

Regional REIT Limited
Half-Yearly Report
For the six months to 30 June 2019

**HIGHLY DIVERSIFIED PORTFOLIO WITH A CONSISTENT
SECTOR-LEADING DIVIDEND YIELD**

Number of properties

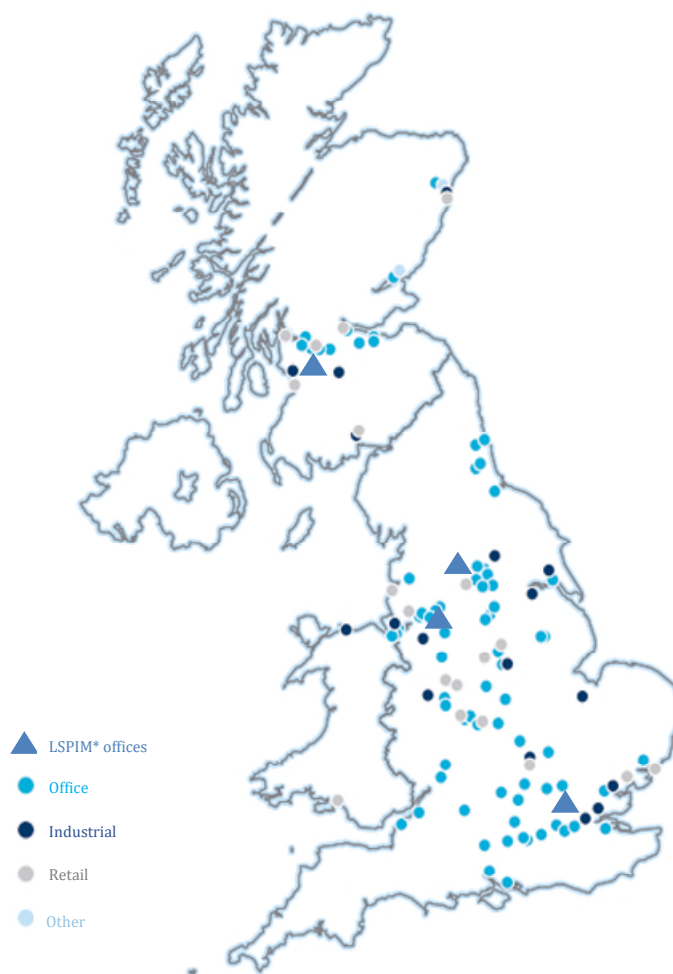
As at 30 June 2019

149

Portfolio value

As at 30 June 2019

£721.7m



Number of tenants

As at 30 June 2019

828

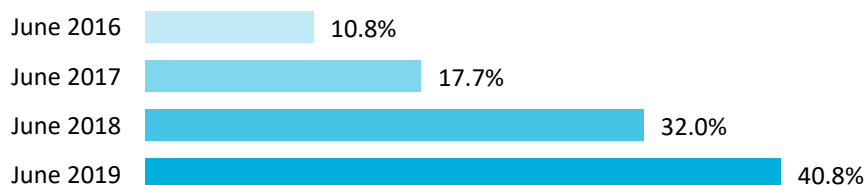
Regional REIT Limited

Regional REIT Limited (the “Company”) and its subsidiaries¹ (together the “Group”) is a UK-listed real estate investment trust (“REIT”), which pursues its investment objective by investing in, actively managing and disposing of regional Core Property and Core Plus Property assets. The commercial property portfolio is comprised wholly of UK assets and comprises, predominantly, offices and industrial units located in the regional centres outside of the M25 motorway.

HIGHLIGHTS

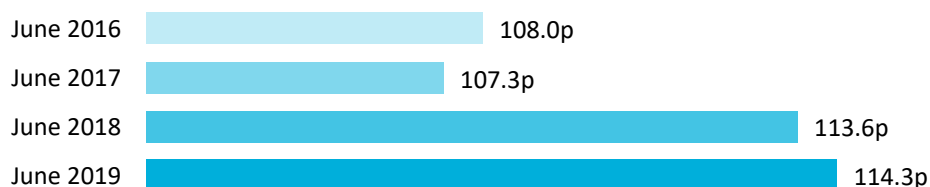
As at 30 June 2019

Total Shareholder Return since IPO* **40.8%**

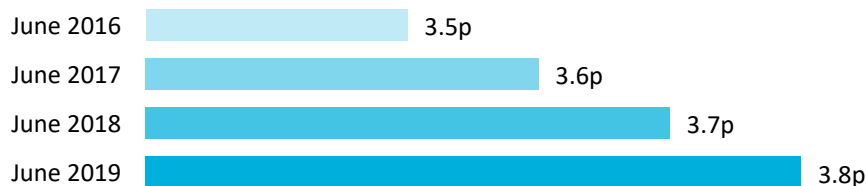


* 6 November 2015

EPRA NAV per Share - diluted **114.3p**



Dividend per Share **3.8p**



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

CONTENTS

	Page Number
Chairman's Statement	3
Asset and Investment Managers' Report	5
Directors' Statement of Principal Risks and Uncertainties	18
Interim Management Report and Directors' Responsibility Statement	19
Condensed Consolidated Statement of Comprehensive Income	20
Condensed Consolidated Statement of Financial Position	21
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Statement of Cash Flows	23
Notes to the Condensed Consolidated Financial Statements	24
EPRA Performance Measures	44
Notes to the Calculation of the EPRA Performance Measures	46
Property Related Capital Expenditure Analysis	49
Shareholder Information	50
Glossary of Terms	51
Company Information	55



Norfolk House, Smallbrook Queensway, Birmingham

CHAIRMAN'S STATEMENT

I am pleased to report that the Company has delivered solid underlying earnings for the six months to 30 June 2019. During the period, the Group generated EPRA earnings, excluding any performance fee, of £14.2m (six months to 30 June 2018: £14.0m), or 3.8 pence per share ("pps") (six months to 30 June 2018: 3.8pps). We have declared a total dividend for the period of 3.80pps, which represents a 2.7% increase on the prior year.

In the six months to 30 June 2019, the Group acquired one property for an aggregate value of £20.0m (before costs) and disposed of properties for an aggregate value of £19.7m (net of costs).

The Group undertook one asset acquisition in the period. Norfolk House, located in the centre of Birmingham, was purchased for £20.0m, with a net initial yield of 7.9%. The location, coupled with multiple tenants, the largest being HMRC, complement the Group's diversified portfolio approach. Capital expenditure for the period amounted to £3.9m.

We continue to intensively asset manage the portfolio, by executing individual asset management initiatives to unlock each property's potential.

During the period, there were two noteworthy disposals, both in June 2019; firstly, the sale of Aspect Court, Sheffield, for £8.8m, reflecting a 24.8% uplift against the December 2018 valuation; and secondly, the disposal of Tokenspire Business Park, Beverley, for £11.1m, reflecting a 30.6% uplift against the acquisition price.

Net borrowings as at 30 June 2019 amounted to 39.9% of gross investment in properties. During the period, £39.9m was repaid by the Group to the Zero Dividend Preference Shareholders on 9 January 2019, and two refinancings were completed in June 2019 amounting to £121.0m, resulting in the weighted average cost of debt reducing from 3.8% at 31 December 2018 to 3.5% as at 30 June 2019, with weighted average debt to maturity extended to 7.8 years, and 73% of the debt fixed and the balance hedged. The Group continues to target a net borrowings ratio of approximately 40%.

In June 2019, we announced a proposed £50.0m equity raise to take advantage of the growing near-term pipeline of opportunities in the investment market, which was oversubscribed and upsized. The results of the equity raise are set out in the Subsequent Events section.

Despite the political and economic backdrop remaining uncertain, we are confident that the actions taken over the preceding years have resulted in a strengthened balance sheet and a diversified portfolio and, which is well positioned to minimise any risks as events unfold.

Market Environment

At £20.0bn, investment volumes in the first half of 2019 were 29% below the same period in 2018 and 26% below average. This was attributed to the continued uncertainty caused by the six-month extension to the Brexit deadline, which has now been extended until the end of October 2019. However, there is evidence that the UK regions performed better than London in Q2 2019. Despite investment volumes for single assets in the UK regions falling 25% below the five-year quarterly average at £3.7 bn in Q2 2019, London volumes dropped to the lowest level since Q4 2011 at £4.0 bn – 37% below the five-year average.

Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior returns of 10.8% in the 12 months ending July 2019 in comparison to central London office returns of 4.9% – a trend that has been witnessed over the last three years.

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

Dividends

Dividends are the major component of the total return. The Company declared an increased total dividend of 3.80p for the period ended 30 June 2019, comprising of two quarterly dividends of 1.90pps each.

In the absence of unforeseen circumstances, it remains the Board's intention to pursue a progressive dividend policy and continue to pay quarterly dividends, with a full year 2019 dividend target of 8.25pps.

Performance

The total return performance since listing on 6 November 2015 has amounted to 40.8%, with an annualised total return of 9.8% to 30 June 2019.

Subsequent Events

Following the announcement on 24 June 2019 regarding a proposed £50.0m equity capital raise at 106.5pps, the Company was delighted to announce on 19 July 2019 the successful raise of £62.5m, which was in excess of the Group's targeted fundraising size.

On 14 August 2019, the Company announced successful lettings amounting to c.£1.27m per annum, which represented a major uplift in income for the Group as all of these nine properties, with the exception of one property, were vacant prior to these lettings.

On 21 August 2019, the Company announced the acquisition of a substantial portfolio of six offices located in Birmingham, Bristol, Cardiff, Chester, Glasgow and Manchester for £25.9m, with a net initial yield of 8.87%. This significant acquisition demonstrates clearly that there is no shortage of opportunities for Regional REIT.

Outlook

The outlook for the Group is positive. The deliberately highly-diversified portfolio by region, tenant, and sector underpins our confidence of being able to maintain the quarterly dividends to our Shareholders. Whilst we can expect political and economic turbulence over the short term, we remain convinced of the ability of the long-term asset management initiatives to grow income streams and provide further opportunities for capital value enhancement.

Kevin McGrath
Chairman

9 September 2019

ASSET AND INVESTMENT MANAGERS' REPORT

"This represents another period of robust performance for Regional REIT as we continue to deliver a strong income stream for our Shareholders supported by opportunities for capital growth. In the current market conditions, the UK regions continue to outperform the London commercial property market with superior capital returns over the last three years. Strong occupational demand remains for the UK regional commercial markets while a lack of availability continues to drive rental growth.

Regional REIT has capitalised on these attractive market conditions by announcing an equity fundraise which was completed post-period end. We were pleased that the demand for these new shares was such that the fundraise was over-subscribed at £62.5m, a significant endorsement of our investment strategy from existing and new investors.

The continuing success of our intensive asset management initiatives was effectively demonstrated by two major disposals during the period, at a valuation 24.8% above the December 2018 valuation and 30.6% above the acquisition price, respectively. In addition, we continue to witness a robust level of letting activity across the portfolio to a large and diversified register of valued, high-quality corporate tenants". **Stephen Inglis, CEO of London & Scottish Property Investment Management, the Asset Manager of Regional REIT Limited.**

Highlights from the first six months in 2019

- Lease renewals during the first six months of 2019 achieved an uplift in gross rental roll of 19.5%.
- Improved both WAULT (to first break) and WAULT (to expiry) by 2.1%, to 3.5 years and 5.5 years, respectively.
- Average rent by let sq. ft. increased by 2.6% from £9.40 per sq. ft. in December 2018 to £9.64 per sq. ft. in June 2019.
- Completed 39 new lettings in the first six months of 2019, totalling 239,751 sq. ft.; when fully occupied, these will provide a gross rental income of c.£1.6m.
- Capital value per sq. ft. increased by 4.3% from £96.64 per sq. ft. in December 2018 to £100.82 per sq. ft.
- Disposals during the first half of 2019 totalled £19.7m (net of costs) achieving an average uplift against December 2018 valuation of 12.2%.

The first six months of 2019 have been active for the Group. Our continued success in managing our large and diverse portfolio of assets are demonstrated by delivering positive growth in terms of new lettings, lease renewals and average rent. Going forward, we believe we are well positioned to not only weather the current political and economic uncertainty, but also maximise the growth potential of our assets and capitalise on the strong presence we have in the regional markets. As always, the asset manager will continue to identify value in the market with a focus on income.

Investment Activity in the UK Commercial Property Market

In 2018, investment in UK commercial property reached £61.6bn. As a result of investor caution, however, this was followed by a progressive slowdown in the general level of investment activity during the first half of 2019. This was attributed to the continued uncertainty caused by the six-month extension to the Brexit deadline, which has now been extended until the end of October 2019. The most recent data from Lambert Smith Hampton ("LSH")², shows that investment in UK commercial property slowed to the lowest quarterly figure over the last six years at £8.8bn in Q2 2019, 22% below Q1 2019 volumes and 40% below the five-year quarterly average. Consequently, this resulted in weak overall investment in the first half of 2019 relative to trend. At £20.0bn, volumes in the first half of 2019 were 29% below the same period in 2018 and 26% below average.

² Lambert Smith Hampton, Q2 2019, UKIT.

ASSET AND INVESTMENT MANAGERS' REPORT continued

There has been a considerable decrease in investment levels throughout the UK due to investors delaying decision making until the UK's future with Europe becomes clearer. However, there is evidence that the UK regions performed better than London in Q2 2019. Data from LSH shows that despite investment volumes for single assets in the UK regions falling 25% below the five-year quarterly average at £3.7 bn in Q2 2019, London volumes dropped to the lowest level since Q4 2011 to £4.0bn – 37% below the five-year average. Research from CoStar indicates that, despite investment in most regions remaining below average, the East Midlands and North East bucked this trend with Q2 2019 investment volumes 72% and 16%, respectively, above the five-year quarterly average.

Overseas investment in the UK property markets fell to £4.1 bn in Q2 2019, 39% below the level recorded in Q1 2019 and 35% below the same quarter in 2018, according to data from CoStar³. Lower level of capital inflows from international investors is in line with the overall reduction in UK commercial property investment. Although 2018 was a record year for capital inflows from South Korea and Singapore, investment from both countries was 70% lower in Q2 2019 than the previous 12 months, which contributed to the sharp decline in Far East investment as well as slowing investment volumes from China and Hong Kong due to restrictions on capital outflows. Conversely, North American investors became net buyers in Q2 2019 with net investment of £2bn – the highest figure recorded since Q1 2015.

Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior returns of 10.8% in the 12 months ended July 2019 in comparison to central London office returns of 4.9% – a trend that has been witnessed over the last three years.

Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across the Big Nine regional office markets⁴ in Q2 2019 reached 2.3 million sq. ft., 10% higher than the long-term average, bringing the half year total to 4.3 million sq. ft. – 6% above average⁵. Similarly, Savills research suggests that occupational demand in regional cities has continued against a backdrop of limited supply. Conversely, take-up has declined year-on-year in the London office market in the first half of 2019, with take-up down 30% in the City and 6% in the West End⁶.

Strong occupational demand came from the technology, media and telecoms sector, accounting for the highest proportion of take-up of all regional offices at 19% in H1 2019. Following this, 17% of total take-up in the first half of 2019 was from serviced office providers, which have taken more space in the top ten regional cities in the first six months of 2019 (over 0.7 million sq. ft.) than they did through all of 2018. Savills predicts that this trend will continue throughout the rest of 2019 and into 2020. Despite the public sector accounting for the highest proportion of tenant demand in 2018, this trend was reversed in the first half of 2019, with Avison Young research showing very low levels of take-up by the public sector as well as finance and professional services sector. **According to Cushman & Wakefield, availability for regional office stock decreased to 7.7m sq. ft., the lowest level for 13 years and 35% below the 10-year quarterly average, reflecting a vacancy rate of 7.1%.⁷**

The most recent research from Cushman & Wakefield suggests that a limited development pipeline will most likely put pressure on supply and vacancy rates. It is estimated that approximately 5.4 million sq. ft. of office space is currently under construction in the Big Nine regional markets, with Manchester, Birmingham and Glasgow accounting for 29%, 21% and 18%, respectively. Although the supply of office stock is likely to increase, 50% of office buildings currently under construction are already pre-let.

Moreover, from the remaining available speculative space, approximately 67% of this space is in two markets only – Manchester and Birmingham.

³ CoStar, Q2 2019, UK Commercial Property Investment Review.

⁴ Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Newcastle.

⁵ Avison Young, Q2 2019, *The Big Nine*.

⁶ Savills, August 2019, *UK Commercial Market in Minutes*.

⁷ Cushman & Wakefield, Q2 2019, *United Kingdom Office Market Snapshot*.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Therefore, there is likely to remain a shortage of office stock, with Cushman & Wakefield highlighting that the vacancy rate for new and refurbished stock in the regions is only 1.3%, which has driven pre-let activity.

Rental Growth in the UK Regional Office Market

A lack of availability in the Big Nine regional markets has put upward pressure on headline rents, which has led to an increase of 4.8% in city centre net effective rents over the last 12 months.⁸

The CBRE Monthly Index shows that rental value growth for the rest of UK office markets in the 12 months ended July 2019 was 1.1%. Colliers International expects regional CBDs to experience further rental growth but anticipate that rent in London markets will remain broadly unchanged.⁹

Regional REIT's Office Assets

EPRA occupancy of the Group's regional offices decreased to 85.8% (31 December 2018: 88.2%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, 30 June 2019 versus 31 December 2018, shows that occupancy decreased to 85.2% (31 December 2018: 88.1%). This reduction in occupancy can largely be attributed to two properties becoming vacant: Brennan House, Farnborough (29,707 sq. ft.) and Niceday House, Meridian Park, Andover (34,262 sq. ft.).

- Brennan House, Farnborough – We were ahead of business plan when we took the opportunity to do a contract-led letting to Fluor Limited. Unfortunately, Fluor exercised a valid break notice as their contract was not extended. Brennan House presents well and we are exploring opportunity to carry out works to upgrade the building. We are actively marketing and have some interest. We are hopeful of an early letting.
- Niceday House, Andover – As expected, the tenant vacated at expiry. Following this, a dilapidations settlement has been agreed and we are now looking at options for change of use to residential.

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

Occupier Demand in the UK Industrial Market

Cushman & Wakefield estimate that take-up in H1 2019 totalled 15.9 million sq. ft., 14% lower than the same period in 2018, but marginally higher than the 10-year average of 15.7 million sq. ft.¹⁰ Take-up in Q1 2019 was 39% lower than the same quarter in 2018 at 7.1 million sq. ft. However, demand increased in Q2 2019, reaching 8.8 million sq. ft., up 24% on Q1 2019 figures and 16.7% higher than the same period in 2018. In total, there were 66 lettings¹¹ that took place in Q2 2019, the highest quarterly figure since Q1 2015, however, the average deal size was lower with fewer large deals taking place.

Occupier demand within the industrial market continues to be highly driven by e-commerce, manufacturing and logistics companies, according to Avison Young.¹² JLL predicts that an increase in online food shopping will boost demand around certain cities as warehouses will be used for fulfilment rather than stores.¹³ Research from Cushman & Wakefield suggests that for 2019, there is approximately 6.9 million sq. ft. of space under construction, 17% above the five-year average.

⁸ Avison Young, Q2 2019, *The Big Nine*.

⁹ Colliers International, June 2019, *United Kingdom Property Snapshot*.

¹⁰ Cushman & Wakefield, Q2 2019, *United Kingdom Industrial Market Snapshot*.

¹¹ Lettings of 50,000 sq. ft. and over.

¹² Avison Young, Summer 2019, *Economic & Property Market Review*.

¹³ JLL, 2019, *UK Property Predictions*.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Industrial Rental Growth Continues

Research by Cushman & Wakefield illustrates that competition for standard industrial space led to rental growth during the first half of 2019. The research compared data from the monthly MSCI Index for June 2019, which showed rental growth of 3.2% for the 12 months to the end of June 2019, indicating that rental growth has slowed in comparison to rental growth previously reported of 4.6% in the 12 months to December 2018. Colliers International estimate that further rental growth in the industrial market during 2019 is likely.¹⁴

The Investment Property Forum UK ("IPF") Consensus Forecast, May 2019, anticipates rental growth in the industrial sector of 3.0% in 2019, providing evidence of sustained growth. Additionally, the IPF UK Consensus Forecast predicts 2.2% and 1.8% average rental growth rates respectively for 2020 and 2021. In comparison, the IPF UK Consensus Forecast predicts that the All Property average annual rental value growth will retract in 2019 by 0.2%.

Regional REIT's Industrial Assets

EPRA occupancy of the Group's industrial sites increased to 96.0% (31 December 2018: 94.5%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, 30 June 2019 versus 31 December 2018, shows that occupancy increased to 96.0% (31 December 2018: 93.0%). WAULT to first break was 5.9 years (31 December 2018: 5.4 years); like-for-like WAULT to first break was unchanged at 5.9 years (31 December 2018: 5.9 years).

Property Portfolio

As at 30 June 2019, the Group's property portfolio was valued at £721.7m (30 June 2018: £758.7m; 31 December 2018: £718.4m), with a gross rental income of £57.8m (30 June 2018: £61.3m; 31 December 2018: £59.7m), and an EPRA occupancy rate of 87.5% (31 December 2018: 89.4%). On a like-for-like basis, 30 June 2019 versus 31 December 2018, EPRA occupancy was 87.1% (31 December 2018: 89.2%).

In the six months to 30 June 2019, the investment property portfolio value increased by £3.3m to £721.7m, after transactions and capital expenditure, which in the Company's opinion is yet to be fully captured in the valuation. This is despite the retail sector decreasing by circa £7.6m.

There were 149 properties (30 June 2018: 151; 31 December 2018: 150), in the portfolio, with 1,178 units (30 June 2018: 1,294; 31 December 2018: 1,192) and 828 tenants (30 June 2018: 950; 31 December 2018: 874). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £71.4m per annum (30 June 2018: £73.4m; 31 December 2018: £70.0m).

As at 30 June 2019, the net initial yield on the portfolio was 6.1% (30 June 2018: 6.4%; 31 December 2018: 6.5%), the equivalent yield was 8.3% (30 June 2018: 8.3%; 31 December 2018: 8.2%) and the reversionary yield was 9.0% (30 June 2018: 9.0%; 31 December 2018: 8.8%).

A full list of the Company's properties in its portfolio can be found on the Company's website at <https://www.regionalreit.com/portfolio>.

¹⁴ Colliers International, June 2019 *United Kingdom Property Snapshot*.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Property Portfolio by Sector

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£m)	(%)	(mil)	(%)	(yrs)	(£m)	(£psf)	(£m)	(£psf)	Net initial	Equivalent	Reversionary
Office	106	564.7	78.2	4.4	85.8	3.0	45.0	12.69	57.5	129.20	6.1	8.4	9.2
Industrial	17	103.1	14.3	2.2	96.0	5.9	7.4	3.83	8.6	47.50	5.1	7.4	7.7
Retail	23	43.3	6.0	0.5	92.6	4.0	4.6	10.98	4.4	92.97	8.7	8.7	9.0
Other	3	10.7	1.5	0.2	93.3	6.9	0.8	8.29	1.0	70.24	6.8	7.9	5.7
Total	149	721.7	100.0	7.2	87.5	3.5	57.8	9.64	71.4	100.82	6.1	8.3	9.0

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£m)	(%)	(%)	(%)	(yrs)	(£m)	(£psf)	(£m)	(£psf)	Net initial	Equivalent	Reversionary
Scotland	40	126.1	17.5	1.7	85.0	3.3	11.4	8.81	14.5	75.88	6.4	9.5	10.5
South East	30	209.7	29.1	1.5	86.3	3.1	15.9	11.46	18.9	135.37	6.4	7.5	8.1
North East	20	80.7	11.2	0.9	86.9	3.1	6.7	8.50	8.5	86.71	5.9	9.1	9.7
Midlands	31	135.1	18.7	1.4	90.8	3.3	11.2	8.98	12.3	97.20	6.1	7.9	8.4
North West	14	78.9	10.9	0.9	85.4	5.4	5.3	7.41	8.4	84.67	5.3	8.7	9.3
South West	12	71.8	9.9	0.4	92.8	3.3	5.8	15.15	6.9	159.75	6.1	8.1	8.8
Wales	2	19.4	2.7	0.2	86.8	7.6	1.6	8.36	1.8	79.16	5.3	8.1	8.3
Total	149	721.7	100.0	7.2	87.5	3.5	57.8	9.64	71.4	100.82	6.1	8.3	9.0

Tables may not sum due to rounding.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Top 15 Investments (by market value) as at 30 June 2019

Property	Sector	Anchor tenants	Market value	% of portfolio	Lettable area	EPRA occupancy	Annualised gross rent	% of gross rental income	WAULT to first break
			(£m)	(%)	(Sq. Ft.)	(%)	(£m)		(yrs)
Tay House, Glasgow	Office	Barclays Execution Services Ltd, University of Glasgow	32.9	4.6	156,853	94.2	2.7	4.7	2.9
Juniper Park, Basildon	Industrial	Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd	29.0	4.0	277,228	100.0	2.0	3.5	1.8
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Alpha Assembly Solutions UK Ltd, McCarthy & Stone Retirement Lifestyles Ltd	25.4	3.5	98,359	77.6	1.4	2.4	3.1
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd	24.9	3.4	140,791	96.1	2.3	3.9	3.9
Norfolk House, Smallbrook Queensway, Birmingham	Office	Secretary of State for Communities & Local Government, Spark44 Ltd	20.1	2.8	114,982	100.0	1.7	2.9	2.1
Hampshire Corporate Park, Eastleigh	Office	Aviva Health UK Ltd, National Westminster Bank Plc, Digital Wholesale Solutions Ltd, Utilita Energy Ltd	19.7	2.7	85,422	99.6	1.7	2.9	1.2
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	18.4	2.5	73,292	86.3	1.3	2.3	3.7
One & Two Newstead Court, Annesley	Office	E.ON UK Plc	16.9	2.3	146,262	100.0	1.4	2.5	4.4
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	15.7	2.2	246,209	100.0	1.0	1.7	15.3
Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd	14.5	2.0	54,959	98.0	0.8	1.3	2.0
Columbus House, Coventry	Office	TUI Northern Europe Ltd	13.5	1.9	53,253	100.0	1.4	2.4	4.5
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Hill Rom UK Ltd, Alstom Power Ltd	13.5	1.9	91,034	100.0	1.1	1.8	1.3
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Fore Digital Ltd	11.1	1.5	141,320	97.2	1.2	2.0	4.1
Oakland House, Manchester	Office	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd	10.8	1.5	160,938	86.9	1.1	1.9	4.0
1-4 Llansamlet Retail Park, Nantyffin Rd, Swansea	Retail	Wren Living Ltd, Steinhoff UK Group Property Ltd, A Share & Sons	10.4	1.4	71,615	100.0	1.1	1.9	5.8
Total			276.5	38.3	1,912,517	95.0	22.1	38.1	3.7

Table may not sum due to rounding.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Top 15 Tenants (by share of rental income) as at 30 June 2019

Tenant	Property	Sector	WAULT to first break (yrs)	Lettable area (Sq. Ft)	Annualised gross rent (£m)	% of Gross rental income
Barclays Execution Services Ltd	Tay House, Glasgow	Administrative and support service activities	2.4	78,044	1.6	2.8
Bank of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury High Street, Dumfries	Banking	2.7	92,978	1.5	2.5
Secretary of State for Communities & Local Government	Bennett House, Hanley Cromwell House, Lincoln Norfolk House, Birmingham Oakland House, Manchester	Public sector	2.6	115,879	1.4	2.5
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	4.4	146,262	1.4	2.5
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	4.5	53,253	1.4	2.4
The Scottish Ministers	Calton House, Edinburgh Quadrant House, Dundee Templeton On The Green, Glasgow The Courtyard, Falkirk	Public sector	2.0	111,076	1.3	2.3
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	15.3	246,209	1.0	1.7
Aviva Health UK Ltd	Hampshire Corporate Park, Eastleigh	Financial and insurance activities (other)	0.0	42,612	0.9	1.6
The Royal Bank Of Scotland Plc	Cyan Building, Rotherham	Banking	2.1	67,458	0.9	1.5
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	6.3	58,167	0.8	1.4
The Secretary of State for Transport	Festival Court, Glasgow St Brendans Court, Bristol	Public sector	2.5	55,586	0.7	1.2
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Swansea Juniper Park, Basildon	Wholesale and retail trade	4.9	75,791	0.7	1.2
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	3.0	31,549	0.7	1.2
Lloyds Bank Plc	Victory House, Chatham	Banking	0.0	48,372	0.7	1.2
The Secretary of State for Defence	800 Aztec West, Bristol	Public sector	4.5	32,007	0.6	1.1
Total			3.8	1,255,243	15.7	27.1

Table may not sum due to rounding.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Property Portfolio Sector and Region by Valuation and Income

By Valuation

As at 30 June 2019, 78.2% (30 June 2018: 70.3%; 31 December 2018: 76.1%) of the portfolio by market value was Offices and 14.3% (30 June 2018: 21.0%; 31 December 2018: 15.5%) was Industrial. The balance was made up of Retail 6.0% and Other 1.5% (30 June 2018: 8.7%; 31 December 2018: 8.5%). By UK region, as at 30 June 2019, Scotland represented 17.5% (30 June 2018: 21.9%; 31 December 2018: 18.0%) of the portfolio and England 79.8% (30 June 2018: 75.3%; 31 December 2018: 79.3%); the balance of 2.7% (30 June 2018: 2.8%; 31 December 2018: 2.7%) was in Wales. In England, the largest regions were the South East, the Midlands and the North East.

By Income

As at 30 June 2019, 77.7% (30 June 2018: 70.6%; 31 December 2018: 77.3%) of the portfolio by income was Offices and 12.8% (30 June 2018: 20.0%; 31 December 2018: 13.2%) was Industrial. The balance was made up of Retail 8.0% and Other 1.4% (30 June 2018: 9.5%; 31 December 2018: 9.5%). By UK region, as at 30 June 2019, Scotland represented 19.8% (30 June 2018: 24.6%; 31 December 2018: 20.1%) of the portfolio and England 77.5% (30 June 2018: 72.8%; 31 December 2018: 77.2%); the balance of 2.8% was in Wales (30 June 2018: 2.6%; 31 December 2018: 2.7%). In England, the largest regions were the South East, the Midlands and the North East.

Lease Expiry Profile

The WAULT on the portfolio is 5.5 years (30 June 2018: 5.3 years; 31 December 2018: 5.4 years); WAULT to first break is 3.5 years (30 June 2018: 3.5 years; 31 December 2018: 3.4 years). As at 30 June 2019, 12.0% (30 June 2018: 13.5%; 31 December 2018: 10.1%) of income was from leases which will expire within one year, 5.3% (30 June 2018: 7.0%; 31 December 2018: 4.4%) between one and two years, 35.4% (30 June 2018: 32.8%; 31 December 2018: 34.0%) between two and five years and 47.4% (30 June 2018: 46.6%; 31 December 2018: 51.6%) after five years.

Tenants by Standard Industrial Classification

As at 30 June 2019, 13.0% of income was from tenants in the Administrative and Support Service Activities sector (30 June 2018: 8.7%; 31 December 2018: 10.4%), 12.7% from the Professional, Scientific and Technical activities sector (30 June 2018: 9.8%; 31 December 2018: 11.5%), 10.1% from the Public sector (30 June 2018: 8.5%; 31 December 2018: 9.6%), 9.3% from the Wholesale and Retail Trade sector (30 June 2018: 12.7%; 31 December 2018: 10.1%), and 9.0% from the Information and Communication sector (30 June 2018: 9.1%; 31 December 2018: 8.8%). The remaining exposure is broadly spread.

No tenant represents more than 3% of the Group's contracted rent roll as at 30 June 2019, the largest being 2.8%.

Stephen Inglis

London & Scottish Property Investment Management Limited
Asset Manager

9 September 2019

ASSET AND INVESTMENT MANAGERS' REPORT continued

Net Asset Value

Between 1 January 2019 and 30 June 2019, the EPRA Net Asset Value ("NAV") of the Group decreased to £426.2m from £430.5m as at 31 December 2018, which equates to a decrease in diluted NAV of 1.2pps to 114.3pps (30 June 2018: 113.6pps; 31 December 2018: 115.5pps). This is after the declaration of dividends in the period amounting to 4.4pps.

The EPRA NAV decrease of circa £4.2m since 31 December 2018 is predominately a result of the revaluation of investment properties held at 30 June 2019 amounting to a reduction of £2.9m, after capital expenditure amounting to £3.9m, the amount of which is yet to be fully captured in the valuations.

The investment property portfolio valuation as at 30 June 2019 totalled £721.7m (30 June 2018: £758.7m; 31 December 2018: £718.4m). The minimal increase since the December 2018 year end is a reflection of the £20.0m (before costs) acquisition which was offset by the property disposals and the aforementioned downward revaluation.

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

	Six months to 30 June 2019	Six months to June 2018	Year ended 31 December 2018
	£m	£m	£m
Acquisitions			
Net (after costs)	20.4	42.1	76.3
Gross (before costs)	20.0	40.1	73.3
Disposals			
Net (after costs)	19.7	60.4	149.3
Gross (before costs)	20.3	61.1	152.5
Capital Expenditure			
Net (after dilapidations)	3.9	4.4	7.0
Gross (before dilapidations)	5.3	4.6	9.8

ASSET AND INVESTMENT MANAGERS' REPORT continued

The EPRA NAV is reconciled in the table below.

	Six months to 30 June 2019	Six months to 30 June 2019
	£m	pence per share
Opening EPRA NAV	430.5	115.5
Net rental income	26.0	7.0
Administration and other expenses	(5.4)	(1.5)
Gain on the disposal of investment properties	1.7	0.4
Change in the fair value of investment properties	(3.0)	(0.8)
EPRA NAV after operating profit	449.7	120.6
Net finance expense	(6.8)	(1.8)
Impairment of goodwill	(0.3)	(0.1)
EPRA NAV before dividends paid	442.6	118.7
Dividends paid	(16.4)	(4.4)
Performance fee shares	0.0	0.0
Closing EPRA NAV - diluted	426.2	114.3

Table may not sum due to rounding.

Condensed Consolidated Statement of Comprehensive Income

Operating profit before gains and losses on property assets, and other investments for the six months ended 30 June 2019, amounted to £20.6m (six months to 30 June 2018: £17.6m). Profit after finance items and before taxation was £10.7m (six months to 30 June 2018: £45.3m). The six months to 30 June 2019 included a full rent roll for properties held as at 31 December 2018, plus the partial rent roll for properties acquired and disposed of during the period. Realised gain on disposal of investment properties amounted to £1.7m (30 June 2018: £7.2m). The change in the fair value of investment properties amounted to a loss of £2.9m (six months to 30 June 2018: gain of £27.9m).

Rental income amounted to £29.9m, excluding recoverable service charge income (six months to 30 June 2018: £30.6m). The decrease was primarily the result of a reduced investment property portfolio being held over the six-month period.

Currently, more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.4m (six months to 30 June 2018: £0.3m).

The EPRA cost ratio, including direct vacancy costs, was 31.3% (six months to 30 June 2018: 41.8%), adjusting for ground rent. The decrease in the cost ratio is ostensibly due to a nil performance fee being accrued in the six months to 30 June 2019 (six months to 30 June 2018: £4.2m).

ASSET AND INVESTMENT MANAGERS' REPORT continued

The EPRA cost ratio, excluding direct vacancy costs and the performance fee, was 20.1% (six months to 30 June 2018: 18.2%).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £3.9m (six months to 30 June 2018: £3.7m), whilst the gross rental income decreased to £57.8m (30 June 2018: £61.3m).

Finance expense amounted to £6.9m (six months to 30 June 2018: £7.7m.).

The Company is a member of the Association of Investment Companies ("AIC"). In accordance with the AIC Code of Corporate Governance, the ongoing charges for the period ended 30 June 2019 were 4.4% (30 June 2018: 4.3%). The total return to Shareholders from 6 November 2015 (date of IPO) to 30 June 2019 was 40.8% (30 June 2018: 32.0%), an annualised rate of 9.8% (30 June 2018: 11.0%).

Dividend

In relation to the period from 1 January 2019 to 30 June 2019, the Company declared dividends totalling 3.8pps (six months to 30 June 2018: 3.7pps). Since the end of the period, the Company has declared a dividend for the second quarter of 2019 of 1.9pps.

Period Covered	Announcement Date	Ex-Date	Payment Date	Pence Per Share
1 Jan 2016 to 31 Mar 2016	27 May 2016	9 Jun 2016	8 Jul 2016	1.75
1 Apr 2016 to 30 Jun 2016	1 Sep 2016	8 Sep 2016	7 Oct 2016	1.75
1 Jul 2016 to 30 Sep 2016	17 Nov 2016	24 Nov 2016	22 Dec 2016	1.75
1 Oct 2016 to 31 Dec 2016	23 Feb 2017	2 Mar 2017	13 Apr 2017	2.40
1 Jan 2017 to 31 Mar 2017	25 May 2017	8 Jun 2017	14 Jul 2017	1.80
1 Apr 2017 to 30 Jun 2017	31 Aug 2017	7 Sep 2017	13 Oct 2017	1.80
1 Jul 2017 to 30 Sep 2017	14 Nov 2017	23 Nov 2017	22 Dec 2017	1.80
1 Oct 2017 to 31 Dec 2017	22 Feb 2018	1 Mar 2018	12 Apr 2018	2.45
1 Jan 2018 to 31 Mar 2018	17 May 2018	24 May 2018	13 Jul 2018	1.85
1 Apr 2018 to 30 Jun 2018	31 Aug 2018	13 Sep 2018	15 Oct 2018	1.85
1 Jul 2018 to 30 Sep 2018	15 Nov 2018	22 Nov 2018	23 Nov 2018	1.85
1 Oct 2018 to 31 Dec 2018	21 Feb 2019	28 Feb 2019	11 Apr 2019	2.50
1 Jan 2019 to 31 Mar 2019	23 May 2019	6 Jun 2019	12 Jul 2019	1.90
1 Apr 2019 to 30 Jun 2019	29 Aug 2019	5 Sep 2019	15 Oct 2019	1.90

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 5-to-10 years, with a weighted average maturity of 7.8 years (30 June 2018: 5.4 years; 31 December 2018: 6.4 years).

The Group's borrowing facilities are with The Royal Bank of Scotland, Scottish Widows Ltd & Aviva Investors Real Estate Finance, Scottish Widows Ltd and Santander UK. During the period, properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing as

ASSET AND INVESTMENT MANAGERS' REPORT continued

at 30 June 2019 amounted to £291.6m (30 June 2018: £353.4m; 31 December 2018: £290.5m) (before unamortised debt issuance costs). During the period, the £39.9m zero dividend preference shares ("ZDP") were fully repaid on 9 January 2019. In addition, a new £66.0m 10-year facility was agreed with Santander, refinancing the existing £44.0m facility; and a new £55.0m five-year facility was agreed with the Royal Bank of Scotland which refinanced the existing £26.5m facility with The Royal Bank of Scotland and the £19.0m facility with HSBC. The new Royal Bank of Scotland and Santander UK facilities have not been fully drawn as at 30 June 2019.

As at 30 June 2019, the Group's cash and cash equivalent balances amounted to £53.8m (30 June 2018: £79.5m; 31 December 2018: £104.8m), which includes the disposal proceeds.

The Group's net loan-to-value ratio stands at 39.9% (30 June 2018: 41.2%; 31 December 2018: 38.3%) before unamortised costs. The Board will continue to manage the net loan-to-value to the Group's long-term target of 40%, with a maximum limit of 50%.

Debt Profile and Loan-to-Value Ratios as at 30 June 2019

Lender	Original Facility	Outstanding Debt*	Maturity Date	Gross Loan-to-Value**	Annual Interest Rate
	£'000	£'000		%	%
The Royal Bank of Scotland	55,000	45,919	Jun-2024	42.0	2.15 over 3mth £ LIBOR
Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	Dec-2027	45.2	3.28 Fixed
Scottish Widows Ltd	36,000	36,000	Dec-2028	38.5	3.37 Fixed
Santander UK	65,870	44,711	Jun-2029	27.1	2.20 over 3mth £ LIBOR
	321,870	291,630			
Retail Bond	50,000	50,000	Aug-2024	N/A	4.50 Fixed
Total	371,870	341,630			

* Before unamortised debt issue costs

** Based on Cushman & Wakefield property valuation

Table may not sum due to rounding.

The Managers' continue to monitor the borrowing requirements of the Group. As at 30 June 2019, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio, net debt to ordinary Shareholders' equity (diluted), of the Group was 67.9% as at 30 June 2019 (30 June 2018: 73.7%; 31 December 2018: 64.1%).

ASSET AND INVESTMENT MANAGERS' REPORT continued

Interest cover stands, including amortised costs, at 3.0 times (30 June 2018: 2.3 times; 31 December 2018: 2.3 times), and 3.0 times excluding the ZDPs (30 June 2018: 2.8 times; 31 December 2018: 2.7 times). The ZDPs were fully repaid on 9 January 2019.

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.

	Six months ended	Six months ended	Year ended
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	%	%	%
Borrowings interest rate hedged (Including ZDP)	108.9	93.3	102.0
Thereof :			
Fixed	73.5	68.5	76.5
Swap	17.7	12.4	12.8
Cap	17.7	12.4	12.8
WACD ¹	3.5	3.8	3.8
WACD - Excluding the ZDPs ²	3.5	3.7	3.5

Table may not sum due to rounding.

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

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

Tax

The Group entered the UK REIT regime on 7 November 2016 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.

Subsequent Events after the Reporting Period

There were a number of transactions post the half year, which are set out in the Chairman's Statement and note 22.

Adam Dickinson
Toscafund Asset Management LLP
 Investment Manager

9 September 2019

DIRECTORS' STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties the Group faces are summarised below and described in detail on pages 49 to 52 of the 2018 Annual Report, which is available on the Group's website at www.regionalreit.com - Annual Report 2018. These are also set out in the Company's recent prospectus issued on 24 June 2019. The Audit Committee, which assists the Board with its responsibilities for managing risk, considers that there have been no substantial changes to these principal risks.

Strategic risk

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

Valuation risk

The valuation of the Group's portfolio, undertaken by the external valuer, Cushman & Wakefield, could impact the Group's profitability and net assets.

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.

Funding risk

The Group may not be able to secure further debt on acceptable terms, which could impinge upon investment opportunities and the ability to grow the Group. Bank reference rates may be set to rise accompanying higher inflation.

Tenant risk

Type and concentration of tenants could result in a lower rental income. A higher concentration of lease term maturity and/or break options, could result in a more volatile rental income.

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.

Environmental and energy efficiency standards

Changes to the environment could impact upon the operations of the Group; changes to the Energy Performance Rating requirement to let or sell a building could impact upon the profitability of the Group.

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 continues to be negotiated.

INTERIM MANAGEMENT REPORT AND DIRECTORS' RESPONSIBILITY STATEMENT

Interim Management Report

The important events that have occurred during the period under review, the principal risks and uncertainties and the key factors influencing the financial statements for the remaining six months of the year are set out in the Chairman's Statement and the Asset and Investment Managers' Report.

The principal risks and uncertainties faced by the Group are substantially unchanged since the date of the Annual Report and Accounts for the year ended 31 December 2018 and are summarised above.

The condensed consolidated financial statements for the period from 1 January 2019 to 30 June 2019 are unaudited and do not constitute annual statutory accounts for the purposes of the Law.

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 Report

In accordance with Disclosure Guidance and Transparency Rule 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 their knowledge:

- a) the condensed set of consolidated 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 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) this Half-Yearly Report includes a fair review, required under DTR 4.2.7R, of the important events that have occurred during the first six months of the financial year, their impact on the condensed set of consolidated financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- c) this Half-Yearly Report includes a fair review, required 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 Half-Yearly Report was approved and authorised for issue by the Board of Directors on 9 September 2019 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 2019

		Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
	Note			
Continuing Operations				
Revenue				
Rental income	5	35,411	36,706	74,019
Property costs	6	(9,399)	(9,796)	(19,644)
Net rental income		26,012	26,910	54,375
Administrative and other expenses	7	(5,430)	(9,288)	(17,586)
Operating profit before gains and losses on property assets and other investments		20,582	17,622	36,789
Gain on disposal of investment properties	13	1,653	7,226	23,127
Change in fair value of investment properties	13	(2,883)	27,936	23,881
Amortisation -to- right of use asset	4	(105)	-	-
Operating profit		19,247	52,784	83,797
Finance income	8	65	103	268
Finance expense	9	(6,860)	(7,659)	(15,983)
Impairment of goodwill	14	(279)	(279)	(557)
Net movement in fair value of derivative financial instruments	17	(1,436)	318	415
Profit before tax		10,737	45,267	67,940
Taxation	10	(49)	(355)	(567)
Total comprehensive income for the period (attributable to the Parent Company)		10,688	44,912	67,373

Total comprehensive income arises from continuing operations.

Earnings per share - basic	11	2.9p	12.0p	18.1p
Earnings per share - diluted	11	2.9p	12.0p	18.1p

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Note	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Assets				
Non-current assets				
Investment properties	13	721,695	758,653	718,375
Right -to- use assets	4	15,989	-	-
Goodwill	14	836	1,393	1,115
Non-current receivables on tenant loan		1,274	1,493	1,396
		739,794	761,539	720,886
Current assets				
Trade and other receivables		27,571	20,567	22,163
Cash and cash equivalents		53,834	79,520	104,823
		81,405	100,087	126,986
Total assets		821,199	861,626	847,872
Liabilities				
Current liabilities				
Trade and other payables		(34,143)	(37,468)	(30,663)
Deferred income		(9,601)	(9,817)	(11,043)
Taxation liabilities		(968)	(2,870)	(1,763)
Bank and loan borrowings	15	-	(400)	(400)
Zero dividend preference shares	16a	-	(38,515)	(39,816)
		(44,712)	(89,070)	(83,685)
Non-current liabilities				
Bank and loan borrowings	15	(285,633)	(348,265)	(285,199)
Retail eligible bonds	16b	(49,214)	-	(49,136)
Derivative financial instruments	17	(1,773)	(434)	(337)
Lease liabilities	4	(16,068)	-	-
		(352,688)	(348,699)	(334,672)
Total liabilities		(397,400)	(437,769)	(418,357)
Net assets		423,799	423,857	429,515
Equity				
Stated capital	18	370,316	370,316	370,316
Retained earnings		53,483	53,541	59,199
Total equity attributable to the Parent Company		423,799	423,857	429,515
Net assets per share – basic	19	113.7p	113.7p	115.2p
Net assets per share – diluted	19	113.7p	112.9p	115.2p

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 2019

		Attributable to owners of the Parent Company		
	Note	Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019		370,316	59,199	429,515
Total comprehensive income		-	10,688	10,688
Dividends paid	12	-	(16,404)	(16,404)
Balance at 30 June 2019		370,316	53,483	423,799

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

		Attributable to owners of the Parent Company		
	Note	Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018		370,318	22,581	392,899
Total comprehensive income		-	44,912	44,912
Share-based payments		-	2,079	2,079
Share issue costs	18	(2)	-	(2)
Dividends paid	12	-	(16,031)	(16,031)
Balance at 30 June 2018		370,316	53,541	423,857

Condensed Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to owners of the Parent Company		
	Note	Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018		370,318	22,581	392,899
Total comprehensive income		-	67,373	67,373
Share-based payments		-	(930)	(930)
Share issue costs	18	(2)	-	(2)
Dividends paid	12	-	(29,825)	(29,825)
Balance at 31 December 2018		370,316	59,199	429,515

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 2019

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Cash flows from operating activities			
Profit for the period before taxation	10,737	45,267	67,940
- Change in fair value of investment properties	2,883	(27,936)	(23,881)
- Change in fair value of financial derivative instruments	1,436	(318)	(415)
- Gain on disposal of investment properties	(1,653)	(7,226)	(23,127)
- Amortisation of right of use assets	105	-	-
Impairment of goodwill	279	279	557
Finance income	(65)	(103)	(268)
Finance expense	6,860	7,659	15,983
Share based payments	-	2,079	(930)
(Increase)/decrease in trade and other receivables	(4,898)	1,455	(7)
(Decrease)/increase in trade and other payables and deferred income	(5,233)	3,117	2,965
Cash generated from operations	10,451	24,273	38,817
Financial income	-	250	250
Finance costs	(6,236)	(5,901)	(12,173)
Taxation paid	(844)	(131)	(1,467)
Net cash flow generated from operating activities	3,371	18,491	25,427
Investing activities			
Purchase of investment properties	(4,273)	(43,143)	(48,675)
Sale of investment properties	19,703	60,371	149,276
Interest received	76	59	220
Acquisition of subsidiaries, net of cash acquired	(19,769)	(2,332)	(32,629)
Net cash flow (used in)/generated from investing activities	(4,263)	14,955	68,192
Financing activities			
Share issue costs	-	(1,190)	(1,190)
Dividends paid	(9,741)	(9,240)	(29,429)
ZDP Shareholders repaid	(39,879)	-	-
Bank borrowings advanced	20,246	14,959	50,959
Bank borrowings repaid	(19,103)	(2,632)	(101,506)
Bank borrowing costs paid	(1,620)	(463)	(1,345)
Proceeds from bond issue	-	-	50,000
Bond issue costs paid	-	-	(925)
Net cash flow (used in)/generated from financing activities	(50,097)	1,434	(33,436)
Net (decrease)/increase in cash and cash equivalents for the period	(50,989)	34,880	60,183
Cash and cash equivalents at the start of the period	104,823	44,640	44,640
Cash and cash equivalents at the end of the period	53,834	79,520	104,823

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 2019

1. Corporate information

The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 comprise the results of the Company and its subsidiaries (together constituting the “Group”) and were approved by the Board and authorised for issue on 9 September 2019.

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

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

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

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

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

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA 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 2018, 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 2018 and year ended 31 December 2018 do not constitute full statutory accounts within the meaning of the Law. The Group’s Annual Report and Accounts for the year ended 31 December 2018 were delivered to the Guernsey Financial Services Commission. The Group’s independent Auditor’s report on those Accounts was unqualified and 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) pounds, 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 no 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.

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 £721,695,000 (30 June 2018: £758,653,000; 31 December 2018: £718,375,000) is determined, by independent property valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 Investment Property and IFRS 13 Fair Value Measurement.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards (January 2017) (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 13.

3.1.2 Fair valuation of interest rate derivatives

In accordance with IFRS 9 Financial Instruments, 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 £1,773,000 (30 June 2018: £434,000; 31 December 2018: £337,000).

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 £836,000 (30 June 2018: £1,393,000; 31 December 2018: £1,115,000).

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 highwater mark which is equal to the greater of the highest year-end EPRA NAV per Ordinary Share in any previous performance period or the placing price (100p per Ordinary Share). The performance fee was calculated initially on 31 December 2018 and will be calculated annually thereafter.

In the period to date, the Group has not met the criteria for a performance fee. However, future circumstances may dictate that a performance fee is ultimately due. Further details are disclosed in note 21.

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

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

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 2018 and are expected to be consistently applied for the current year ending 31 December 2019. The changes to the condensed consolidated financial statements arising from accounting standards effective for the first time are noted below:

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

The Group has a number of operating leases concerning the long-term lease of land associated with its long leasehold investment properties. At 30 June 2019, there was £50,120,000 ground rent committed under these leases (31 December 2018: £50,614,000) and the annual charge for ground rent for the period for the period ended 30 June 2019 was £618,000 (31 December 2018: £618,000).

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

IFRS 16 has been applied from 1 January 2019 and the modified retrospective approach to measure the right to use asset at the same value as the financial liability has been taken and comparatives have not been restated. At 1 January 2019, a right-to-use asset and the financial liability of £16,094,000 and £16,094,000 respectively were recognised.

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

At 30 June 2019: the financial liability was adjusted for the interest as the lease liability is carried at fair value, with amounts recognised within finance costs for movements on the finance liability; and the right to use asset was amortised with the amortisation cost charged to the Consolidated Statement of Comprehensive Income. At Under IFRS 16, comparative information is not required to be restated.

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

Transactions in the Condensed Consolidated Statement of Comprehensive Income	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Ground rent charges included within non-recoverable property costs	-	343	618
Amortisation of right to use asset	105	-	-
Finance charges	283	-	-
Total costs	388	343	618

Assets and liabilities recognised within the Condensed Consolidated Statement of Financial Position	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Right-to-use assets included with investment property	15,989	-	-
Lease liabilities	(16,068)	-	-
Net total	(79)	-	-

5. Rental income

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Rental income – freehold property	25,272	26,915	54,107
Rental income – long leasehold property	4,668	3,711	7,968
Recoverable service charge income and other similar items	5,471	6,080	11,944
Total	35,411	36,706	74,019

As disclosed in the Annual Report, income arising from expenses recharged to tenants is now recognised in net rental income as the Directors consider that the Group acts as principal in this respect. Comparative figures for the six months ended 30 June 2018 have been updated for the grossing up of recoverable service charge income and expenditure.

6. Property costs

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Operating lease expenses	-	343	618
Other property expenses and irrecoverable costs	3,928	3,373	7,082
Recoverable service charge income and other similar costs	5,471	6,080	11,944
Total	9,399	9,796	19,644

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

As disclosed in the Annual Report, income arising from expenses recharged to tenants is now recognised in net rental income as the Directors consider that the Group acts as principal in this respect. Comparative figures for the six months ended 30 June 2018 have been updated for the grossing up of recoverable service charge income and expenditure.

7. Administrative and other expenses

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Investment management fees	1,180	1,180	2,405
Property management fees	1,122	1,133	2,264
Performance fees	-	4,158	7,046
Asset management fees	1,180	1,181	2,045
Directors' remuneration	125	115	235
Administration fees	320	287	663
Legal and professional fees	930	787	1,714
Marketing and promotion	50	35	87
Other administrative costs (including bad debts)	485	399	595
Bank charges	38	13	172
Total	5,430	9,288	17,586

During the period, the remuneration of the Directors increased by 5%, effective from 1 April 2019.

8. Finance income

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Interest income	65	59	224
Unwinding of the discount on financial assets	-	44	44
Total	65	103	268

9. Finance expense

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Interest payable on bank borrowings	4,820	5,901	11,267
Accrued capital entitlement on ZDP shares	60	1,203	2,430
Amortisation of loan arrangement fees	510	482	1,172
Amortisation of ZDP share acquisition costs	3	73	147
Bond interest	1,106	-	906
Bond issue costs amortised	78	-	61
Lease interest	283	-	-
Total	6,860	7,659	15,983

10. Taxation

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Corporation tax charge	10	161	1,983
Increase/(decrease) in deferred tax creditor	39	194	(1,416)
Total	49	355	567

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.

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

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

11. 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 were dilutive instruments outstanding, both basic and diluted EPS are disclosed below.

Dilutive instruments at 30 June 2018 relate to the partial settlement of the performance fee by the issue of Ordinary Shares. Please see note 21.

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

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Net profit attributable to Ordinary Shareholders	10,688	44,912	67,373
Adjustments to remove:			
Changes in value of investment properties	2,883	(27,936)	(23,881)
Changes in fair value of interest rate derivatives and financial assets	1,436	(362)	(459)
(Gain) on disposal of investment property	(1,653)	(7,226)	(23,127)
Impairment of goodwill	279	279	557
Income tax charged on disposal profits	-	-	1,416
Deferred tax charge	39	194	(1,416)
Close-out costs on borrowings and derivatives	487	-	430
EPRA net profit attributable to Ordinary Shareholders	14,159	9,861	20,892
Add performance fee	-	4,158	7,046
Company specific adjusted earnings	14,159	14,018	27,938
Weighted average number of Ordinary Shares	372,821,136	372,821,136	372,821,136
Dilutive instruments	-	2,629,289	-
Adjusted weighted average number of Ordinary Shares	372,821,136	375,450,425	372,821,136
Earnings per share - basic	2.9p	12.0p	18.1p
Earnings per share - diluted	2.9p	12.0p	18.1p
EPRA Earnings per share - basic	3.8p	2.6p	5.6p
EPRA Earnings per share - diluted	3.8p	2.6p	5.6p
Company specific adjusted earnings per share:			
- basic	3.8p	3.8p	7.5p
- diluted	3.8p	3.8p	7.5p

The Company specific adjusted earnings per share excludes the performance fee.

12. Dividends

	Six months ended 30 June 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Dividends			
Dividend of 2.50 (2018: 2.45) pence per Ordinary share for the period 1 October – 31 December	9,320	9,134	9,134
Dividend of 1.90 (2018: 1.85) pence per Ordinary share for the period 1 January – 31 March	7,084	6,897	6,897
Dividend of 1.85 pence per Ordinary share for the period 1 April – 30 June	-	-	6,897
Dividend of 1.85 pence per Ordinary share for the period 1 July – 30 September	-	-	6,897
Total	16,404	16,031	29,825

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

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

On 29 August 2019, the Company announced a dividend in respect of the period 1 April 2019 to 30 June 2019 of 1.90 pence per share, which will be paid on 15 October 2019 to Shareholders on the register as at 6 September 2019. These condensed consolidated financial statements do not reflect this dividend.

13. Investment properties

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

The valuation is 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 2019			
Valuation at 1 January 2019	625,020	93,355	718,375
Property additions - acquisitions	20,389	-	20,389
Property additions - subsequent expenditure	3,660	204	3,864
Property disposals	(19,703)	-	(19,703)
Gain/(Loss) on the disposal of investment properties	1,653	-	1,653
Change in fair value during the period	(3,582)	699	(2,883)
Valuation at 30 June 2019 (unaudited)	627,437	94,258	721,695

	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the six months ended 30 June 2018			
Valuation at 1 January 2018	636,600	100,730	737,330
Property additions - acquisitions	42,150	-	42,150
Property additions - subsequent expenditure	4,185	197	4,382
Property disposals	(55,361)	(5,010)	(60,371)
Gain/(Loss) on the disposal of investment properties	7,441	(215)	7,226
Change in fair value during the period	28,104	(168)	27,936
Valuation at 30 June 2018 (unaudited)	663,119	95,534	758,653

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

The historic cost of the properties was £682,011,000 (30 June 2018: £627,063,000; 31 December 2018: £675,808,000).

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 2019	721,695	-	-	721,695
30 June 2018	758,653	-	-	758,653
31 December 2018	718,375	-	-	718,375

The hierarchy levels are defined in note 17.

It has been determined that the entire investment properties portfolio should be classified under the level 3 category.

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 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 fair values as at 30 June 2019, 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: £6,000 - £3,100,291 per annum (30 June 2018: £2,770- £3,092,226 per annum; 31 December 2018: £1,500 - £3,092,195 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 accounting date, expressed as a percentage of the gross purchase price including the costs of purchase (range: 0% - 26.91%; (30 June 2018: 0% - 26.99%; 31 December 2018: 0% to 26.98%)).

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.

14. Goodwill

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
At start of period	1,115	1,672	1,672
Impairment	(279)	(279)	(557)
At end of period	836	1,393	1,115

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration is 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 Condensed Consolidated Statement of Comprehensive Income.

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

15. 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 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Bank borrowings drawn at start of period	290,487	339,074	339,074
Bank borrowings drawn	20,246	16,919	52,919
Bank borrowings repaid	(19,103)	(2,632)	(101,506)
Bank borrowings drawn at end of period	291,630	353,361	290,487
Less: unamortised costs at start of period	(4,888)	(4,693)	(4,693)
Less: loan issue costs incurred in the period	(1,620)	(485)	(1,367)
Add: loan issue costs amortised in the period	511	482	1,172
At end of period	285,633	348,665	285,599

Maturity of bank borrowings

Repayable within 1 year	-	400	400
Repayable between 1 to 2 years	-	65,400	400
Repayable between 2 to 5 years	45,919	122,561	88,687
Repayable after more than 5 years	245,711	165,000	201,000
Amortised loan issue costs	(5,997)	(4,696)	(4,888)
Total	285,633	348,665	285,599

The table below lists the Group's borrowings.

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross Loan to Value** %	Annual Interest rate %	Amortisation
Royal Bank of Scotland	55,000	45,919	Jun 2024	42.0	2.15 over 3mth £ LIBOR	MP
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec 2027	45.2	3.28 Fixed	MP
Scottish Widows Ltd	36,000	36,000	Dec 2028	38.5	3.37 Fixed	none
Santander UK	65,870	44,711	Jun 2029	27.1	2.20 over 3mth £ LIBOR	MP
Total bank borrowings	321,870	291,630				
Retail eligible bond	50,000	50,000	Aug 2024	n/a	4.50 Fixed	none
Total	371,870	341,630				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Before unamortised debt issue costs.

** Based upon the Cushman & Wakefield property valuation.

The weighted average term to maturity of the Group's debt at the period end was 7.8 years (30 June 2018: 5.4 years; 31 December 2018: 6.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.4% per annum (30 June 2018: 3.7% per annum; 31 December 2018: 3.7% per annum).

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

As shown in note 17, 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.

16a. Zero dividend preference shares

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
At start of period	39,816	37,239	37,239
Amortisation of acquisition costs	3	73	147
Accrued capital entitlement	60	1,203	2,430
Repayment	(39,879)	-	-
At end of period	-	38,515	39,816

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

16b. Retail eligible bonds

The Company launched £50,000,000 4.5% retail eligible bonds with a maturity date of 6 August 2024. The bonds are listed on the LSE ORB platform.

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
At start of period	49,136	-	-
Bonds issued in the period	-	-	50,000
Issue costs	-	-	(925)
Amortisation of issue costs	78	-	61
Fair value at end of period	49,214	-	49,136

17. 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 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Fair value at start of period	(337)	(752)	(752)
Revaluation in the period	(1,436)	318	415
Fair value at end of period	(1,773)	(434)	(337)

The fair value of interest rate caps and swaps represents the net present value of the difference between the cash flows produced by the contracted rate and the current market rate over the life of the instrument.

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

Lender	Outstanding Debt £'000	Maturity Date	Annual Interest rate	Notional Amount £'000	Rate %
Royal Bank of Scotland	45,919	Jun 2024	2.15 over 3mth £ LIBOR	55,000	1.26
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	Dec 2027	3.28 Fixed	n/a	n/a
Scottish Widows Ltd	36,000	Dec 2028	3.37 Fixed	n/a	n/a
Santander UK	44,711	Jun 2029	2.20 over 3mth £ LIBOR	66,000	1.80
Total bank borrowings	291,630				

LIBOR = London Interbank Offered Rate (Sterling)

As at 30 June 2019, the swap notional arrangements were £60.5m (30 June 2018: £35.4m; 31 December 2018: £48.6m).

The Group weighted average effective interest rate of 3.5%, (30 June 2018: 3.8%; 31 December 2018: 3.5%) is inclusive of hedging costs and excluding the ZDP shares, which were repaid on 9 January 2019.

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 110.4% (30 June 2018: 90.0%; 31 December 2018: 102.6%), as shown below.

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Total bank borrowings	291,630	353,361	290,487
Notional value of interest rate caps and swaps	121,000	88,076	97,158
Value of fixed rate debts	201,000	230,000	201,000
	322,000	318,076	298,158
Proportion of hedged debt	110.4%	90.0%	102.6%

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 2019	(1,773)	-	(1,773)	-
30 June 2018	(434)	-	(434)	-
31 December 2018	(337)	-	(337)	-

The fair values of these contracts are recorded in the Condensed Consolidated Statement of Financial Position and are determined by forming an expectation that interest rates will exceed strike rates and by 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.

The Group has not adopted hedge accounting.

18. Stated capital

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

Issued and fully paid shares at no par value	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
At start of the period	370,316	370,318	370,318
Share issue costs	-	(2)	(2)
At end of the period	370,316	370,316	370,316
Number of shares in issue	Shares	Shares	Shares
At start of the period	372,821,136	372,821,136	372,821,136
At end of the period	372,821,136	372,821,136	372,821,136

19. Net asset value per share (NAV)

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

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

Net asset values have been calculated as follows:

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Net asset value per Condensed Consolidated Statement of Financial Position	423,799	423,857	429,515
Adjustment for calculating EPRA net assets:			
Derivative financial instruments	1,773	434	337
Deferred tax liability	673	2,244	634
EPRA net assets	426,245	426,535	430,486
Number of Ordinary Shares	372,821,136	372,821,136	372,821,136
Dilutive instruments	-	2,629,289	-
Adjusted number of Ordinary Shares	372,821,136	375,450,425	372,821,136
Net asset value per share - basic	113.7p	113.7p	115.2p
Net asset value per share - diluted	113.7p	112.9p	115.2p
EPRA net asset value per share - basic	114.3p	114.4p	115.5p
EPRA net asset value per share - diluted	114.3p	113.6p	115.5p

20. 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.

21. Transactions with related parties

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

On 4 February 2019, the Group announced the acquisition of Norfolk House, Smallbrook Queensway, Birmingham, for £20.0m. The property comprises of 12 retail units amounting to 27,433 sq. ft. and office accommodation of 92,433 sq. ft., with a net income of £1.69m. The Group's property manager, London & Scottish Property Asset Management Ltd ("LSPAM"), was the property manager for the vendor and held a 6.7% interest in the property.

Two non-core assets, being some garages/stores at Mingarry Street, Glasgow, and a piece of land at Alderman Road, Glasgow, were valued by independent valuers, Cushman and Wakefield, at £40,000 and £1,000 respectively. These non-income producing assets were sold to Mr Barrie Clapham at the aforementioned independent valuations. At the time of the transaction, Mr Barrie Clapham was the chairman and a major shareholder of London and Scottish Investments Ltd, which was the Company's asset manager at that time.

Stephen Inglis is a non-executive Director of the Company, as well as being the Chief Executive Officer of London & Scottish Property Investment Management Limited 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 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 LSPAM 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 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Asset management fees charged*	1,180	1,181	2,405
Property management fees charged*	1,122	1,133	2,264
Performance fee	-	2,079	3,523
Total	2,302	4,393	8,192
	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Total fees outstanding*	870	4,220	5,263

* Including irrecoverable VAT charged where appropriate

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee is a non-executive Director of the Company, as well as being Chief Legal Counsel of the Investment Manager.

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 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 2019 (unaudited) £'000	Six months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Investment management fees charged	1,180	1,180	2,405
Performance fee	-	2,079	3,523
Total	1,180	3,259	5,928
	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) £'000	31 December 2018 (audited) £'000
Total fees outstanding	590	3,551	5,044

Performance fee

The Asset Manager and the Investment Manager are each entitled to 50% of a performance fee. The fee is calculated at a rate of 15% of the total shareholder return in excess of the hurdle rate of 8% per annum for the relevant performance period. Total shareholder return for any financial year consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the financial year. A performance fee is only payable in respect of a performance period where the EPRA NAV per Ordinary Share exceeds the high water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous performance period. The performance fee was calculated initially on 31 December 2018 and annually thereafter.

The performance fee for the first performance period, 6 November 2015 to 31 December 2018, should have been payable 50% in cash and 50% in Ordinary Shares, with the shares locked-in for one year. However, in accordance with the Financial Conduct Authority's Listing Rule 15.4.11, the Company cannot issue shares for cash at a price below the NAV per share without Shareholder's approval. The Company does not have Shareholder approval to do this and any such issue would in any event be dilutive. In view of this, the Management Agreements were amended to clarify that, in this situation, the performance fee would be paid entirely in cash but 50% of that amount would be used to acquire shares in the market on behalf of the Managers within a 20-business day period on an instruction to do so. Accordingly, in respect of the first performance fee, shares were purchased in cash on behalf of the Managers from the date of publication of the preliminary 2018 annual results. These amendments were made to preserve the underlying commercial intention that the Managers should normally receive 50% of the performance fee in shares.

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

Based on the EPRA NAV of the Group as at 30 June 2019 and assuming the annual hurdle rate of return is exceeded on average over the remainder of the period to 31 December 2019, the performance fee liability for the period from 1 January 2019 to 30 June 2019 was estimated at £nil (launch to 30 June 2018: £6,016,000; launch to 31 December 2018: £8,905,000). Any fee has been accrued in the condensed consolidated financial statements.

22. Subsequent events

On 23 July 2019, the Company issued 58,685,447 Ordinary Shares at 106.5 pence per share raising proceeds of £62.5m. Following this issue and as at the date of this Report, there are 431,506,583 Ordinary Shares in issue, none of which are held in Treasury.

On 14 August 2019, the Company announced successful lettings amounting to c.£1.27m per annum, which represented a major uplift in income for the Group as all of these nine properties, with the exception of one property, were vacant prior to these lettings.

On 21 August 2019, the Company announced the acquisition of a portfolio of six offices located in Birmingham, Bristol, Cardiff, Chester, Glasgow and Manchester for £25.9m, with a net initial yield of 8.87%.

EPRA PERFORMANCE MEASURES

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

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

EPRA Performance Measure	Definition	EPRA Performance Measure	30 June 2019	31 December 2018
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings	£14,159,000	£20,892,000
		EPRA Earnings per share (basic)	3.8p	5.6p
		EPRA Earnings per share (diluted)	3.8p	5.6p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings	£14,159,000	£27,938,000
		EPRA Earnings per share (basic)	3.8p	7.5p
		EPRA Earnings per share (diluted)	3.8p	7.5p
EPRA NAV	Net Asset Value adjusted to include properties and other investment interest at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	EPRA Net Asset Value	£426,245,000	£430,486,000
		EPRA NAV per share (diluted)	114.3p	115.5p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNAV	£420,825,000	£427,966,000
		EPAR NNNAV per share (diluted)	112.9p	115.1p
EPRA NET INITIAL YIELD	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating	EPRA Net Initial Yield	6.1%	6.5%

	expenses, divided by the market value of the property with (estimated) purchasers' costs.			
EPRA 'TOPPED-UP' NIY	This measure incorporates an adjustment to the ERA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	EPRA 'Topped-up' Net Initial Yield	6.3%	6.6%
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio	EPRA Vacancy Rate	12.5%	10.6%
EPRA COSTS RATIO	Administrative and operating costs (including and excluding costs of direct vacancy divided by gross rental income)	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	31.3% 20.1%	40.1% 29.9%

NOTES TO THE CALCULATION OF THE EPRA PERFORMANCE MEASURES

1. EPRA earnings

For calculations, please refer to note 11 to the financial statements.

2. EPRA NAV

	30 June 2019 £'000	31 December 2018 £'000
NAV per the financial statements	423,799	429,515
Effect of dilutive instruments	-	-
Diluted NAV	423,799	429,515
Fair value of derivative financial instruments	1,773	337
Deferred tax liability	673	634
EPRA NAV	426,245	430,486
Dilutive number of shares	372,821,136	372,821,136
EPRA NAV per share	114.3p	115.5p

3. EPRA NNNAV

	30 June 2019 £'000	31 December 2018 £'000
EPRA NAV	426,245	430,486
Fair value of derivative financial instruments	(1,773)	(337)
Adjustment for the fair value of debt:		
Bank and loan borrowings	-	-
Zero Dividend Preference Shares	-	666
Retail eligible bonds	(2,974)	(902)
Deferred tax liability	(673)	(634)
EPRA NNNAV	420,825	429,279
Dilutive number of shares	372,821,136	372,821,136
EPRA NAV per share	112.9p	115.1p

4. EPRA Net Initial Yield

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

	30 June 2019 £'000	31 December 2018 £'000
Investment properties	<u>721,695</u>	<u>718,375</u>
Annualised cash passing rental income	53,123	54,710
Property outgoings	<u>5,298</u>	<u>(4,650)</u>
Annualised net rents	47,824	50,060
Add notional rent expiration of rent-free periods or other lease incentives	1,298	443
Topped-up net annualised rent	<u>49,122</u>	<u>50,503</u>
EPRA NIY	<u>6.1%</u>	<u>6.5%</u>
EPRA topped-up NIY	<u>6.3%</u>	<u>6.6%</u>

5. EPRA Vacancy Rate

	30 June 2019 £'000	31 December 2018 £'000
Estimated Market Rental Value (ERV) of vacant space	<u>8,510</u>	<u>7,128</u>
Estimated Market Rental value (ERV) of whole portfolio	<u>67,873</u>	<u>67,042</u>
EPRA Vacancy Rate	<u>12.5%</u>	<u>10.6%</u>

6. EPRA Cost Ratios

	30 June 2019 £'000	31 December 2018 £'000
Operating costs	9,399	19,644
Less ground rent	-	(662)
Less recoverable service charge income and other similar costs	(5,471)	(11,944)
Add administrative and other expenses	<u>5,430</u>	<u>17,586</u>
EPRA costs (including direct vacancy costs)	9,358	24,624
Direct vacancy costs	<u>(3,353)</u>	<u>(6,240)</u>
EPRA costs (excluding direct vacancy costs)	<u>6,005</u>	<u>18,384</u>
Gross rental income	35,411	74,019
Less recoverable service charge income and other similar items	(5,471)	(11,944)
Less ground rent	<u>-</u>	<u>(661)</u>

Gross rental income less ground rents	<u>29,940</u>	<u>61,414</u>
EPRA Cost Ratio (including direct vacancy costs)	<u>31.3%</u>	<u>40.1%</u>
EPRA Cost Ratio (excluding direct vacancy costs)	<u>20.1%</u>	<u>29.9%</u>

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

EPRA Cost Ratio (including direct vacancy costs)	<u>31.3%</u>	<u>28.6%</u>
EPRA Cost Ratio (excluding direct vacancy costs)	<u>20.1%</u>	<u>18.5%</u>

The Group has not capitalised any overhead or operating expenses in the accounting years disclosed above.

PROPERTY RELATED CAPITAL EXPENDITURE ANALYSIS

	30 June 2019 £'000	31 December 2018 £'000
Acquisitions	20,389	76,334
Subsequent capital expenditure	3,864	6,979
Total capital expenditure	<u>24,253</u>	<u>83,313</u>

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

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

SHAREHOLDER INFORMATION

Investing in the Company

The Company's shares are listed on the LSE and can be bought or sold through a stockbroker or other financial intermediary. The ticker for the Company is RGL.

Shares are available through saving plans, including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs, which facilitate both regular monthly investments and lump sum investments in the Company's shares. The Company's shares are also available on various investment platforms.

Share register enquiries

The Company's share register is maintained by Link Asset Services. In the event of queries regarding your holding, please contact the Registrar on 0871 664 0330 or on +44 (0) 371 664 0300 from outside the UK (calls cost 12p per minute plus your phone company's access charge; calls outside the UK will be charged at the applicable international rate). Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. You can also email enquiries@linkgroup.co.uk.

Changes of names and/or address must be notified in writing to the Registrar: Link Asset Services, Shareholder Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

Forthcoming events

October 2019	Payment of Q2 2019 Dividend
November 2019	Q3 2019 Trading Update and Dividend Declaration Announcement
March 2020	Full year 2019 Preliminary Results Announcement
	Q4 2019 Dividend Declaration Announcement and Portfolio Valuation
May 2020	Q1 2020 Trading Update and Dividend Declaration Announcement
	Annual General Meeting

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

www.regionalreit.com

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

GLOSSARY OF TERMS

AIC - Association of Investment Companies. A trade body for closed-end investment companies (www.theaic.co.uk)

AIF - Alternative Investment Fund.

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires the Company to appoint an Alternative Investment Fund Manager (AIFM). The Board of Directors of a closed-ended investment company nevertheless remains fully responsible for all aspects of the Company’s strategy, operations and compliance with regulations.

AIFM - Alternative Investment Fund Manager. The entity which ensures the Company complies with the AIFMD. The Company’s AIFM is Toscafund Asset Management LLP.

Board – the Board of Directors of the Company

Break Option – a clause in a lease which provides the landlord or tenant with an ability to terminate the lease before its contractual expiry date.

Capex – Capital expenditure relates to spend used by the organisation to maintain or upgrade physical assets.

Company – Regional REIT Limited. (Company Number 60527)

Core property - stable income properties with low risk

Core Plus property - growth and income properties with the ability to increase cash flows through asset management initiatives

Directors – the Directors of the Company whose names are set out on page 60 to 61.

EPC – Energy Performance Certificate.

EPRA Cost Ratio - ratio of overheads and operating expenses against gross rental income. Net overheads and operating expenses relate to all administrative and operating expenses including the share of joint ventures’ overheads and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA - European Public Real Estate Association, a real estate industry body, which has issued Best Practice Recommendations to provide consistency and transparency in real estate financial reporting across Europe.

EPRA Earnings - profit after taxation excluding investments and development property revaluations and gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA Net Asset Value (EPRA NAV) - IFRS assets excluding the mark-to-market on effective cash flow hedges and related debt instruments and deferred taxation revaluations.

EPRA Total Return – The movement in EPRA NAV plus the dividend distributions paid during the period expressed as a percentage of the EPRA NAV at the beginning of the period.

EPRA Vacancy Rate - occupancy expressed as a percentage being the ERV of vacant space divided by ERV of the whole portfolio. Vacancy Rate should only be calculated for all completed properties, but excluding those properties which are under development

Equivalent Yield – weighted average of the initial yield and reversionary yield, representing the return that a property will produce based on the occupancy data of the tenant leases.

Estimated Rental Value (ERV) or Market Rent (MR) – external valuers’ opinion as to what the open market rental value of the property is on the valuation date and which could reasonably be expected to be the rent obtainable on a new letting of that property on the valuation date.

External Valuer – independent external valuer of a property. The Company’s External Valuers are Cushman & Wakefield and Jones Lang LaSalle.

Fair Value Adjustment – accounting adjustment to change the book value of an asset or liability to its market value.

Gross Asset Value – the aggregate value of the total assets of the Company as determined in accordance with the accounting principles adopted by the Company from time to time.

Gross Property Assets - investment properties encompassing the entire property portfolio of freehold and leasehold assets.

Gross Rental Income – See Rent Roll

Gross Loan-to-Value (LTV) Ratio - (Borrowings) / (Investment Properties Value), expressed as percentage.

Group – Regional REIT Limited and its subsidiaries.

IAS - an international accounting standard established by the International Accounting Standards Board.

IPO - Initial Public Offering. The Company’s admission to the London Stock Exchange was on 6 November 2015.

Lease – legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the lease length.

Lease Incentive – payment used to encourage a tenant to take on a new lease, for example a landlord paying a tenant a sum of money to contribute to the cost of a tenant’s fit-out of a property or by allowing a rent-free period.

Lease Re-gear – renegotiation of a lease during the term and often linked to another lease event, for example a Break Option or Rent Review.

Lease Renewal – renegotiation of a lease with the existing tenant at its contractual expiry.

Lease Surrender – agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a Break Option. This will frequently involve the negotiation of a surrender premium by one party to the other.

Mark-to-Market (MTM) – difference between the book value of an asset or liability and its market value.

Manager - the Company’s external Asset and Property Manager is London & Scottish Investments Limited. Its external Investment Manager is Toscafund Asset Management LLP.

Net Asset Value (NAV) (or Shareholders’ Funds) - the value of the investments and other assets of an investment company, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an investment company at a point in time.

Net Debt - Total cash and cash equivalents less short and long term debt.

Net Gearing - (Borrowings – cash and cash equivalents) / (Total Issued Shares + Retained Earnings).

Net Loan-to-Value (LTV) Ratio - (Borrowings – less cash) / (Investment Properties Value) expressed as percentage.

Ordinary Resolution – a resolution passed by more than 50 per cent. Majority in accordance with the Companies Law

Occupancy Percentage - percentage of the total area of all properties and units currently let to tenants.

Over Rented - when the Contracted Rent is higher than the ERV.

Passing Rent - the rent that is payable at any particular time, allowing for lease incentives. This phrase is often used for Contracted Rent.

Property Income Distributions (PIDs) - profits from property related business distributed to shareholders which are subject to tax in the hands of the shareholders as property income. PIDs are normally paid net of withholding tax, currently at 20%, which the REIT pays to the tax authorities on behalf of the shareholder. Certain types of shareholder (i.e., pension funds) are tax exempt and receive PIDs without withholding tax. Property companies also pay out normal dividends, called non-PIDs, which are treated as not subject to withholding tax.

Prospectus – the Company’s prospectus issued on 5 December 2017.

REIT – a qualifying entity which has elected to be treated as Real Estate Investment Trust for tax purposes. In the UK such entities must be listed on a recognised stock exchange, must be predominantly engaged in property investments activities and must meet certain ongoing qualifications as set out under section 705 E of the Finance Act 2013.

Rent Review – periodic review of rent during the term of a lease, as provided for within a lease agreement.

Rent Roll – is the contracted gross property rent receivable which becomes payable after tenant incentives in the letting have expired.

Reversion – expected increase in rent estimated by the Company’s External Valuers, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

Reversionary Yield – anticipated yield, excluding lease expiry, to which the Net Initial Yield will rise (or fall) once the rent reaches the Estimated Rental Value. $ERV / \text{Investment Properties Value}$ expressed as a percentage.

Shares - ordinary shares issued by the Company

Shareholder – a holder of Shares in the Company

Triple Net Initial Yield (NNNIY) - (Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three “nets”)) / (Investment Properties Value).

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income (including rent-frees).

Weighted Average Debt to Maturity (WAD) – each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted Average Effective Interest Rate - the Group’s loan interest and hedging derivative costs per annum divided by total Group debt in issue at the period end.

Yield Compression - occurs when the net equivalent yield of a property decreases, measured in basis points.

COMPANY INFORMATION

Directors

Kevin McGrath (Chairman and Independent Non-Executive Director)

William Eason (Senior Independent Non-Executive Director and Management, Engagement and Remuneration Committee Chair)

Frances Daley (Independent Non-Executive Director and Audit Committee Chair)

Daniel Taylor (Independent Non-Executive Director)

Tim Bee (Non-Executive Director)

Stephen Inglis (Non-Executive Director)

Company Secretary

Link Company Matters Limited

Beaufort House

51 New North Road

Exeter

Devon

EX4 4EP

Registered office

Regional REIT Limited

Mont Crevelt House

Bulwer Avenue

St. Sampson

Guernsey

GY2 4LH

Asset Manager

London & Scottish Property Investment Management Limited

Venlaw

349 Bath Street

Glasgow

G2 4AA

Investment Manager

Toscafund Asset Management LLP

7 Floor

90 Long Acre

London

WC2E 9RA