rate debts	65,000	65,000	65,000
	271,481	234,480	234,441
Proportion of hedged debt	90.9%	107.6%	106.5%

Fair value hierarchy

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

The different levels are defined as follows.

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

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

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

For assets and liabilities that are recognised in the condensed 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.

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
Interest rate derivatives				
30 June 2017	(963)	-	(963)	-
30 June 2016	(2,440)	-	(2,440)	-
31 December 2016	(1,513)	-	(1,513)	-

The fair value of these contracts are recorded in the Condensed 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 period end.

There have been no transfers between levels during the period and the Group has not adopted hedge accounting.

17. Stated capital

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

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
At start of the period	274,217	274,217	274,217
Shares issued in period	25,687	-	-
Share issue costs	(24)	-	-
At end of the period	299,880	274,217	274,217
	shares	shares	shares
At start of the period	274,217,264	274,217,264	274,217,264
Shares issued in period	26,326,644	-	-
At end of the period	300,543,908	274,217,264	274,217,264

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

18. Net asset value per share (NAV)

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the future issue of Ordinary Shares. As detailed in note 20, an estimate Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 30 June 2017. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the shares issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

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

Net asset values have been calculated as follows:

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Net asset value per Condensed Consolidated Statement of Financial Position	321,998	293,747	291,735
Adjustment for calculating EPRA net assets:			
Derivative financial instruments	963	2,440	1,513
EPRA net assets	322,961	296,187	293,248
Number of Ordinary Shares	300,543,908	274,217,264	274,217,264
Dilutive instruments	497,018	-	107,729
Adjusted number of Ordinary Shares	301,040,926	274,217,264	274,324,993
Net asset value per share - basic	107.1p	107.1p	106.4p
Net asset value per share - diluted	107.0p	107.1p	106.3p
EPRA net asset value per share - basic	107.5p	108.0p	106.9p
EPRA net asset value per share - diluted	107.3p	108.0p	106.9p

19. Segmental information

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

20. Transactions with related parties

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

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

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

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

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

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

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Asset management fees charged*	802	850	1,675
Property management fees charged*	914	808	1,698
Performance fee charged	419	-	115
Total	2,135	1,658	3,488
	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Total fees outstanding**	1,513	823	563

* Including irrecoverable VAT charged where appropriate

** Including amounts to be settled by the issue of Ordinary shares

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

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

Transactions with the Investment Manager, Toscafund Asset Management LLP

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

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

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

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

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Investment management fees charged*	923	967	1,914
Performance fee charged	419	-	115
Irrecoverable VAT on performance fee charged	67	-	19
Total	1,409	967	2,048
	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000	31 December 2016 (audited) £'000
Total fees outstanding**	1,086	471	609

* Including irrecoverable VAT charged where appropriate

** Including amounts to be settled by the issue of Ordinary shares

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

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

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

Based on the EPRA NAV of the Group as at 30 June 2017 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 30 June 2017 was estimated at £1,154,000 (30 June 2016: £nil; 31 December 2016: £249,000). This fee has been accrued in the consolidated financial statements for the six months ended 30 June 2017 and at 31 December 2016 respectively. To reflect the nature of the future payment of the performance fee charge, 50% of the fee, along with the irrecoverable VAT thereon of £86,000 (30 June 2016: £nil; 31 December 2016: £19,000), has been accrued as a liability totalling £620,000 (30 June 2016: £nil; 31 December 2016: £134,000) and the 50% of the fee which is payable by the issue of Ordinary Shares has been reflected as a share based payment in the condensed consolidated statement of changes in equity.

21. Capital commitments

At 30 June 2017, committed expenditure (before dilapidations and other recoveries) on refurbishments amounted to £13,000,000.

22. Subsequent events

On 7 July 2017 Mr Martin McKay stepped down as a Non-Executive Director of the Company and Mr Tim Bee was appointed in his stead.

The Group completed the acquisition of Woodlands Court, Bristol, for £6.55m, a development of four single-storey offices buildings totalling 37,952 sq. ft., providing a rental income of £595,000 pa. The property is located proximate to Regional REIT's existing properties in the north Bristol area.

The Group disposed of St James House, Bath, a fully-let modern office development over the ground and three upper floors, totalling 14,507 sq. ft. with 30 parking spaces, situated to the south of Bath city centre, producing a rental income of £297,662 pa. The property was sold for £4.6m, a net initial yield of 6.1% including costs, well ahead of its 31 December 2016 valuation.

The Group has secured a number of additional lettings and regears since the 30 June 2017. Most notably, the Group agreed a letting with SCS of Unit 1A, a 65,503 sq. ft. industrial warehouse, the largest void at Juniper Park, Basildon, effective September 2017. The lease will be for 10-years, with a break at year 5, at an initial average rent of some £328,000 pa. In addition, industrial occupancy will also be improved following a lease agreement and the imminent completion of landlord works at Unit 131B Heathhall Industrial Estate, Dumfries (50,661 sq.ft.).

COMPANY INFORMATION

Directors

Kevin McGrath (Chairman, Independent Non-Executive Director and Management Engagement and Remuneration Committee Chairman)

William Eason (Senior Independent Non-Executive Director, Audit Committee Chairman)

Daniel Taylor (Independent Non-Executive Director)

Tim Bee (Non-Executive Director)

Stephen Inglis (Non-Executive Director)

Company Secretary

Capita Company Secretarial Services Limited

The Registry

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Investment Manager

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ISIN:	GG00BYV2ZQ34
SEDOL:	BYV2ZQ3
Legal Entity Identifier:	549300D8G4NKLRIKBX73

Forthcoming Events

13 October 2017	Q2 2017 Dividend Paid
16 November 2017	Q3 2017 Trading Update and Dividend Declaration Announcement
22 February 2018	Q4 2017 Dividend Declaration Announcement and Portfolio Valuation
22 March 2018	Full year 2017 Preliminary Results Announcement
17 May 2018	May 2018 Trading Update and Outlook Announcement Q1 2018 Dividend Declaration Announcement Annual General Meeting

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

www.regionalreit.com