

**Regional REIT Limited**

**Interim Results for the Half-Year Ended 30 June 2016 (Unaudited)**

**Building the business base, with steady growth in our first half-year as a listed REIT**

Regional REIT Limited (LSE: RGL) (“Regional REIT”, “the Group” or “the Company”), the UK regional office and industrial property focused REIT, today announces its results for the six months ended 30 June 2016.

**Financial Highlights for the half year to 30 June 2016: (unaudited)**

- Gross value of property assets up 1.8% like-for-like, to £501.3m (31 Dec 2015: £403.7m).
- Acquisitions of £128.1m were successfully completed, including 2 major portfolios; Wing with a net initial yield of 8.5% and Rainbow at 8.2%. Disposals of £41.2m of mature and non-core assets.
- Gross bank borrowings increased, to fund property acquisitions, to £217.8m (31 Dec 2015: £128.6m), with an LTV of 38.1% broadly in-line with our long-term aim (35%). Borrowings and refinancings reduced the cost of debt to 3.8% and extended loan terms.
- EPRA NAV of 108.0p per share (31 Dec 2015: 107.8p per share), after accounting for 2.5p of acquisition costs and the increase in Stamp Duty.
- Operating profit of £13.436m and PBT of £5.947m; EPRA EpS of 3.3p; declared DpS of 3.50p.

**Operational Highlights included:**

- Group continued its approach of active asset management to improve and generate additional income through lease renewals, re-gears and new lettings.
- Occupancy amounted to 81.8% (31 Dec 2015: 83.9%), increasing from 80.9% at 31 Mar 2016 following the portfolio acquisitions in the first quarter.
- The Group further rebalanced its portfolio towards offices (62.5% by value) and industrial sites (29.1%) across the UK and increased the share in England & Wales (to 73.5%).
- A diversified portfolio of 128 properties (31 Dec 2015: 123), 974 (31 Dec 2015: 712) units and 719 (31 Dec 2015: 531) tenants.
- Joined FTSE All-Share Index (Mar 2016) and the FTSE EPRA/NAREIT Developed Europe Index (Jun 2016).

**Since 30 June 2016:**

- Major new letting secured at Tay House, Glasgow effective in the second half of 2016. Significant regear of One Newstead Court, Nottingham. Other significant lettings expected to be completed in the near future.
- Acquisition of the Wallace Portfolio, an office park of 6 buildings for £5.5m. The portfolio totals 0.09m sq. ft., providing a net income of £0.8m per annum with a net initial yield of 12.0%.
- Capital expenditure year to date of £7.8m net, investing in our asset quality enhancement programme.

**Kevin McGrath, Chairman, commented:** *“In the first half of 2016 we delivered on the commitments we made at our IPO. Our strategy for growing the business was enhanced by the significant portfolio acquisitions in the period, which, along with our active asset management, provide us with confidence in our capacity for future income growth. The UK regional property market has remained resilient in the aftermath of the EU referendum and our business has as yet seen no discernible impact. Whilst well positioned for organic growth we continue to explore opportunities to further exploit the strong presence we have in the regions.”*

**Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited, commented:** *“The Group remains confident as to its business outlook. Our approach of actively and intensively managing the portfolio continues to improve our income base, whilst we expect the benefits of the Wing and Rainbow acquisitions to be realised over the next 12-18 months. We continue to see an opportunity for regional property and for the future development of our business, which is underpinned by its diverse portfolio, and the results achievable with an experienced management team and the in-house property capacity.”*

A meeting for investors and analysts will be held at 09.30 (London time, BST) on 20 September 2016 at the offices of Peel Hunt. If you would like to attend the meeting please contact Jamie Perriam, +44 (0) 20 3805 4855 or [jperriam@headlandconsultancy.com](mailto:jperriam@headlandconsultancy.com). The presentation slides for the meeting will shortly be available to download from the Investors section of the Group's website at [www.regionalreit.com](http://www.regionalreit.com).

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

Note: Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and its shares were admitted to trading on the premium segment of the London Stock Exchange.

## **Enquiries:**

### **Regional REIT Limited**

Press enquiries through Headland

### **Toscafund Asset Management**

Tel: +44 (0) 20 7845 6100

Investment Manager to the Group

James S Johnson, Investor Relations, Regional REIT Limited

### **London & Scottish Investments**

Tel: +44 (0) 141 248 4155

Asset Manager to the Group

Stephen Inglis

### **Headland**

Tel: +44 (0) 20 7367 5222

Financial PR

Francesca Tuckett

### **About Regional REIT**

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

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

The Group's investment portfolio, as at 30 June 2016, was spread across 128 regional properties, 974 units and 719 tenants. As at 30 June 2016, the investment portfolio had a value of £501.3m and a net initial yield of 7.1%. The weighted average unexpired lease term to first break was approximately 3.6 years.

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

### **Cautionary Statement**

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

## **CHAIRMAN'S STATEMENT**

I am pleased to present the Group's results for its first full six months of operations since its admission to the London Stock Exchange ("LSE") in November 2015.

The overriding objective of the Board is to deliver an attractive total return to Shareholders, of 10-15% per annum; including a dividend return of 7-8% per annum on the Initial Public Offering ("IPO") share price. The Group's aim is to invest in high-quality secondary commercial properties in the main regional centres of the UK, with an emphasis on offices and industrial sites and on strong income and value-add characteristics. The focus remains on managing the Group's core business areas, along with selective disposals and the consideration of prospective acquisitions. Our acquisition process is highly structured and assets will only be bought where an appropriate price can be secured and we can foresee a strong income or capital uplift from the project. This was very much the rationale behind the Wing and Rainbow portfolio acquisitions of the first quarter, with the implementation of their asset management programmes already delivering enhanced returns.

We had a very active first half of the year. We successfully completed £128.1m of acquisitions, as indicated at IPO, largely through the purchase of the Wing and Rainbow portfolios, the disposal of a number of non-core assets and additional borrowing and refinancings. Our primary focus during the period has been a gradual rebalancing of the portfolio to regional offices and industrial sites and a greater realignment to the population and economy of England and Wales. Continued growth of the asset base remains a target and deals remain under active consideration, but the Board is focused on ensuring that all potential risks and opportunities are identified and managed.

Within the UK REIT sector Regional REIT's shares have traded well since the IPO relative to its peers, notwithstanding the recent dramatic political backdrop and wider stock market turbulence accompanying the EU referendum vote. The Asset Manager's view is that regional office and industrial occupancy demand has, so far, shown great resilience, which helps underpin the strength of our income base. In the regions there is a limited supply of property, whilst rents are coming from a lower point in the cycle than London offices or the retail sector. The implications of the vote over the longer term have yet to impact occupancy or demand for offices and industrial sites, and things remain very much "business as usual".

The Board remains confident in the strategy offered by Regional REIT and in the capacity of its business model to enhance its revenue base. Key to this are the skills and experience of the Asset Manager, which have increasing value in the environment we face today. The Asset Manager achieved steady growth in the rental income of the property assets under its management through the financial crisis of 2008-12; and it has in place an active asset management programme with a granular approach to the properties in the portfolio while maintaining a close and regular engagement with our tenants. The diversity of our business, its broad tenant base and number and mix of properties, along with the lower cost of debt achieved in the first-half of 2016, have all contributed to the current strong position of the Group, and create a solid platform for future growth.

We are also announcing today the cash acquisition of a small portfolio of offices from the Asset Manager for £5.5m, with a rental income of £0.8m. Further details are given later in this report.

### **Dividend**

The dividend is a key part of the return we offer our Shareholders. In respect of the first half of 2016 we have declared two quarterly dividends, each of 1.75pence per share ("pps"). The Group is seeking to deliver a 7-8% dividend return (on the 100p IPO price) based on its income generation and earnings distribution, in a way that supports the flexibility of the Group's investment strategy. Our intention is to pay dividends for the first three quarters of the year at approximately the same level and then a balancing dividend for the fourth quarter to at least manage compliance to the 90% minimum distribution requirement of a REIT.

### **Outlook**

We have continued to deliver on the commitments we made at the time of our IPO and remain confident of the outlook for the business in 2016, given the Group's established reputation and expertise. Our focus is always on generating income and we expect some further growth in the second half of 2016, once the full benefits of the recent acquisitions and our current active asset management are realised. In the short-term, higher costs have reflected the additional acquisition activity we have undertaken in 2016, the expenses of establishing a listed company and the refinancing we have undertaken. We remain focused on managing those parts of the business that we can control, particularly ensuring the income generating capacity of the Group and its ability to pay dividends.

In the UK's regions outside of the M25 motorway the fundamentals of supply and, as yet, of occupier demand, have changed little. However, the risk of inactivity by tenants in the face of uncertainty may act to constrain our business and lower rental growth prospects. The Asset Manager's view is that valuation differentials between the regions and London have only recently started to narrow and are still well above the long-term average, giving a continuing opportunity to managers and investors. At the same time the offices and industrial offering of Regional REIT appears to us to be well positioned.

**Kevin McGrath**  
**Chairman**  
**20 September 2016**

## ASSET AND INVESTMENT MANAGERS' REPORT

### Market Overview

Following a strong performance in the UK commercial property market in 2015, there were signs of weaker trading in the first two quarters of 2016, with investment in UK commercial property down 35% in Q2 2016 versus Q2 2015<sup>1</sup>. Many occupiers and investors postponed decisions due to the uncertainty generated by the EU referendum. Following the slowdown in both the occupier and investment markets in the first half of the year, sentiment remains robust and we anticipate that trading levels will begin to improve through the second half of 2016.

The shift in investors' focus away from London started with prime regional assets, but is now also firmly focused on good secondary commercial property. Most market sectors are experiencing rental growth, with figures from IPD UK indicating that rental growth for all properties was 3.2% in the 12 months to July 2016. Much of the investment capital seeking regional property assets is for 'stabilised-income' with investors proceeding on a 'macro basis'; that these markets offer good value; that yields will continue to revert to the long-term mean; and rental growth will further bolster performance.

All of this is likely and positive, but the strategy of Regional REIT continues to be at a more micro level; it acquires property assets, from distressed vendors or less asset management intensive organisations, which requires expertise and significant time and resources to manage, and through active and intensive asset and property management produces stable income streams. This gives the Group a significant arbitrage opportunity with its existing assets, and as we continue to identify good investment opportunities for our Shareholders in the post EU referendum vote environment.

### Investment Activity in UK Commercial Property

In 2015 investment in UK commercial property reached a record level of £61.5bn. This was followed by a progressive slowdown in the level of investment activity over the first half of 2016, with investor caution being attributable to the mounting uncertainty generated by the EU referendum. Figures from CoStar show that investment in the UK commercial property reached only £12bn in Q2 2016.

There is evidence of investors increasingly recognising the opportunity for better returns in the UK's regional markets. Continuing yield spreads between prime and secondary properties have fallen in the last 12-18 months. The yield spread remains well above its long-term average levels, which indicates that there remain significant opportunities for high quality secondary properties to outperform in the short- to medium-term.

### Rental Growth Continues in the UK Regional Office Market

Research from Cushman & Wakefield indicates positive market sentiment following the EU referendum result across regional markets, with no signs of deals collapsing at the beginning of Q3 2016. Figures from IPD UK indicate that rental growth for all office market stock throughout the UK increased 2.5% in the 12 months to July 2016.

This is as a result of continued demand growth. Take-up of regional office space reached 2.6m sq. ft. in the first half of 2016<sup>2</sup> within the main regional markets, which is 48% of the annual take-up for 2015. The highest levels of take-up in the first half of 2016 were in Glasgow and Birmingham. Growth in service sector employment has continued to benefit regional offices.

JLL research shows that prime rental growth continued across the core 8 regional office markets, however, this was slower in Q2 2016, an average of 5.3% per annum. With very low vacancy rates within prime properties, the Asset Manager anticipates that demand for high quality secondary properties will increase, which will put upward pressure on rents and downward pressure on rent incentives.

### Regional REIT's Office Assets

We believe that the continuing constrained supply, coupled with continuing demand across the main regional markets in which Group owns properties, bodes well for rental growth across the portfolio. This increase in occupancy levels will bolster income derived from the office portfolio over the short-to medium-term.

---

<sup>1</sup> Q2 2016 UK Commercial Property Investment Review (CoStar).

<sup>2</sup> UK Regional Offices H1 2016 (Cushman & Wakefield).

### **Industrial Rental Growth Continues**

Industrial rents are now in a sustained period of growth due to the demand-supply imbalance in the market, with data from IPD UK showing rental growth for all industrial stock throughout the UK has grown year-on-year; rental growth of 4.6% was recorded between July 2015 and July 2016. Cushman & Wakefield anticipate that the strongest rental growth will be experienced in markets with limited grade A stock, notably in Nottingham, Newcastle and Cardiff.

Take-up in 2015 totalled 29.7m sq. ft., a 15% decrease from 2014. This trend continued in Q1 2016 with occupier activity diminishing further as total take-up over the quarter fell just below 5m sq. ft.. The reduced take-up was seen across most UK regions as occupiers became more cautious due to global economic concerns, weaker export numbers and the EU referendum. However, subsequent research by JLL indicates that occupier demand in H1 2016 increased 18% with 10.2m sq. ft. of prime space taken up, including 7.9m sq. ft. of new space.

The growth of online spending means that ‘e-tailing’ is now the most influential sector in the industrial market, accounting for 38% of overall take up in 2015.

With development focussed on Grade A space and pre-let situations for large distribution units close to the main North-South trunk roads, namely the M1, M6 and around the M25, there is very little additional supply to the multi-sized, multi-let industrial estates. The Asset Manager predicts that this will continue to be the case, which will result in a demand-supply imbalance in this market driving rental growth.

### **Regional REIT’s Industrial Assets**

We are witnessing continued demand for the industrial stock within our portfolio and expect new lettings to finalise in the short term increasing the occupancy rate and income derived from the industrial portfolio. The market take up and rental figures are distorted by the big box sheds that have been developed in the past 5-plus years. The more secondary multi-let estates are seeing more positive signs of improvement in demand and this accounts for the majority of the industrial portfolio owned by Regional REIT.

The Asset Manager predicts that rental growth in Grade B space in a number of good locations will outperform the market averages quoted below.

### **Economic Overview**

UK GDP rose to 0.6% in Q2 2016, compared to 0.4% in Q1. Between the quarters there was growth in services (0.5%) and manufacturing (1.8%), with total production ahead 2.1%. Annual GDP in the end of the second quarter was 2.2% higher than at the same time last year. In the aftermath of the EU referendum forecasters are anticipating that the economy will now not grow for the rest of 2016, resulting in a full year growth rate of 1.6%. Growth is expected to pick up in the start of 2017, but full year forecasts have been reduced to 0.7% for 2017 and 1.5% for 2018.

Employment levels in the UK also grew, with 174,000 more people in work from May to July 2016 than in the prior three months to April 2016 and the rate of unemployment reduced to 4.9% (July 2016) down from 5.5% a year earlier.

It is worth highlighting one example, amongst many, that gives an indication of the potential of the UK’s regional economies. The Midlands and northern England – the “Northern Powerhouse” – have a markedly greater exposure to many export focussed engineering sectors favourably disposed to a far more competitive Sterling delivered before and subsequent to the EU referendum. Notable too is the presence of a considerable number of higher education institutions, which have increasingly geared their attentions to foreign students (rising 7.8% since 2010, whole of the UK).

Labour market data recently released, with data to end of June and thereby including the last week after the referendum, showed that the Midlands and North West enjoyed the most impressive declines in unemployment (since June 2011, down 3.25% in the Midlands and down 3.2% in North West), greater employment (since Q2 2011, a rise of 7.4% in the Midlands and up 5.1% in North West) and increases in business formation (2013-15, a 8.6% rise in the Midlands and North West). These trends are likely to continue as a consequence of the environment of monetary and fiscal stimuli in the aftermath of the referendum.

The Investment Property Forum UK Consensus Forecasts published in August 2016 are in Table 1 below.

These are UK market averages and the Asset Manager expects the secondary regional markets for offices and industrial sites to perform in excess of these levels.

### Summary average by sector

	Retail value growth (%)				Capital value growth (%)				Total return (%)			
	2016	2017	2018	2016/20	2016	2017	2018	2016/20	2016	2017	2018	2016/20
Office	1.6	-2.2	-1.1	0.0	-5.6	-6.4	-0.4	-2.0	-1.4	-1.9	4.5	2.7
Industrial	2.2	0.7	0.7	1.2	-3.0	-3.0	1.2	-0.3	2.4	2.6	7.0	5.3
Standard Retail	0.9	-0.2	0.3	0.7	-4.3	-4.3	1.0	-0.8	0.3	0.6	6.1	4.1
Shopping Centre	0.7	-0.2	0.3	0.6	-5.9	-4.3	0.5	-1.4	-1.0	0.9	6.0	3.9
Retail Warehouse	0.6	0.1	0.5	0.7	-6.3	-4.2	1.0	-1.2	-1.0	1.5	6.9	4.5
<b>All Property</b>	<b>1.3</b>	<b>-0.7</b>	<b>0.0</b>	<b>0.6</b>	<b>-5.3</b>	<b>-4.4</b>	<b>0.5</b>	<b>-1.2</b>	<b>-0.4</b>	<b>0.6</b>	<b>5.7</b>	<b>3.9</b>

Table 1: Investment Property Forum UK Consensus Forecasts (August 2016).

### Net Asset Value

Between 1 January 2016 and 30 June 2016, the EPRA (“European Public Real Estate Association”) Net Asset Value (“NAV”) of the Group rose to £296.2m, from £295.8m, an increase to 108.0 pence per share (“pps”) from 107.8pps. The increase in the EPRA NAV is predominately sourced from the higher valuation of properties held at 31 December 2015. Properties acquired in the period 1 January 2016 to 30 June 2016 were also revalued higher, however, this was more than offset by their associated acquisition costs and the increase in the rate of Stamp Duty, which together amounted to 2.5pps in the period.

Over the same period the NAV decreased to 107.1pps, from 107.7pps. EPRA NAV is reconciled in Note 15.

	Pence per share (pps)
<b>EPRA NAV as at 31 December 2015 (audited)</b>	<b>107.8</b>
Net rental income	6.3
Administration and other expenses	(1.4)
Gain on the disposal of investment properties	(0.0)
Change in the fair value of investment properties	(0.5)
<b>Operating profit before exceptional items</b>	<b>112.2</b>
Finance expenses	(1.5)
Net movement in fair value of derivative financial instruments	(0.7)
<b>Operating profit after finance item</b>	<b>110.0</b>
Income tax expense	0.0
<b>Operating profit after taxation</b>	<b>110.0</b>
Distributions in the period	(2.9)
<b>Net Asset Value</b>	<b>107.1</b>
Gain/(Loss) on derivative financial instruments	0.9
<b>EPRA NAV per share as at 30 June 2016 (unaudited)</b>	<b>108.0</b>

### Income Statement

Operating profit before gains and losses on property assets and other investments for the period 1 January 2016 to 30 June 2016 amounted to £13.4m. Profit after finance items and before taxation was £5.9m.

Revenue reflected the enlarged property portfolio, with revenues markedly higher in the second quarter of 2016 following the acquisitions completed earlier in the year.

The EPRA cost ratio was 31.8% (period to 31 December 2015: 39.3%) which is the result of, as expected, higher void costs, additional expenses arising from the property acquisitions and the expenses associated with establishing a listed company. It is anticipated that the underlying cost performance will be on a downward trend as the Group matures and grows.

Finance expense increased due to increased debt and refinancing costs as a result of the major acquisitions in the period. Nonetheless, as detailed below, the Group’s percentage cost of debt (interest and hedging expense) decreased, which is a combination of the financing environment and its status as a listed company.

The net movement in fair value of derivative financial instruments was a loss of £2.0m, a result of a decrease in interest rates and increases in the aggregate notional contract amounts.



## Dividend

On 7 March 2016, the Company announced a dividend of 1.00pps in respect of the period 6 November 2015 to 31 December 2015. The dividend payment was made on 15 April 2016 to Shareholders on the register as at 18 March 2016.

On 27 May 2016, the Company announced a dividend of 1.75pps in respect of the period 1 January 2016 to 31 March 2016. The dividend payment was made on 8 July 2016 to Shareholders on the register as at 10 June 2016. This dividend has been accrued in the condensed consolidated financial statements.

On 1 September 2016, the Company announced a dividend of 1.75pps in respect of the period 1 April 2016 to 30 June 2016, which will be paid on 7 October 2016 to Shareholders on the register as at 9 September 2016.

## Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2-5 years, with a weighted average maturity of 3.4 years (31 December 2015: 3.4 years).

The Group's borrowing facilities are with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowings at 30 June 2016 amounted to £217.8m (31 December 2015: £128.6m) (before unamortised debt issuance costs).

At 30 June 2016 the Group's cash and cash equivalent balances amounted to £23.7m (31 December 2015: £24.0m).

The Group's net loan-to-value ratio stands at 38.1% (31 December 2015: 25.4%). The Board targets a Group net loan-to-value ratio of 35% with a maximum of 50%.

The table below sets out the borrowings the Group had in place as at 30 June 2016:

Lender	Original Facility	Outstanding Debt*	Maturity Date	LTV	Annual Interest Rate	Amortisation	Hedging and Swaps: Notional Amounts/Rates**
Santander UK	£48,300	£45,669	Dec-18	43.5%	2.0% over 3mth LIBOR	Mandatory Prepayment basis	£8m/1.867% & £16.15m/1.014%
Santander UK	£25,343	£11,865	Dec-18	31.8%	2.0% over 3mth LIBOR	Mandatory Prepayment basis	£3.9m/2.246% & £8.77m/1.01%
Royal Bank of Scotland	£25,000	£24,450	Jun-19	42.9%	2.15% over 3mth LIBOR	None	£14.04m/1.79%
ICG Longbow Ltd	£65,000	£65,000	Aug-19	44.2%	5% pa for term	None	n/a
Santander UK	£30,990	£30,990	Jan-21	47.8%	2.15% over 3mth LIBOR	Mandatory Prepayment basis	£9.375m/1.086% & £6.84m/1.203% & £5.4m/1.444%
Royal Bank of Scotland	£40,000	£39,848	Mar-21	49.5%	2.40% over 3mth LIBOR	Prepayment basis	£19.9m/1.395%
	£234,633	£217,822				Mandatory	

\*Before unamortised debt issue costs

\*\*Hedging arrangements : As at 30 June 2016, the swap notional arrangements were £92.4m ( 31 December 2015: £35.2m ).

The net gearing ratio, net debt to equity, of the Group was 65.0% as at 30 June 2016 (31 December 2015: 34.8%).

## Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. Borrowings are currently 107.6% hedged against interest rate risk: of all borrowings 29.8% are at a fixed rate; 42.4% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 35.4% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The over hedge position of 107.6% is the result of a property disposal and the position is currently under review.

The weighted average effective interest rate on the bank borrowings as at 30 June 2016, including the cost of hedging, was 3.8% (31 December 2015: 4.5%).

## Tax

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

### **Property Portfolio**

The portfolio is predominantly comprised of offices and industrial sites, respectively accounting for 62.5% (by market value) (31 December 2015: 59.4%) and 29.1% (31 December 2015: 24.7%) of the portfolio. During the period 1 January 2016 to 30 June 2016 the exposure in England and Wales (by value) increased to 73.5% (31 December 2015: 64.1%). Both of these trends accord with commitments given by the Group at IPO in November 2015.

In the first half of 2016 two significant portfolios were purchased, consisting of 17 properties. In addition two other properties were acquired. Acquisitions totalled £128.1m in the period. During the same period 13 properties were sold. Disposals totalled £41.2m in the period.

As at 30 June 2016, the Group's property portfolio was valued at £501.3m (31 December 2015: £403.7m), with a contracted annual rental income of £43.7m (31 December 2015: £35.9m). There were 128 (31 December 2015: 123) properties in the portfolio:

By sector:

- 60 offices (£313.4m), 36 industrial (£145.9m), 29 retail (£39.8m), and 3 other (including residential) (£2.2m)).  
(31 December 2015: 52 offices (£239.8m), 29 industrial (£99.6m), 37 retail (£45.0m), 1 student accommodation (£17.4m), and 4 other (including residential) (£1.8m)).

By region:

- 44 Scotland (£132.7m), 23 Midlands (£80.6m), 19 North East (£84.1m), 18 South East (£101.0m), 15 North West (£59.9m), 7 South West (£24.9m), and 2 Wales (£18.1m)).  
(31 December 2015: 49 Scotland (£144.9m), 22 Midlands (£66.6m), 15 South East (£66.1m), 15 North East (£57.0m), 12 North West (£37.1m), 2 Wales (£16.6m), and 8 South West (£15.5m)).

If the portfolio was fully occupied (at Cushman & Wakefield's view of market rents), the gross rental income would be £51.9m per annum as at 30 June 2016 (31 December 2015: £40.4m).

Occupancy at the end of the period was 81.8% (31 December 2015: 83.9%), having risen from 80.9% at 31 March 2016. This followed from the acquisitions which completed in the first quarter, with higher void rates but with considerable active asset management opportunities. The office component of the portfolio had an occupancy rate of 81.9% (31 December 2015: 84.4%) and industrial sites of 82.3% (31 December 2015: 83.9%). As at 30 June 2016, like-for-like occupancy was 83.0%, having risen from 82.7% at 31 December 2015.

As at 30 June 2016, the net initial yield on the portfolio was 7.1% (31 December 2015: 7.6%), the equivalent yield was 8.5% (31 December 2015: 8.3%) and the reversionary yield, which excludes expired leases, was 9.3% (31 December 2015: 9.0%).

The valuation of the portfolio incorporates the dilutive effects of the stamp duty increase in the period but the valuers, Cushman & Wakefield, have cautioned that it provides only a minimal reflection of the uncertainties surrounding the UK's referendum result to exit from the European Union given the limited transactional evidence available.

## Regional REIT Property Portfolio by Segment and Region

### Sector

	Properties	Valuation £m	% by valuation	Sq. ft. (m)	Occupancy %	WAULT <sup>1</sup> to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV <sup>2</sup> £m	Capital rate £psf
Office	60	313.4	62.5%	2.64	81.9%	3.3	27.7	25.1	12.8	33.2	118.50
Industrial	36	145.9	29.1%	4.17	82.3%	3.7	12.7	11.0	3.7	14.8	34.97
Retail	29	39.8	8.0%	0.34	84.9%	5.2	3.2	2.5	11.2	3.8	117.25
Other	3	2.2	0.4%	0.04	8.7%	4.1	0.1	0.1	15.9	0.1	50.05
<b>Total</b>	<b>128</b>	<b>501.3</b>	<b>100.0%</b>	<b>7.19</b>	<b>81.8%</b>	<b>3.6</b>	<b>43.7</b>	<b>38.7</b>	<b>7.4</b>	<b>51.9</b>	<b>69.63</b>

### Region

	Properties	Valuation £m	% by valuation	Sq. ft. (m)	Occupancy %	WAULT <sup>1</sup> to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV <sup>2</sup> £m	Capital rate £psf
Scotland	44	132.7	26.5%	2.36	82.2%	3.7	12.3	10.8	6.3	14.8	56.20
South East	18	101.0	20.1%	0.95	85.8%	2.9	9.2	7.9	11.3	9.7	106.75
North East	19	84.1	16.8%	1.36	83.9%	2.5	7.1	6.5	6.3	8.3	61.74
Midlands	23	80.6	16.1%	1.07	77.9%	3.6	6.9	6.2	8.3	7.7	75.03
North West	15	59.9	11.9%	1.02	87.9%	5.5	5.5	4.9	6.1	6.5	58.84
South West	7	24.9	5.0%	0.22	42.1%	2.7	1.2	1.4	13.1	3.2	111.95
Wales	2	18.1	3.6%	0.21	80.5%	5.2	1.5	1.0	8.6	1.7	84.21
<b>Total</b>	<b>128</b>	<b>501.3</b>	<b>100.0%</b>	<b>7.19</b>	<b>81.8%</b>	<b>3.6</b>	<b>43.7</b>	<b>38.7</b>	<b>7.4</b>	<b>51.9</b>	<b>69.63</b>

<sup>1</sup>WAULT – weighted average unexpired lease term.

<sup>2</sup>ERV – estimated rental value.

## Top 15 Investments (by market value) as at 30 June 2016

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.9	6.6%	156,933	69.1%	2.2	5.0
Juniper Park, Southfield Industrial Estate, Basildon	Industrial	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd	21.6	4.3%	296,100	70.0%	1.5	1.9
Buildings 2 & 3, Aylesbury	Office	Scottish Widows Limited	21.4	4.3%	146,936	100.0%	2.3	3.3
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bunzl UK Limited	19.6	3.9%	707,775	89.2%	2.3	2.7
One and Two Newstead Court, Nottingham	Office	E.ON UK plc	15.5	3.1%	146,063	100.0%	1.5	2.6
Hampshire Corporate Park, Chandler's Ford, Eastleigh	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	15.2	3.0%	85,422	100.0%	1.4	2.6
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.7	2.9%	53,253	100.0%	1.1	7.5
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.0	2.6%	246,209	100.0%	0.9	18.3
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.6	2.5%	71,615	85.7%	1.0	6.8
Arena Point, Leeds	Office/Retail	Grosvenor Casinos Ltd, JD Wetherspoon PLC, Expotel Hotel Reservations Ltd	12.3	2.5%	98,856	82.0%	0.8	1.9
The Point, Glasgow	Mixed use	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited	11.0	2.2%	193,861	89.0%	0.8	6.8
Oaklands House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.3	2.1%	161,768	80.0%	1.1	4.3
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	10.0	2.0%	54,959	94.5%	0.7	3.2
CGU House, Leeds	Office	Aviva Insurance Limited	9.7	1.9%	50,763	100.0%	1.0	1.3
Chancellor Court, Leeds	Office	St James Place Wealth Management Group plc, The Legal Aid Agency	9.2	1.8%	41,818	100.0%	0.8	3.1
<b>Total</b>			<b>229.0</b>	<b>45.7%</b>	<b>2,512,331</b>		<b>19.4</b>	

**Top 15 Tenants (by share of rental income) as at 30 June 2016**

<b>Tenant</b>	<b>Property</b>	<b>Sector</b>	<b>WAULT (break if applicable) years</b>	<b>Sq. ft.</b>	<b>% of Gross rental income</b>
Scottish Widows Limited	Buildings 2 & 3, Aylesbury	Banking/Insurance	3.3	146,936	5.3%
Barclays Bank Plc	Tay House, Glasgow	Banking	9.3 (5.4)	78,044	3.7%
E.ON UK Plc	One and Two Newstead Court, Annesley, Nottingham	Energy	5.7 (2.6)	146,063	3.5%
TUI Northern Europe Ltd	Columbus House, Coventry	Travel and tourism	7.5	53,253	2.6%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Insurance	1.8	64,486	2.4%
Aviva Insurance Ltd	CGU House, Leeds	Insurance	1.3	50,763	2.3%
The Secretary of State for Communities & Local Government	Bennett House, Hanley, Sheldon Court, Solihull, & Oakland House, Manchester	Government	3.0 (1.1)	74,886	2.1%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturer of PE/PP foam	18.3	246,209	2.1%
The Secretary of State for Transport	St Brendans Court, Bristol, & Festival Court, Glasgow	Government	5.3 (2.3)	55,586	1.6%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Banking	1.9	48,372	1.5%
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Government	1.3	51,914	1.4%
Europcar Group UK Ltd	James House, Leicester	Car rental	5.0	66,436	1.4%
Schenker Ltd	Juniper Park, Basildon	Freight transport	1.0	86,548	1.3%
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Retailer of office supplies	2.6	34,262	1.3%
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Consultancy (engineering)	2.1	32,647	1.2%

## **Property Portfolio Segment and Region by Valuation and Income**

### **By Valuation**

As at 30 June 2016, 62.5% (31 December 2015: 59.4%) of the portfolio by market value was offices and 29.1% (31 December 2015: 24.7%) was industrial. The balance was made up of retail 8.0% (31 December 2015: 11.2%) and other 0.4% (31 December 2015: student accommodation and other 4.7%).

By UK region, as at 30 June 2016, Scotland represented 26.5% (31 December 2015: 35.9%) of the portfolio and England 69.9% (31 December 2015: 60.0%); the balance of 3.6% (31 December 2015: 4.1%) was in Wales. In England the most important regions were the South East, the North East and the Midlands.

### **By Income**

As at 30 June 2016, 63.4% (31 December 2015: 61.8%) of the portfolio by gross rental income was offices and 29.1% (31 December 2015: 24.8%) was industrial. The balance was made up of retail 7.4% (31 December 2015: 10.6%) and other 0.1% (31 December 2015: student accommodation and other 2.8%).

By UK region, as at 30 June 2016, Scotland represented 28.1% (31 December 2015: 35.7%) of the portfolio and England 68.5% (31 December 2015: 60.7%); the balance of 3.4% (31 December 2015: 3.6%) was in Wales. In England the most important regions were the South East, the North East and the Midlands.

### **Lease Expiry Profile**

The weighted average unexpired lease term ("WAULT") on the portfolio was 5.0 years (31 December 2015: 6.1; 5.6 years excluding Blythswood House, since sold); WAULT to first break was 3.6 years (31 December 2015: 4.4 years; 3.8 years excluding Blythswood House, since sold).

As at 30 June 2016, 14.1% (31 December 2015: 12.8%) of income was leases which will expire within 1 year, 29.2% (31 December 2015: 31.1%) between 1 and 3 years, 12.7% (31 December 2015: 15.6%) between 3 and 5 years, and 44.0% (31 December 2015: 40.5%) after 5 years.

### **Events after the Reporting period – Acquisitions and Disposals and Asset Management Initiatives**

On the 20 September 2016, as detailed in Note 17 'Transactions with related parties', Regional REIT announced it will acquire a portfolio of 6 office pavilions at Strathclyde Business Park, Bellshill, Scotland for £5.5m from the Asset Manager. The portfolio totals 0.09m sq. ft. and provides a net income of £0.8m per annum, with a net initial yield of 12.0%.

## **DIRECTORS' STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties the Group faces are summarised below and described in detail on pages 30 to 31 of the 2015 Annual Report, which is available on the Group's website at [www.regionalreit.com - Annual Report 2015](http://www.regionalreit.com - Annual Report 2015). The Audit Committee, which assists the Board with its responsibilities for managing risk, considers that there have been no changes to these principal risks since the publication of the 2015 Annual Report, with the exception of the UK's decision to leave the European Union.

### **Investment risk**

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

### **Tenant risk**

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

### **Economic and political risk**

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

### **Financial and tax change risk**

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

### **Operational risk**

Business disruption could result in lower rental income.

### **Accounting, legal, and regulatory risk**

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

### **The United Kingdom's Vote to secede from the European Union**

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

## **RSM UK Audit LLP**

The condensed consolidated financial statements for the period from 1 January 2016 to 30 June 2016 are unaudited and do not constitute statutory accounts for the purposes of the Companies (Guernsey) Law 2008, as amended.

### **Going Concern**

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

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

In accordance with the Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R we, the Directors of the Company (whose names are listed in full at the end of this report) confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, as required by the Disclosure Guidance and Transparency Rule DTR4.2.4R, and gives a true and fair view of the assets, liabilities, financial position and profit of the Group;
- b) the Interim Management Report, which comprises the Chairman's Statement and the Asset and Investment Manager's Report sections of this report, includes a fair review, under DTR 4.2.7R, of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- c) the Interim Management Report, which comprises the Chairman's Statement and the Asset and Investment Manager's Report sections of this report, includes a fair review under DTR 4.2.8.

For and on behalf of the Board

**Kevin McGrath**  
**Chairman**  
**20 September 2016**



## Condensed Consolidated Statement of Comprehensive Income

For the period from 1 January 2016 to 30 June 2016

The comparative period starts from 22 June 2015, the date of incorporation; however, trading did not commence until 6 November 2015.

	Notes	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
<b>Continuing Operations</b>			
<b>Revenue</b>			
Rental income	5	19,699	5,361
Non recoverable property costs		(2,328)	(753)
<b>Net rental income</b>		<b>17,371</b>	<b>4,608</b>
Administrative and other expenses	6	(3,935)	(1,353)
<b>Operating profit before gains and losses on property assets and other investments</b>		<b>13,436</b>	<b>3,255</b>
(Loss)/gain on disposal of investment properties	12	(75)	86
Change in fair value of investment properties	12	(1,254)	23,784
<b>Operating profit before exceptional items</b>		<b>12,107</b>	<b>27,125</b>
<b>Exceptional items</b>	7	-	(5,296)
<b>Operating profit after exceptional items</b>		<b>12,107</b>	<b>21,829</b>
Finance income		40	177
Finance expense	8	(4,176)	(997)
Net movement in fair value of derivative financial instruments	14	(2,024)	115
<b>Profit before tax</b>		<b>5,947</b>	<b>21,124</b>
Income tax expense	9	-	-
<b>Profit for the period after tax (attributable to equity shareholders)</b>		<b>5,947</b>	<b>21,124</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>5,947</b>	<b>21,124</b>
<b>Attributable to:</b>			
Owners of the parent		5,947	21,124
Non-controlling interests		-	-
		<b>5,947</b>	<b>21,124</b>

Total comprehensive income arises from continuing operations.

<b>Earnings per share attributable to owners of the parent – basic and diluted</b>	10	<b>2.2p</b>	<b>7.7p</b>
<b>EPRA earnings/(losses) per share attributable to owners of the parent - basic and diluted</b>	10	<b>3.3p</b>	<b>(1.1)p</b>

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

## Condensed Consolidated Statement of Financial Position

As at 30 June 2016

The comparative period starts from 22 June 2015, the date of incorporation; however, trading did not commence until 6 November 2015.

	Notes	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	12	501,255	403,702
Goodwill		2,786	2,786
Non-current receivables		610	1,004
		<u>504,651</u>	<u>407,492</u>
<b>Current assets</b>			
Trade and other receivables		11,845	11,848
Cash and cash equivalents		23,739	23,955
		<u>35,584</u>	<u>35,803</u>
<b>Total assets</b>		<b>540,235</b>	<b>443,295</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(19,378)	(12,576)
Deferred income		(8,660)	(5,906)
Taxation		(1,239)	(2,387)
Bank and loan borrowings - current	13	-	(200)
Derivative financial instruments	14	(2,440)	(416)
		<u>(31,717)</u>	<u>(21,485)</u>
<b>Non-current liabilities</b>			
Bank and loan borrowings – non-current	13	(214,771)	(126,469)
		<u>(214,771)</u>	<u>(126,469)</u>
<b>Total liabilities</b>		<b>(246,488)</b>	<b>(147,954)</b>
<b>Net assets</b>		<b>293,747</b>	<b>295,341</b>
<b>Equity</b>			
Stated capital		274,217	274,217
Retained earnings		19,530	21,124
<b>Total equity</b>		<b>293,747</b>	<b>295,341</b>
<b>Net assets per share– basic and diluted</b>	15	<b>107.1p</b>	<b>107.7p</b>
<b>EPRA net assets per share– basic and diluted</b>	15	<b>108.0p</b>	<b>107.8p</b>

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

### Condensed Consolidated Statement of Changes in Equity

For the period from 1 January 2016 to 30 June 2016 (unaudited)

The comparative period starts from 22 June 2015, the date of incorporation; however, trading did not commence until 6 November 2015.

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

### Condensed Consolidated Statement of Changes in Equity

For the period 22 June 2015 to 31 December 2015 (audited)

	Attributable to owners of the parent		
	Stated capital £'000	Retained earnings £'000	Total £'000
<b>Balance at 22 June 2015</b>	-	-	-
Issue of Shares at no par value	<u>274,217</u>	<u>-</u>	<u>274,217</u>
Total transactions with owners, recognised directly in equity	274,217	-	274,217
Total comprehensive income	-	21,124	21,124
<b>Balance at 31 December 2015</b>	<u>274,217</u>	<u>21,124</u>	<u>295,341</u>

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

## Condensed Consolidated Statement of Cash Flows

For the period from 1 January 2016 to 30 June 2016

The comparative period starts from 22 June 2015, the date of incorporation; however, trading did not commence until 6 November 2015.

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
<b>Cash flows from operating activities</b>		
Profit for the period before taxation	5,947	21,124
- Change in fair value of investment properties	1,254	(23,784)
- Change in fair value of financial derivative instruments	2,024	(115)
- Loss/(gain) on disposal of investment properties	75	(86)
Finance income	(40)	(177)
Finance expense	4,176	997
Decrease/(increase) in trade and other receivables	24	(5,358)
(Decrease)/increase in VAT and other taxes payable	(1,733)	360
Increase in trade and other payables & deferred income	5,222	4,807
<b>Cash generated from/(used in) operations</b>	<b>16,949</b>	<b>(2,232)</b>
Financial income	493	247
Finance costs	(3,591)	(671)
<b>Net cash flow generated from/(used in) operating activities</b>	<b>13,851</b>	<b>(2,656)</b>
<b>Investing activities</b>		
Purchase of investment properties	(139,251)	(4,190)
Sale of investment properties	40,369	5,347
Interest received	19	12
Acquisition of subsidiaries, net of cash acquired	-	26,659
<b>Net cash flow (used in)/generated from investing activities</b>	<b>(98,863)</b>	<b>27,828</b>
<b>Financing activities</b>		
Dividends paid	(2,742)	-
Bank borrowings advanced	105,287	-
Bank borrowings repaid	(16,108)	(1,217)
Bank borrowing costs paid	(1,641)	-
<b>Net cash flow generated from/(used in) financing activities</b>	<b>84,796</b>	<b>(1,217)</b>
<b>Net (decrease)/increase in cash and cash equivalents for the period</b>	<b>(216)</b>	<b>23,955</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>23,955</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>23,739</b>	<b>23,955</b>

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

## **Notes to the Condensed Consolidated Financial Statements**

For the period from 1 January 2016 to 30 June 2016

The comparative period starts from 22 June 2015; however, trading did not commence until 6 November 2015.

### **1. Corporate information**

The condensed consolidated financial statements of the Group for the period from 1 January 2016 to 30 June 2016 comprise the results of the Company and its subsidiaries (together constituting “the Group”) and were approved by the Board and authorised for issue on 20 September 2016. Regional REIT Limited (“the Company”) is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended. The Company’s Ordinary Shares are admitted to the Official List of the UK Listing Authority (“UKLA”), a division of the Financial Conduct Authority (“FCA”), and traded on the London Stock Exchange (“LSE”).

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

Regional REIT Limited 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 in this report and in the 2015 Annual Report.

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 of the Group for the period from 1 January 2016 to 30 June 2016 comprise the results of the Company and its subsidiaries (together constituting “the Group”) and were approved by the Board and authorised for issue on 20 September 2016. Regional REIT Limited (“the Company”) is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended. The Company’s Ordinary Shares are admitted to the Official List of the UK Listing Authority (“UKLA”), a division of the Financial Conduct Authority (“FCA”), and traded on the London Stock Exchange (“LSE”).

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

Regional REIT Limited 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 in this report and in the 2015 Annual Report.

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

#### **2.1 Comparative period**

The comparative period reported in these condensed consolidated financial statements is not the equivalent comparative period of the previous year as the Group was not in existence for that period, but represents the period disclosed in the Group’s preceding financial statements from 22 June 2015 to 31 December 2015. However, trading did not commence until 6 November 2015.

The comparative financial information presented herein for the period 22 June 2015 to 31 December 2015 does not constitute full statutory accounts within the meaning of The Companies (Guernsey) Law, 2008, as amended. The Group’s annual report and accounts for the period to 31 December 2015 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 not less than 12 months. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

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

## **2.4 Business combinations**

At the time of acquisition, the Group considers whether each purchase 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.

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 nor 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 £501,255,000 (31 December 2015: £403,702,500), 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 used recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

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

#### **3.1.2 Fair valuation of interest rate derivatives**

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the Group values its interest rate derivatives at fair value. The fair values are estimated by the loan counterparty with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and, therefore, future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was a cost £2,440,000 (31 December 2015: cost of £416,000).

#### **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 £2,786,000 (31 December 2015: £2,786,000).

### 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 a Performance Fee. The Performance Fee is calculated at a rate of 15% of Shareholder Returns in excess of a Hurdle Rate of 8% for the relevant performance period. Shareholder Returns 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. The Performance Fee is only payable in respect of a performance period where the EPRA NAV per Ordinary Share exceeds the High-Water Mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous performance period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-85 of the IPO Prospectus.

In the period from the commencement of trading (6 November 2015) to date, the Group has met the criteria of the Performance Fee. However, future circumstances may dictate that no Performance Fee is ultimately due. Management have modelled a number of scenarios for the Performance Fee calculation but, given the length of the outstanding performance period, no liability has been accrued in the current condensed consolidated financial statements.

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

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

## 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 period ended 31 December 2015 and described in the 2015 Annual Report and are expected to be applied consistently for the year ended 31 December 2016. There are no significant changes to the condensed consolidated financial statements arising from accounting standards effective for the first time.

## 5. Rental income

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
Rental income – freehold property	16,205	4,500
Rental income – long leasehold property	3,494	861
<b>Total</b>	<b>19,699</b>	<b>5,361</b>

## 6. Administration and other expenses

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
Investment management fees	967	264
Property management fees	808	203
Asset management fees	850	232
Directors' remuneration	94	48
Administration fees	74	118
Legal and professional fees	1,011	390
Marketing and promotion	15	15
Other administrative costs	103	82
Bank charges	13	1
<b>Total</b>	<b>3,935</b>	<b>1,353</b>

## 7. Exceptional items

Exceptional items comprise the professional fees and regulatory costs associated with the listing of the shares on the London Stock Exchange.

## 8. Finance expense

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
Interest payable on bank borrowings	3,711	910
Amortisation of loan arrangement fees	465	87
<b>Total</b>	<b>4,176</b>	<b>997</b>

## 9. Taxation

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



## 10. Earnings per share

Earnings per share (“EPS”) amounts are calculated by dividing profits for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

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

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
<b>Calculation of Earnings per share after exceptional items</b>		
<b>Net profit attributable to Ordinary Shareholders</b>	5,947	21,124
<b>Adjustments to remove:</b>		
Changes in value of investment properties	1,254	(23,784)
Changes in fair value of interest rate derivatives and financial assets	1,904	(180)
Loss/(gain) on disposal of investment property	75	(86)
<b>EPRA Net profit/(loss) attributable to Ordinary Shareholders</b>	<u>9,180</u>	<u>(2,926)</u>
<b>Weighted average number of Ordinary Shares</b>	274,217,264	274,217,264
<b>Earnings per share (basic and diluted)</b>	<u>2.2p</u>	<u>7.7p</u>
<b>EPRA Earnings/(loss) per share (basic and diluted)</b>	<u>3.3p</u>	<u>(1.1)p</u>
<b>Calculation of Earnings per share before exceptional items</b>		
<b>Net profit attributable to Ordinary Shareholders</b>	5,947	21,124
Add back exceptional items	-	5,296
<b>Net profit attributable to Ordinary Shareholders before exceptional items</b>	5,947	26,420
<b>Adjustments to remove:</b>		
Changes in value of investment properties	1,254	(23,784)
Changes in fair value of interest rate derivatives and financial assets	1,904	(180)
Loss/(gain) on disposal of investment property	75	(86)
<b>EPRA Net profit attributable to Ordinary Shareholders before exceptional items</b>	<u>9,180</u>	<u>2,370</u>
<b>Weighted average number of Ordinary Shares</b>	274,217,264	274,217,264
<b>Earnings per share before exceptional items (basic and diluted)</b>	<u>2.2p</u>	<u>9.6p</u>
<b>EPRA Earnings per share before exceptional items (basic and diluted)</b>	<u>3.3p</u>	<u>0.9p</u>

## 11. Dividends

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
<b>Dividends</b>		
Dividend of 1.00 pence per Ordinary share (for the period 6 Nov 2015 – 31 Dec 2015)	2,742	-
Dividend of 1.75 pence per Ordinary share (for the period 1 Jan 2016 – 31 Mar 2016)	4,799	-
	<u>7,541</u>	<u>-</u>

On 7 March 2016 the Company announced a dividend of 1.00 pence per share (“pps”), of which the property income distribution (“PID”) was 0.6572pps and the non-PID was 0.3428pps. The dividend payment was in respect of the period 6 November 2015 to 31 December 2015 and was paid on 15 April 2016 to Shareholders on the register as at 18 March 2016.

On 27 May 2016 the Company announced a dividend of 1.75pps, of which the PID was 1.3579pps and the non-PID was 0.3921pps. The dividend payment was in respect of the period 1 January 2016 to 31 March 2016, and was paid on 8 July 2016 to Shareholders on the register as at 10 June 2016. This dividend has been accrued in the condensed consolidated financial statements and is included within trade and other payables within the Condensed Consolidated Statement of Financial Position.

On 1 September 2016 the Company announced a dividend of 1.75pps, of which the PID was 1.5013pps and the non-PID was 0.2487pps. The dividend payment was in respect of the period 1 April 2016 to 30 June 2016, which will be paid on 7 October 2016 to Shareholders on the register as at 9 September 2016. These condensed consolidated financial statements do not reflect this dividend.

## 12. Investment properties

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

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

In respect of the valuation of the Group’s property assets undertaken as at 30 June 2016, the valuer’s report noted, “following the Referendum held on 23 June 2016 concerning the UK’s membership of the EU, a decision was taken to exit. We are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. Since the Referendum date, it has not been possible to gauge the effect of this decision by reference to transactions in the market place. The probability of our opinion of value exactly coinciding with the price achieve were there to be a sale, has reduced.”

	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
<b>Movement in investment properties for the period 1 January 2016 to 30 June 2016</b>			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions	130,226	9,025	139,251
Property disposals	(37,419)	(2,950)	(40,369)
Loss on the disposal of investment properties	(55)	(20)	(75)
Change in fair value during the period	(2,834)	1,580	(1,254)
Valuation at 30 June 2016 (unaudited)	421,970	79,285	501,255

**Movement in investment properties for the period  
22 June 2015 to 31 December 2015**

Upon acquisition of subsidiaries	319,541	61,448	380,989
Property additions	1,020	3,170	4,190
Property disposals	(5,347)	-	(5,347)
Gain on the disposal of investment properties	86	-	86
Change in fair value during the period	16,752	7,032	23,784
Valuation at 31 December 2015 (audited)	332,052	71,650	403,702

The historic cost of the properties was £481,563,000 (31 December 2015: £379,918,000).

A reconciliation of the valuation carried out by the external valuers to the carrying amount in the Condensed Consolidated Statement of Financial Position is as follows:

	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
<b>As set out in Cushman &amp; Wakefield's valuation report</b>	501,255	405,422
Adjustment in respect of the disposal (Blythswood House) after period end	-	(1,720)
<b>As shown in the Condensed Consolidated Statement of Financial Position</b>	501,255	403,702

The adjustment reflects a value determined in a sales transaction shortly after the period end.

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

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
Date of valuation:				
30 June 2016	501,255	-	501,255	-
31 December 2015	403,702	-	403,702	-

The hierarchy levels are defined in note 14.

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

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 30 June 2016, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparable. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

#### **Techniques used for valuing investment properties**

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

##### *Valuation Technique: Market comparable method*

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

##### *Observable Input: Market rent*

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £3,100 - £3,161,581 per annum).

##### *Observable Input: Rental growth*

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

##### *Observable Input: Net initial yield*

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 0.84% - 24.34%).

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. Actual values can only be determined in a sales transaction.

### 13. 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 2016 (unaudited) £'000	31 December 2015 (audited) £'000
<b>Bank borrowings drawn at start of period</b>	128,643	-
Bank borrowings drawn	105,287	128,643
Bank borrowings repaid	(16,108)	-
<b>Bank borrowings drawn at end of period</b>	217,822	128,643
Less: unamortised costs	(3,051)	(1,875)
Less: adjustment through finance income	-	(99)
<b>At end of period</b>	214,771	126,669
<b>Maturity of bank borrowings</b>		
Repayable within 1 year	-	200
Repayable between 1 to 2 years	-	200
Repayable between 2 to 5 years	214,771	126,269
	214,771	126,669

During the period, largely to fund property acquisitions, the Group increased its borrowings and refinanced existing facilities. The total outstanding debt drawn is less than the total of the original facility due to the repayment of debt following the sale of one of the assets on which borrowings were secured.

The weighted average term to maturity of the Group's debt at the period end was unchanged at 3.4 years (31 December 2015: 3.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, at the period end was 3.5% (31 December 2015: 4.1%).

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	LTV	Interest cost per annum	Amortisation
Santander UK	48,300	45,669	Dec -18	43.5%	2% over 3mth LIBOR	Mandatory prepayment
Santander UK	25,343	11,865	Dec -18	31.8%	2% over 3mth LIBOR	Mandatory prepayment
Royal Bank of Scotland	25,000	24,450	Jun -19	42.9%	2.15% over 3mth LIBOR	None
ICG Longbow Limited	65,000	65,000	Aug -19	44.2%	5% par for term	None
Santander UK	30,990	30,990	Jan - 21	47.8%	2.15% over 3mth LIBOR	Mandatory prepayment
Royal Bank of Scotland	40,000	39,848	Mar -21	49.5%	2.4% over 3mth LIBOR	Mandatory prepayment
	234,633	217,822				

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

As shown in note 14, 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.

#### 14. 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 2016 £'000	31 December 2015 £'000
<b>Fair value at start of period</b>	(416)	-
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	-	(531)
Revaluation in the period	(2,024)	115
<b>Fair value at end of period</b>	<u>(2,440)</u>	<u>(416)</u>

The fair value of derivative financial instruments has decreased in the period due to the Group entering into a number of interest rate caps and swaps in the period as detailed below:

Loan Details				Swap Details		
Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Interest cost per annum	Notional Amount £'000	Rate %
Santander UK	48,300	45,669	Dec -18	2% over 3mth	8,000	1.867
				LIBOR	16,150	1.014
Santander UK	25,343	11,865	Dec -18	2% over 3mth	3,900	2.246
				LIBOR	8,770	1.010
Royal Bank of Scotland	25,000	24,450	Jun -19	2.15% over 3mth LIBOR	14,040	1.790
ICG Longbow Limited	65,000	65,000	Aug -19	5% par for term	n/a	n/a
					9,375	1.086
Santander UK	30,990	30,990	Jan - 21	2.15% over 3mth LIBOR	6,840	1.203
					5,400	1.444
Royal Bank of Scotland	40,000	39,848	Mar -21	2.4% over 3mth LIBOR	19,924	1.395
	<u>234,633</u>	<u>217,822</u>				

The weighted average cap and swap rate for the Group as at the period end was 3.5% (31 December 2015: 4.1%), with a Group weighted average effective interest rate, inclusive of hedging costs, of 3.8% (31 December 2015: 4.5%).

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives. As at the period end date the total proportion of hedged debt equated to 107.6% (31 December 2015: 90.1%) as shown below.

The over hedge at 30 June 2016 is the result of a property disposal and the position is currently under review.

	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
Total bank borrowings	217,822	128,643
Notional value of interest rate caps and swaps	169,480	50,825
Value of fixed rate debts	65,000	65,000
	234,480	115,825
Proportion of hedged debt	107.6%	90.1%

#### **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 2016	(2,440)	-	(2,440)	-
31 December 2015	(416)	-	(416)	-

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

There have been no transfers between levels during the period.

The Group has not adopted hedge accounting.

### 15. Net asset value per share (NAV)

NAV per share is calculated by dividing net assets in the Condensed Consolidated Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments issued, basic and diluted NAV per share are identical.

Net asset values have been calculated as follows:

	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
<b>Net asset value per Condensed Consolidated Statement of Financial Position</b>	293,747	295,341
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	2,440	416
<b>EPRA net assets</b>	296,187	295,757
<b>Weighted average number of Ordinary Shares</b>	274,217,264	274,217,264
<b>Net asset value per share (basic and diluted)</b>	107.1p	107.7p
<b>EPRA net asset value per share (basic and diluted)</b>	108.0p	107.8p

### 16. 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. An analysis of the portfolio can be found in the Asset and Investment Manager's Report.

### 17. Transactions with related parties

*Transactions with the Asset Manager, London & Scottish Investments Limited ("LSI") and the Property Manager, London & Scottish Property Asset Management Limited.*

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

In consideration for the provision of services provided, the Asset Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value (NAV), reducing to 0.9% on 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 procure for the Group in the future, that London & Scottish Property Asset Management Limited is appointed as the Property Manager. A property management fee of 4 per cent. 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 following tables show the fees charged in the period and the amount outstanding at the end of the period:

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
Asset management fees charged*	850	232
Property management fees charged*	808	165
Total	1,658	397
	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
Total fees outstanding	823	397

\*Including irrecoverable VAT charged where appropriate.

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

Toscafund Strathclyde BP Limited owns a portfolio of 6 office pavilions at Strathclyde Business Park, Bellshill, Scotland. The buildings cover 0.09m sq. ft. and provide a net income of £762,000 per annum with a net initial yield of 12.0% after deductions of costs. The consideration for the acquisition is £5,500,000 in cash, which represents the fair value of the portfolio as determined by Knight Frank, an independent valuer. The Group will also pay £132,000 to LSI, representing 38.5% of the total costs incurred by the Asset Manager in the original purchase of the properties. Completion of the acquisition, which falls under Listing Rule 11.1.10R is expected to occur before the end of September 2016.

*Transactions with the Investment Manager, Toscafund Asset Management LLP.*

Martin McKay is a non-executive Director of Regional REIT Limited and is the Chief Financial Officer of Toscafund Asset Management LLP. The LLP is also the discretionary Investment Manager of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited, all of which were Shareholders of the Group at 30 June 2016. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

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

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

	1 January 2016 to 30 June 2016 (unaudited) £'000	22 June 2015 to 31 December 2015 (audited) £'000
Investment management fees charged*	967	264
	30 June 2016 (unaudited) £'000	31 December 2015 (audited) £'000
Total fees outstanding	471	264

\*Including irrecoverable VAT charged where appropriate

*Performance Fee payable to the Asset Manager and the Investment Manager*

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

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

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

Based on the EPRA NAV of the Group as at 30 June 2016 and assuming the hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability for the period from the commencement of trading at 6 November 2015 to 30 June 2016 was estimated at £414,000 (6 November 2015 to 31 December 2015: £95,000). This Performance Fee was identified but not accrued in the condensed consolidated financial statements in the current or comparative period. Management have modelled a number of scenarios for the Performance Fee calculation, and given the length of the outstanding performance period, no liability has been accrued in the condensed consolidated financial statements.

## 18. Capital commitments

There were no capital commitments during the period.

## 19. Subsequent events

On 20 September 2016, Regional REIT announced it will acquire the entire issued share capital of Toscafund Strathclyde BP Limited. For further details refer to Note 17 of these accounts.

## **CORPORATE INFORMATION**

### **Directors**

Kevin McGrath (Chairman)  
William Eason (Independent non-executive director)  
Daniel Taylor (Independent non-executive director)  
Stephen Inglis (Non-executive director)  
Martin McKay (Non-executive director)

### **Company Secretary**

Capita Company Secretarial Services Limited  
1st Floor  
Dukes Place  
London  
EC3A 7NH

### **Registered office**

Regional REIT Limited  
Mont Crevelt House  
Bulwer Avenue  
St. Sampson  
Guernsey  
GY2 4LH

### **Asset Manager**

London & Scottish Investments Limited  
Venlaw  
349 Bath Street  
Glasgow  
G2 4AA

### **Investment Manager**

Toscafund Asset Management LLP  
7th Floor, 90 Long Acre  
London  
WC2E 9RA

### **Forthcoming events**

17 November 2016	Q3 2016 Dividend Announcement and Trading Update
23 February 2017	Q4 2016 Dividend and Portfolio Valuation Announcement
30 March 2017	Full year 2016 Preliminary Results Announcement

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

[www.regionalreit.com](http://www.regionalreit.com).

