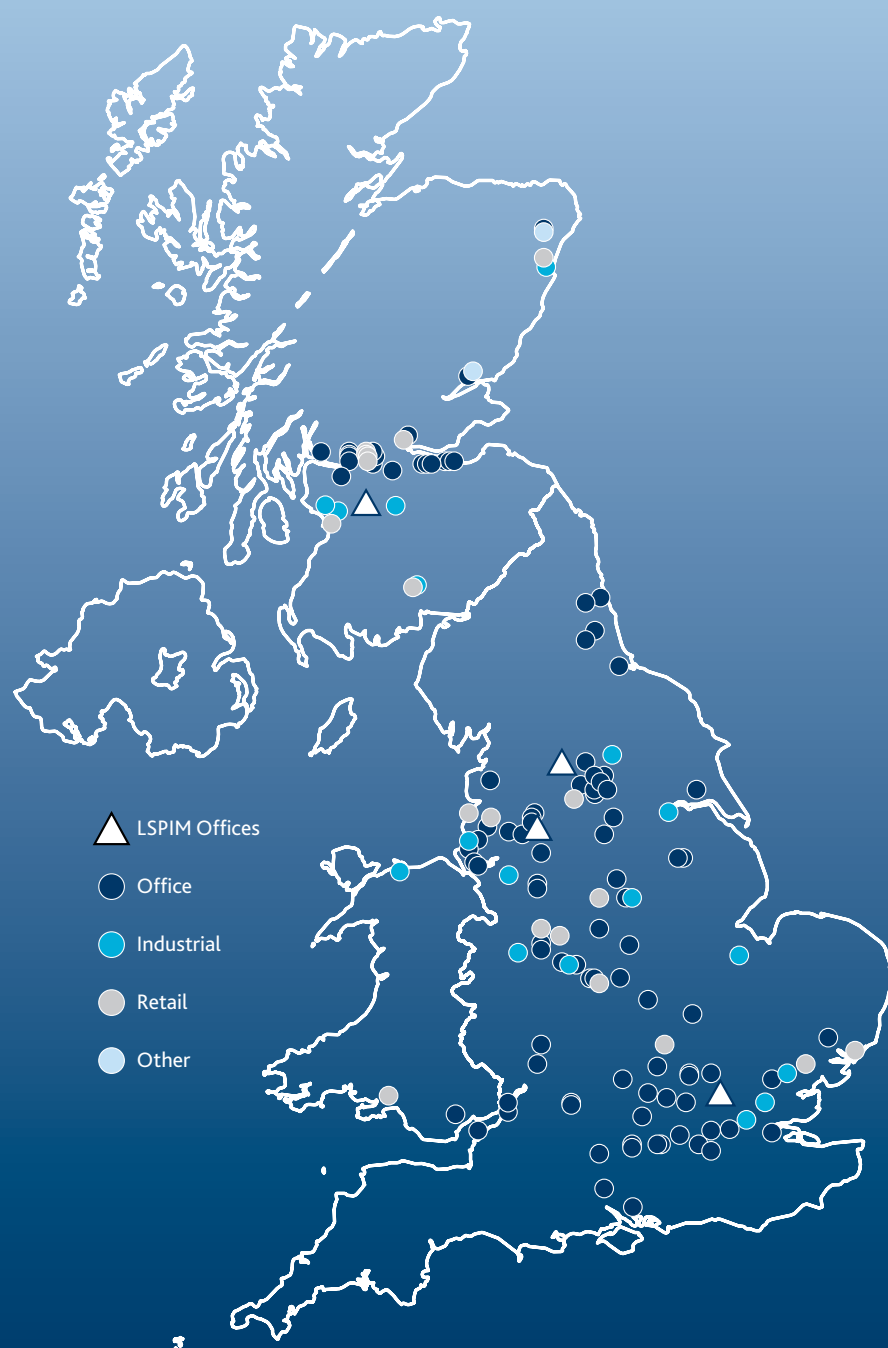


# HALF YEARLY REPORT

for the period ending

# 30 June 2020



## Contents



**OFFICE:** Columbus House, Coventry



**OFFICE:** Lochside Avenue, Edinburgh Park, Edinburgh

Highlights . . . . .	2
Chairman's Statement . . . . .	3
Asset and Investment Managers' Report. . . . .	6
Directors' Statement of Principal Risks and Uncertainties. . . . .	17
Interim Management Report and Directors' Responsibility Statement . . . . .	18
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 . . . . .	43
Notes to the Calculation of the EPRA Performance Measures. . . . .	44
Property Related Capital Expenditure Analysis . . . . .	46
Shareholder Information . . . . .	48
Glossary of Terms. . . . .	49
Company Information . . . . .	52

**High dividend distribution UK REIT, offering exposure to the regional commercial property market, with active management by an experienced asset manager**

### REGIONAL REIT LIMITED

Regional REIT Limited<sup>1</sup> (the "Company") and its subsidiaries (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.

### ISA, SSAS AND SIPP STATUS

The Company's shares should be eligible to be held in an Individual Savings Account ("ISA").

Subject to the rules of the trustees of the relevant scheme, the Ordinary Shares should generally be eligible for inclusion in a small self-administered scheme ("SSAS") or self-invested personal pension ("SIPP") provided: (a) no member of the SSAS or SIPP (or person connected with such a member) occupies or uses any residential property held by the Group; and (b) the SSAS or SIPP, alone or together with one or more associated persons, does not directly or indirectly hold 10% or more of any of the Ordinary Shares, voting rights in the Company, rights to income of the Company, rights to amounts on a distribution of the Company or rights to assets on a winding up of the Company.

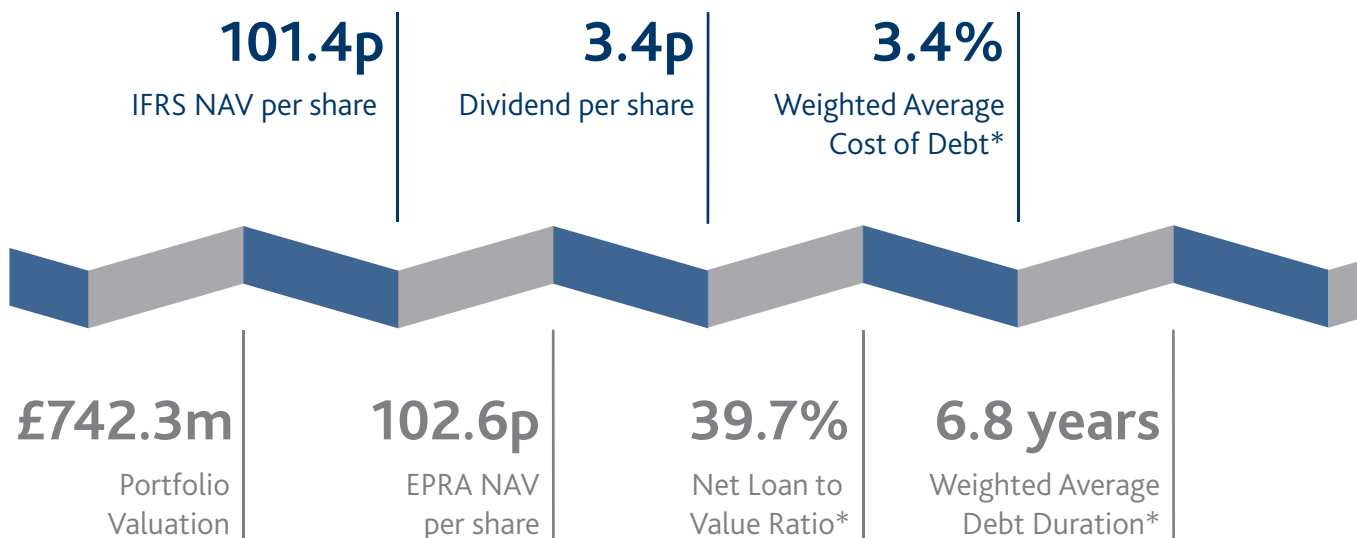
<sup>1</sup> Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law 2008, as amended (the "Law") and the International Financial Reporting Standard ("IFRS") 10, 'Consolidated Financial Statements', 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.

## Highlights

For the six months to 30 June 2020

### FINANCIAL HIGHLIGHTS

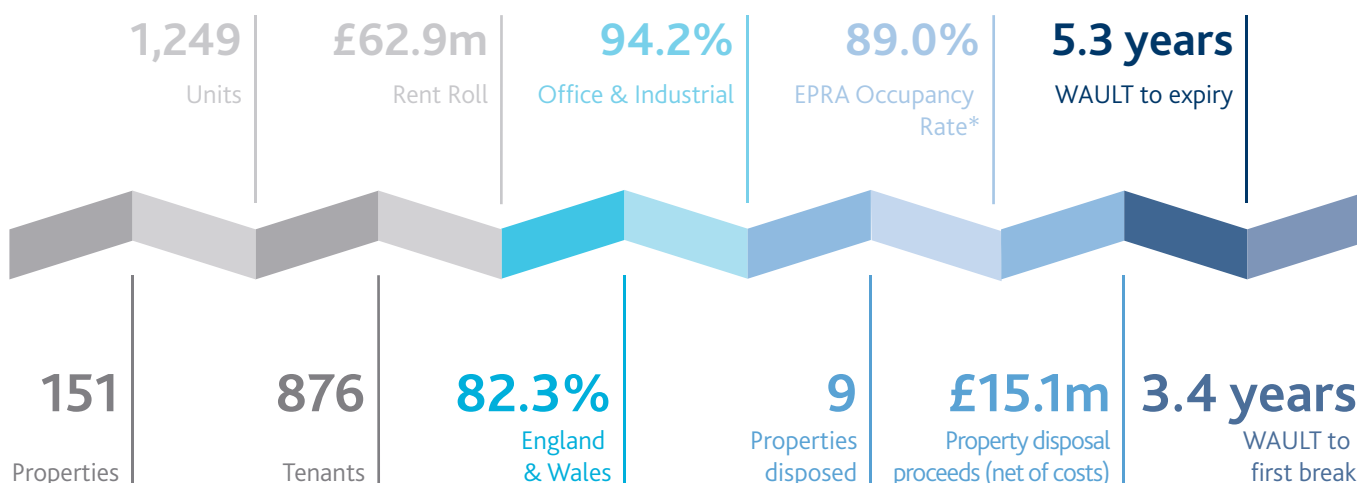
**Income focused – opportunistic buying and strategic selling, coupled with intensive asset management, continues to secure long-term income**



### OPERATIONAL HIGHLIGHTS

**Deliberately diversified portfolio by location and tenant – regions remain strong**

Portfolio by region and sector (by value)



\* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 49 to 51.

## Chairman's Statement

The Chairman's Statement covers the period ended 30 June 2020.



**Kevin McGrath**  
*Chairman*

I am pleased to report that the Group performed relatively well despite the challenging economic backdrop caused by COVID-19. Our strategy of having a large number of occupiers, currently 876, proactively managed by the Asset Manager across a diverse range of 151 properties throughout the UK and outside of the M25, has contributed to our resilient performance through the period. This performance is further strengthened by having over 51% of occupiers that were classified as Government designated essential services and were able to continue operations during the lock-down period with minimal disruption. Overall, we have maintained robust rental collections, being one of our primary objectives, and thus ensured the payment of an uninterrupted quarterly dividend to our shareholders throughout the period, albeit at a reduced level in the interest of prudence.

The Asset Manager's specialist model, which is underpinned by 61 personnel who are proactively involved with asset and property management, research, legal, corporate finance, finance and credit control, continued to operate successfully and at full capacity throughout this turbulent period, ensuring close contact with our occupiers. As testament to these close relationships and successful strategy, rent collection remained strong with 97.6% of the rent invoiced<sup>1</sup> being collected as at 11 September 2020. This comprised 94.1% of tenants which have paid rent, 0.4% which have agreed to pay monthly and collection plans agreed with occupiers amounting to a further 3.1%. This is an encouraging achievement.

Notwithstanding this strong performance (particularly relative to our peers), the value of the investment properties under management inevitably suffered a decline as the valuers try to make sense of the emerging economic landscape. Our portfolio value has decreased by £45.6m (5.8%) to £742.3m, from £787.9m as at 31 December 2019. This is due to disposals of £15.1m (net of costs), the loss of £2.0m on the disposals, capital expenditure of £4.5m, which is still to be fully captured in the valuations, and a decrease in the change in fair value of the portfolio amounting to £33.2m. It is valid to note the £33.2m decrease is an as yet 'unrealised' valuation decline and was ostensibly attributable to COVID uncertainty. This represents a like-for-like valuation reduction of 4.3%. As described further below, transactional activity has been somewhat limited during the period, as a result of which the valuation of the property portfolio was subject to an industry wide material uncertainty clause. It is the view of our Asset Manager that certain investment property types are currently being valued lower based broadly on sentiment rather than transactional evidence. I believe it is important to distinguish that despite the valuation change in the fair value of the portfolio which is accounted for as a 'loss', the rental income that supports our ability to pay dividends remains in sound health and its collection is being well managed by the Asset Manager. Though we must treat the coming period with some necessary caution, I am confident the diversity of our rental income will prove its resilience and underpin our valuation as we emerge from this difficult period.

During the period, the Group generated EPRA earnings of £11.0m (six months to 30 June 2019: £14.2m), or 2.6 pence per share ("pps") (six months to 30 June 2019: 3.8pps). The decrease was in part due to increased costs associated with the drawdown of the available borrowing facility headroom. Given the challenging environment, the Board has adopted a conservative approach and continues to hold more cash than it would normally, which together with vacant space, impacts on current income.

Net borrowings were maintained in line with our target level of 40% and as at 30 June 2020 were 39.7% of gross investment in properties (31 December 2019: 38.9%). During the period, the Group drew down £30.7m of available borrowing headroom to further strengthen the balance sheet. The Company's cash balance as at 30 June 2020 was £67.9m (31 December 2019: £37.2m). The weighted average cost of debt reduced from 3.5% at 31 December 2019 to 3.4% as at 30 June 2020, with a weighted average debt to maturity of 6.8 years. Currently, c.69% of the Group's debt is fixed and the balance hedged.

<sup>1</sup> Quarterly rental invoices included contractual rent for the preceding quarter.

## Chairman's Statement continued

We are confident that the actions taken by the Asset Manager over the preceding years have resulted in a highly diversified and resilient portfolio as well as ensuring an in-depth understanding of our occupiers' needs. The strong balance sheet leaves us well positioned to navigate risks as future events unfold, whilst sufficiently flexible to unlock the value in our portfolio by continuing to execute our proven business model.

### Dividends

The Board declared a dividend of 1.50pps for the period 1 April 2020 to 30 June 2020 (1 April 2019 to 30 June 2019: 1.90pps), reflecting the resilient tenant base. A total dividend of 3.40pps (six months to 30 June 2019: 3.80pps) has been declared for the period. For the remainder of the financial year, the Board is aiming to maintain the dividend at the level declared for the period 1 April to 30 June 2020.

### Performance

The EPRA Total Accounting Return since Listing in 2015 has amounted to 37.3% and an annualised EPRA Total Accounting Return of 7.0%.

Since Listing and to the end of the period, the Total Shareholder Return was (0.1%), compared to the FTSE EPRA NAREIT UK Index, which has generated a return of (14.6%) over the same period. Over the reporting period, the Company's Total Shareholder Return was (34.3%), versus the return of (24.1%) for the FTSE EPRA NAREIT UK Index over the same period.

### Subsequent Events

There have been no subsequent events since 30 June 2020.

### Outlook

The last six months have proved the underlying strength and resilience of the business model, encompassing a highly diversified portfolio of both properties and occupiers managed by an experienced and fully integrated Asset Manager, focused upon delivering vibrant spaces with terms occupiers require in both the short and long term.

We remain mindful of the challenges the remainder of 2020 will bring, including the economic impact of the pandemic, which are likely to be exacerbated by BREXIT uncertainty. However, the Group's focus remains the same: to concentrate on our occupiers' needs and execute the individual property asset management plans, to deliver both income and capital returns for our shareholders in the long term, and take advantage of opportunities as they arise.

**Kevin McGrath**  
Chairman

16 September 2020



Property Name: 2 Lochside Avenue, Edinburgh Park, Edinburgh  
Sector: Office





## Asset and Investment Managers' Report

*"In very difficult circumstances, the Company has performed well during the first half of the year, delivering high levels of rent collection, stable earnings and uninterrupted quarterly dividends to shareholders despite Covid-19 creating a challenging backdrop for UK commercial property.*

*I am very pleased to add that notwithstanding the current economic uncertainty, the Company's rent collection remained strong with 97.6% of the rent invoiced for the period ended 30 June 2020 having been collected as at 11 September 2020. This comprised 94.1% of occupiers which have paid rent, 0.4% which have agreed to pay monthly and collection plans agreed with occupiers amounting to a further 3.1%. This is encouraging, especially in view of the current Government restrictions on landlord remedies to enforce rent collection. Our rent collection remained strong, particularly in comparison with our peer group, mainly due to the quality of our occupiers across the portfolio and the effectiveness of the integrated management platform that we, the Asset Manager, provide within a single organisation. I would like to take this opportunity to thank my colleagues at London & Scottish for their efforts over the lockdown period.*



*The Company has taken a prudent approach to cash management and is accordingly maintaining a higher cash position, which usually would have been invested in income producing assets. Thus, as previously stated, total income is down but we continue to believe that this is the appropriate approach. The Company continues to manage the LTV to a level around 40%.*

*During the first half of 2020, the Company completed 21 new lettings, totalling 155,636 sq. ft. When fully occupied, these will provide an additional gross rental income of c. £1.1m. Clearly, given social distancing rules and the lockdown, viewings and therefore potential lettings of vacant space has slowed considerably and we anticipate a pick-up in activity over the coming months as more and more companies return to the office. However, the immediate future remains an unknown entity and our view is that companies may well take a 'wait and see' stance before making any major decisions on occupational requirements.*

*Whilst our performance during the first half of the year provides reassurance, with the UK experiencing the sharpest reduction in GDP since the 1970s, we believe it is appropriate to continue to maintain a cautious approach in the long-term interest of shareholders, while delivering the highest possible level of quarterly income."*

### **Stephen Inglis**

Chief Executive Officer of London & Scottish Property Investment Management Limited  
Asset Manager



## Asset and Investment Managers' Report continued

### Asset Management Update

#### Investment Activity in the UK Commercial Property Market

Investment in the UK commercial property market reached £49.3bn in 2019, according to research from Lambert Smith Hampton ("LSH"). This has been followed by a progressive slowdown in the general level of investment activity during the first half of 2020, which can largely be attributed to the COVID-19 pandemic. The most recent data from LSH shows that investment in UK commercial property slowed to the lowest quarterly figure over the last twenty years at £3.6bn in Q2 2020, 72% below the £12.9bn recorded in Q1 2020 and 73% below the five-year average. Consequently, this resulted in weak overall investment in the first half of 2020 relative to trend. At £16.5bn, volumes in the first half of 2020 were 18% below the same period in 2019<sup>1</sup>. Colliers International estimates that £2.0bn was invested in UK commercial property in July 2020. Although this is in line with June 2020 figures, it is 60% below the corresponding volume for June 2019 (£5.6bn)<sup>2</sup>. The £2.0bn transacted in July brings total investment in 2020 to £20.2bn, down from £25.8bn during the same period in 2019. Savills latest research highlights that COVID-19 has led to a delay in vendors bringing assets to market but suggests that there is still considerable demand from investors. As a result, Savills anticipate that competitive pricing and a strong buyer pool will result in increased activity in Q3 as assets are brought to market<sup>3</sup>.

Although overseas investors remain the largest buyers of UK real estate in Q2 2020, overseas investment in the UK property markets fell to £1.5bn in Q2 2020, 77% below the five-year average, according to data from LSH<sup>4</sup>. The lower level of capital inflows from international investors is in line with the overall reduction in UK commercial property investment. Far East investment accounted for the largest proportion of overseas investment at £347m. This was followed by North American investors, with £342m.

Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior returns of 3.0% in the 12 months ended June 2020, in comparison to central London office total returns of 2.7% – a trend that has been witnessed over the last four years.

#### Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across the Big Nine regional office markets<sup>5</sup> in Q2 2020 reached 0.8m sq. ft., bringing the half year total to 2.7bn sq. ft. – 38% below the same period in 2019<sup>6</sup>. Despite the fall in take-up, CBRE research suggests that Q2 is likely to be a low point in 2020 and anticipate that Q3 will mark the beginning of a gradual recovery<sup>7</sup>. Similarly, take-up has declined year-on-year in the London office market in the first half of 2020, with take-up also down 38% from 5.7m sq. ft. in the first half 2019 to 3.5m sq. ft. during the same period in 2020.

According to Cushman & Wakefield, strong occupational demand came from the public sector, accounting for the highest proportion of take-up of all regional offices at 37% in Q2 2020. Following the public sector, IT & technology and banking & finance accounted for the second and third largest proportion of take-up in the regional cities, accounting for 14% and 13% respectively.

According to Savills, demand for regional office stock led to a decline in availability, with total available office supply in the UK regional markets falling by 17% to 11.3m sq. ft.. Furthermore, it is estimated that approximately 5m sq. ft. of office space is currently under construction in the Big Nine regional markets, with Manchester, Birmingham and Glasgow accounting for 36%, 23% and 12%, respectively. However, over half of office buildings currently under construction are already pre-let. Therefore, the supply pipeline is likely to remain constrained, which in turn will help the regional office market absorb increases in grey space returning to the market.

<sup>1</sup> Lambert Smith Hampton, UKIT, Q2 2020

<sup>2</sup> Colliers International, Property Snapshot, August 2020

<sup>3</sup> Savills, Market in Minutes, August 2020

<sup>4</sup> Lambert Smith Hampton, UKIT, Q2 2020

<sup>5</sup> Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Newcastle.

<sup>6</sup> Avison Young, Q2 2020, The Big Nine.

<sup>7</sup> CBRE, UK Office Snapshot, Q2 2020



## Asset and Investment Managers' Report continued

### Rental Growth in the UK Regional Office Market

The CBRE Monthly Index shows that rental value growth for the rest of UK office markets in the 12 months ended June 2020 was 1.5%, marginally higher than growth of 1.4% recorded for the same period in 2019. Colliers International expects regional central business districts (CBDs) to experience rental growth beyond the COVID-19 impact<sup>8</sup>.

Although research suggests that some grey space has returned to the office market, the supply pipeline remains constrained. Avison Young estimate that net effective rents have increased by 3.4% year-on-year to £26.41 per sq. ft. in Q2 2020 despite an increase in rent free incentives to compensate for delayed decision making by occupiers as a result of COVID-19 uncertainty.

### Regional REIT's Office Assets

EPRA occupancy of the Group's regional offices increased to 88.4% (30 June 2019: 85.8%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, 30 June 2020 versus 30 June 2019, shows that occupancy increased to 87.6% (30 June 2019: 86.1%). WAULT to first break was 2.8 years (30 June 2019: 3.0 years; 31 December 2019: 3.0 years); like-for-like WAULT to first break was 2.8 years (30 June 2019: 2.8 years; 31 December 2019: 3.0 years).

### Occupier Demand in the UK Industrial Market

Cushman & Wakefield estimate that take-up in the first half of 2020 totalled 18.9m sq. ft., 19% higher than the same period in 2019 and 12.9% higher than the 10-year average of 16.7m sq. ft.<sup>9</sup>. Take-up in Q1 2020 was 23% lower than the same quarter in 2019 at 5.4m sq. ft. However, demand increased in Q2 2020, reaching 13.4m sq. ft., more than double the level of take-up Q1 2020 and 52.3% higher than the same period in 2019. In addition to the 13.4m sq. ft. recorded in Q2 2020, there was a further 3.5m sq. ft. of short-term deals.

Occupier demand within the industrial market continues to be highly driven by e-commerce as consumers rely on online platforms for non-essential purchases during lockdown. As a result, online sales now account for 33% of total retail sales, a substantial increase from 21% at the beginning of 2020.

The importance of supply chains has been even more prevalent during the pandemic, not only to feed the nation during lockdown but also providing essential services such as allocating and delivering PPE as well as establishing temporary hospitals<sup>10</sup>. BNP Paribas Real Estate predicts that although online sales will fall as shops re-open, lockdown has resulted in a lasting change with regards to e-commerce, particularly with regards to online grocery shopping which was low prior to lockdown<sup>11</sup>.

### Industrial Rental Growth Continues

Research by Colliers illustrates that rents are holding in the first half of 2020, reflecting continued demand coupled with stable supply. BNP Paribas indicates that occupiers are increasing space requirements as online sales increase and the COVID-19 crisis highlights the importance of supply chains.

Data from CBRE Monthly Index shows rental growth of 2.5% in the 12 months to the end of June 2020, indicating that rental growth slowed from 3.5% for the 12 months to the end of June 2019.

### Regional REIT's Industrial Assets

EPRA occupancy of the Group's industrial sites decreased to 91.5% (30 June 2019: 96.0%). A like-for-like comparison of the Group's regional industrial EPRA occupancy, 30 June 2020 versus 30 June 2019, shows that occupancy decreased to 91.2% (30 June 2019: 96.8%). This reduction in occupancy can largely be attributed to space at Mayne House, Juniper Park, Basildon becoming vacant. As expected, the tenant vacated in February 2020 after exercising a valid break notice. Mayne House presents well, and we are currently exploring the opportunity to convert part of the space (following refurbishment) and re-let as smaller suites to fit the local demand profile.

WAULT to first break was 5.7 years (30 June 2019: 5.9 years; 31 December 2019: 5.8 years); like-for-like WAULT to first break was 5.7 years (30 June 2019: 5.9 years; 31 December 2019: 5.7 years).

<sup>8</sup> Colliers International, August 2020, United Kingdom Property Snapshot.

<sup>9</sup> Cushman & Wakefield, Q2 2020, United Kingdom Industrial Market Snapshot.

<sup>10</sup> Savills, UK Big Shed Briefing, July 2020

<sup>11</sup> BNP Paribas Real Estate, Industrial and Logistics Insider, Q2 2020

## Asset and Investment Managers' Report continued

### PROPERTY PORTFOLIO

As at 30 June 2020, the Group's property portfolio was valued at £742.3m (30 June 2019: £721.7m; 31 December 2019: £787.9m), with rent roll of £62.9m (30 June 2019: £57.8m; 31 December 2019: £64.3m), and an EPRA occupancy rate of 89.0% (30 June 2019: 87.5%; 31 December 2019: 89.4%). On a like-for-like basis, 30 June 2020 versus 30 June 2019 EPRA occupancy was 88.3% (30 June 2019: 87.7%).

There were 151 properties (30 June 2019: 149; 31 December 2019: 160), in the portfolio, with 1,249 units (30 June 2019: 1,178; 31 December 2019: 1,251) and 876 tenants (30 June 2019: 828; 31 December 2019: 904). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £75.2m per annum (30 June 2019: £71.4m; 31 December 2019: £77.2m).

As at 30 June 2020, the net initial yield on the portfolio was 6.4% (30 June 2019: 6.1%; 31 December 2019: 6.2%), the equivalent yield was 8.7% (30 June 2019: 8.3%; 31 December 2019: 8.3%) and the reversionary yield was 9.2% (30 June 2019: 9.0%; 31 December 2019: 9.1%).

#### Property Portfolio by Sector

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
											Net initial	Equivalent	Reversionary
Office	112	593.4	79.9	4.5	88.4	2.8	50.2	13.24	61.9	131.35	6.3	8.8	9.4
Industrial	17	105.8	14.3	2.2	91.5	5.7	7.7	4.02	8.6	49.18	5.1	7.4	7.5
Retail	20	32.2	4.3	0.4	92.6	4.2	4.1	10.21	3.9	72.22	10.6	10.6	10.6
Other	2	10.9	1.5	0.1	89.0	15.2	0.9	12.82	0.8	126.70	7.1	8.2	6.7
<b>Total</b>	<b>151</b>	<b>742.3</b>	<b>100.0</b>	<b>7.2</b>	<b>89.0</b>	<b>3.4</b>	<b>62.9</b>	<b>10.18</b>	<b>75.2</b>	<b>103.08</b>	<b>6.4</b>	<b>8.7</b>	<b>9.2</b>

#### Property Portfolio by Region

Location	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Yield (%)		
											Net initial	Equivalent	Reversionary
Scotland	40	131.6	17.7	1.6	86.7	3.7	13.0	9.59	14.8	82.37	7.8	10.0	10.6
South East	32	224.1	30.2	1.6	87.1	2.9	17.1	12.32	20.9	139.24	5.7	7.8	8.4
North East	20	78.6	10.6	0.9	87.5	2.6	7.0	8.74	8.4	84.48	6.0	9.6	10.1
Midlands	27	124.1	16.7	1.3	93.3	3.4	10.9	8.91	12.0	94.85	7.0	8.3	8.7
North West	16	89.3	12.0	1.0	89.3	4.8	6.7	8.36	9.7	88.31	5.1	9.0	9.2
South West	13	76.3	10.3	0.5	93.4	2.8	6.4	15.69	7.6	159.23	6.5	8.4	9.0
Wales	3	18.3	2.5	0.3	87.6	6.1	1.9	8.78	1.9	69.08	8.4	9.4	9.3
<b>Total</b>	<b>151</b>	<b>742.3</b>	<b>100.0</b>	<b>7.2</b>	<b>89.0</b>	<b>3.4</b>	<b>62.9</b>	<b>10.18</b>	<b>75.2</b>	<b>103.08</b>	<b>6.4</b>	<b>8.7</b>	<b>9.2</b>

## Asset and Investment Managers' Report continued

### Top 15 Investments (by market value) as at 30 June 2020

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	EPRA Occupancy (%)	Annualised gross rent (£m)	% of gross rental income	WAULT to first break (years)
Juniper Park, Basildon	Industrial	Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd	31.5	4.2	277,760	85.3	2.0	3.1	2.8
Tay House, Glasgow	Office	Barclays Execution Services Ltd, University of Glasgow	30.2	4.1	156,853	94.2	2.7	4.3	1.9
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd	25.6	3.4	98,359	82.7	1.5	2.4	3.2
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank of Scotland Plc, The Equitable Life Assurance Society, Agria Pet Insurance Ltd	24.3	3.3	140,791	95.7	2.3	3.6	2.9
Hampshire Corporate Park, Eastleigh	Office	Aviva Central Services UK Ltd, National Westminster Bank Plc	19.8	2.7	85,422	99.8	1.5	2.4	3.1
Norfolk House, Birmingham	Office	Secretary of State for Communities & Local Government, Spark44 Ltd	19.5	2.6	114,982	97.4	1.6	2.6	2.1
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	18.9	2.5	73,292	100.0	1.5	2.5	3.1
One & Two Newstead Court, Nottingham	Office	E.ON UK Plc	16.2	2.2	146,262	100.0	1.4	2.3	3.4
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	15.7	2.1	246,209	100.0	1.0	1.6	14.3
Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd, Darwin Loan Solutions Ltd	15.0	2.0	54,959	97.6	0.8	1.3	2.5
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Brush Electrical Machines Ltd, Hill Rom UK Ltd	12.9	1.7	91,034	100.0	1.1	1.7	3.2
Columbus House, Coventry	Office	TUI Northern Europe Ltd	12.1	1.6	53,253	100.0	1.4	2.2	3.5
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd	11.3	1.5	142,512	89.7	1.2	1.9	3.8
Oakland House, Manchester	Office	HSS Hire Service Group Ltd, Please Hold (UK) Ltd, CVS (Commercial Valuers & Surveyors) Ltd	10.8	1.4	160,975	89.9	1.1	1.8	3.4
Kingscourt Leisure Complex, Dundee	Other	Odeon Cinemas Ltd, Jag Leisure (Scotland) Ltd	10.5	1.4	83,780	88.8	0.9	1.4	15.4
<b>Total</b>			<b>274.0</b>	<b>36.9</b>	<b>1,926,443</b>	<b>94.2</b>	<b>22.1</b>	<b>35.1</b>	<b>3.9</b>

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 2020

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	Annualised gross rent (£m)	% of gross rental income
Barclays Execution Services Ltd	Tay House, Glasgow Waterfront Business Park, Fleet	Administrative and support service activities	1.4	108,386	2.2	3.6
Bank Of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury High Street, Dumfries	Banking	2.0	92,978	1.5	2.3
Secretary of State for Communities & Local Government	Bennett House, Hanley Cromwell House, Tritton Road, Lincoln Norfolk House, Birmingham Oakland House, Manchester	Public sector	1.7	115,753	1.4	2.3
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.4	146,262	1.4	2.3
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	3.5	53,253	1.4	2.2
The Scottish Ministers	Calton House, Edinburgh Quadrant House, Dundee Templeton On The Green, Glasgow The Courtyard, Falkirk	Public Sector	2.1	111,076	1.3	2.1
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	14.2	246,209	1.0	1.6
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	2.9	41,285	0.9	1.4
John Menzies Plc	2 Lochside Avenue, Edinburgh	Professional, scientific and technical activities	3.1	43,780	0.9	1.4
The Royal Bank Of Scotland Plc	Cyan Building, Rotherham	Banking	1.0	67,458	0.9	1.4
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	5.3	58,167	0.8	1.3
Aviva Central Services UK Limited	Hampshire Corporate Park, Chilworth House, Eastleigh	Other service activities	4.4	42,612	0.8	1.2
Odeon Cinemas Ltd	Kingscourt Leisure Complex, Dundee	Information and communication	15.3	41,542	0.7	1.2
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Nantyllyn Rd, Swansea Juniper Park, Basildon	Wholesale and retail trade	3.9	75,791	0.7	1.1
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	2.6	87,040	0.6	1.0
<b>Total</b>			<b>3.9</b>	<b>1,331,592</b>	<b>16.6</b>	<b>26.4</b>

Table may not sum due to rounding.

## Asset and Investment Managers' Report continued

### PROPERTY PORTFOLIO SECTOR AND REGION BY VALUATION AND INCOME

#### By Valuation

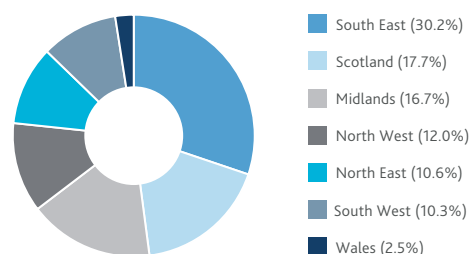
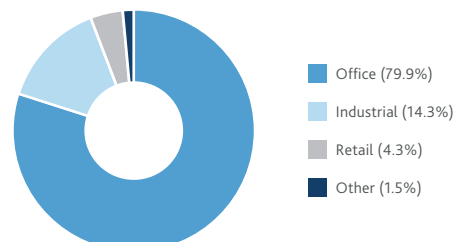


Chart may not sum due to rounding.

#### By Income

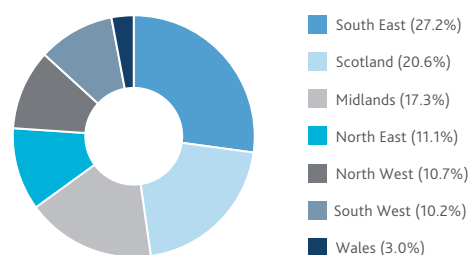
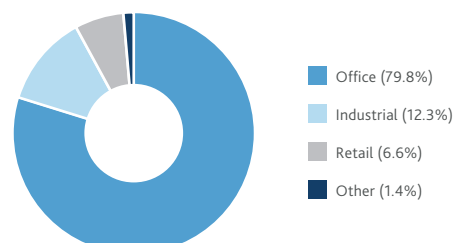


Chart may not sum due to rounding.

#### Lease Expiry Profile

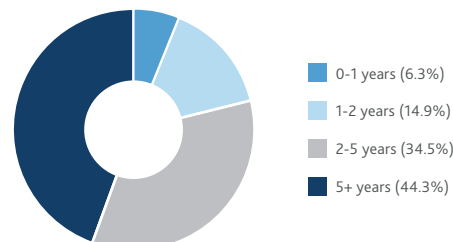


Chart may not sum due to rounding.

#### Tenants by Standard Industrial Classification

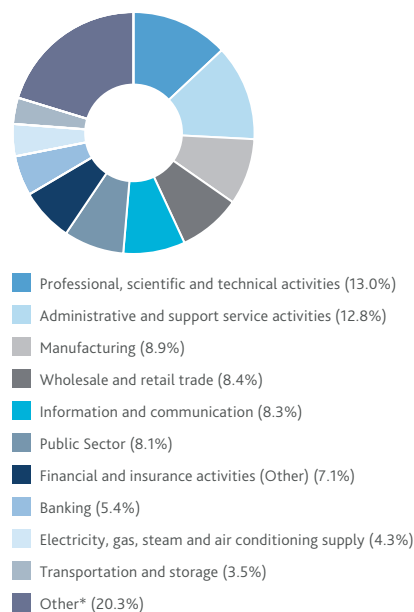


Chart may not sum due to rounding.

No tenant represents more than 4% of the Group's contracted rent roll as at 30 June 2020, the largest being 3.6%.

#### Stephen Inglis

London & Scottish Property Investment Management Limited  
Asset Manager

16 September 2020

\* Other service activities: Not specified, Human Health and Social Work Activities, Real Estate Activities, Education, Construction, Accommodation and Food Service Activities, Arts, Entertainment and Recreation, Water Supply, Sewerage, Waste Management and Remediation Activities, Public Administration and Defence; Compulsory Social Security, Charity, Activities of Extraterritorial Organisations and Bodies, Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles, Mining and Quarrying and Residential.

## Asset and Investment Managers' Report continued

### NET ASSET VALUE

During the period to 30 June 2020, the EPRA NAV\* of the Group decreased to £442.6m (IFRS: £437.6m) from £486.3m (IFRS: £483.7m) as at 31 December 2019, equating to a decrease in the diluted EPRA NAV of 10.1pps to 102.6pps (30 June 2019: 114.3pps; 31 December 2019: 112.7pps). This includes dividends declared in the period amounting to 4.45pps.

The EPRA NAV decrease of circa £43.6m since 31 December 2019 was predominately due to a £33.2m revaluation of the property portfolio held at 30 June 2020, after capital expenditure amounting to £4.5m, the amount of which is yet to be fully captured in the valuation, and a realised loss of £2.0m on the disposal of investment properties.

As at 30 June 2020, the property portfolio was valued at a total of £742.3m (30 June 2019: £721.7m; 31 December 2019: £787.9m). The decrease over the period is a reflection of the aforementioned unrealised downward revaluation from the year end, unrecognised capital expenditure and realised disposal losses. Overall, on a like-for-like basis, the portfolio decreased by 4.3% over the six months.

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

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year ended 31 December 2019 £m
<b>Acquisitions</b>			
Net (after costs)	0.1	20.4	89.9
Gross (before costs)	–	20.0	87.1
<b>Disposals</b>			
Net (after costs)	15.1	19.7	24.3
Gross (before costs)	15.5	20.3	24.9
<b>Capital Expenditure</b>			
Net (after dilapidations)	4.5	3.9	5.8
Gross (before dilapidations)	5.5	5.3	8.0

The diluted EPRA NAV per share decreased to 102.6pps (31 December 2019: 112.7pps) over the period. The EPRA NAV is reconciled in the table below:

	Six months to 30 June 2020 £m	Six months to 30 June 2020 Pence per share
<b>Opening EPRA NAV (31 December 2019)</b>	<b>486.3</b>	<b>112.7</b>
Net rental and property income	24.1	5.6
Administration and other expenses	(5.9)	(1.4)
Loss on the disposal of investment properties	(2.0)	(0.5)
Change in the fair value of investment properties	(33.2)	(7.7)
Change in value of right of use	(0.1)	–
<b>EPRA NAV after operating profit</b>	<b>469.1</b>	<b>108.7</b>
Net finance expense	(7.0)	(1.6)
Impairment of goodwill	(0.3)	(0.1)
Taxation	–	–
<b>EPRA NAV before dividends paid</b>	<b>461.8</b>	<b>107.0</b>
Dividends paid	(19.2)	(4.4)
<b>Closing EPRA NAV (30 June 2020)</b>	<b>442.6</b>	<b>102.6</b>

Tables may not sum due to rounding.

\* EPRA Net Reinstatement Value (EPRA NRV): 30 June 2020: 102.6p (30 June 2019: 114.3p; 31 December 2019: 112.7p). EPRA Net Tangible Asset (EPRA NTA): 30 June 2020: 102.5p (30 June 2019: 114.1p; 31 December 2019: 112.6p).



## Asset and Investment Managers' Report continued

### INCOME STATEMENT

Operating profit before gains and losses on property assets and other investments for the period amounted to £18.1m (six months to 30 June 2019: £20.6m). The Company incurred a loss of £27.0m (six months to 30 June 2019: gain £10.7m) after finance items and before taxation. This reduction is predominately the result of two factors: firstly, a loss on the disposal of investment properties; and secondly, a loss in the fair value of investment properties over the period as a result of the impact of COVID-19 on the property market. The six months to 30 June 2020 included a full rent roll for properties held as at 31 December 2019, plus the partial rent roll for properties disposed of during the period.

Rental and property income amounted to £29.4m, excluding recoverable service charge income and other similar items (six months to 30 June 2019: £29.9m). The decrease was primarily the result of the decrease in the rent roll being held over the six-month period to 30 June 2020.

Currently more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.6m (six months to 30 June 2019: £0.4m).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £5.4m (six months to 30 June 2019: £3.9m), and the rent roll increased to £62.9m (six months to 30 June 2019: £57.8m).

The Company incurred a realised loss on disposal of investment properties of £2.0m (six months to 30 June 2019: gain £1.7m) during the period. These losses were incurred on smaller lot-size vacant properties to mitigate future on-going operating costs. The change in the fair value of investment properties amounted to a loss of £33.2m (six months to 30 June 2019: loss of £2.9m). The change in value of right of use asset amounted to a charge of £0.1m (six months to 30 June 2019: £0.1m).

Finance expenses amount to £7.2m (six months to 30 June 2019: £6.9m). The increase is primarily due to the drawdown of the available borrowing headroom. On 26 March 2020, the Group drew down £30.7m of headroom from the Santander and Royal Bank of Scotland facilities, ensuring ample liquidity.

The EPRA cost ratio, including direct vacancy costs, was 38.4% (six months to 30 June 2019: 31.3%). The increase in the cost ratio is ostensibly a reflection of the increase in non-recoverable property costs. The EPRA cost ratio, excluding direct vacancy costs was 21.4% (six months to 30 June 2019: 20.1%).

The ongoing charges for the period ended 30 June 2020 were 4.9% (30 June 2019: 4.4%).

The EPRA Total Return since Listing to 30 June 2020 was 37.3% (30 June 2019: 40.8%), an annualised rate of 7.0% pa (30 June 2019: 9.8% pa).

### DIVIDEND

During the period to 30 June 2020, the Company declared dividends totalling 4.45pps (2019: 4.40pps). Since the period end, the Company has declared a dividend for the second quarter of 2020 of 1.50pps.

Period covered	Announcement date	Ex-date	Payment date	Pence per share
1 Jan 2020 to 31 Mar 2020	21 May 2020	4 Jun 2020	17 Jul 2020	1.90
1 Apr 2020 to 30 Jun 2020	26 Aug 2020	3 Sep 2020	16 Oct 2020	1.50
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
1 Jul 2019 to 30 Sep 2019	14 Nov 2019	21 Nov 2019	19 Dec 2019	1.90
1 Oct 2019 to 31 Dec 2019	27 Feb 2020	5 Mar 2020	9 Apr 2020	2.55
1 Jan 2018 to 31 Mar 2018	17 May 2018	24 May 2018	13 Jul 2018	1.85
1 Apr 2018 to 30 Jun 2018	31 Aug 2018	13 Sep 2018	15 Oct 2018	1.85
1 Jul 2018 to 30 Sep 2018	15 Nov 2018	22 Nov 2018	21 Dec 2018	1.85
1 Oct 2018 to 31 Dec 2018	21 Feb 2019	28 Feb 2019	11 Apr 2019	2.50

## Asset and Investment Managers' Report continued

### DEBT FINANCING AND GEARING

Borrowings comprise third-party bank debt, which is secured over properties owned by the Group, and repayable over the next four to nine years, with a weighted average maturity of 6.8 years (six months to 30 June 2019: 7.8 years; 31 December 2019: 7.3 years).

The Group's borrowing facilities are with the Royal Bank of Scotland, Scottish Widows Limited & Aviva Investors Real Estate Finance, Scottish Widows Limited and Santander UK. Total bank borrowing facilities at 30 June 2020 amounted to £312.7m (31 December 2019: £294.0m) (before unamortised debt issuance costs), with £9.1m available to be drawn upon. In addition to the bank borrowings, the Group has a £50m 4.5% retail eligible bond which is due for repayment in August 2024. In aggregate, the total debt available at 30 June 2020 amounted to £371.9m (31 December 2019: £371.9m).

During the period, the available borrowing headroom of £30.7m was drawn down on 26 March 2020 from the Santander UK and Royal Bank of Scotland facilities. This was to ensure ample liquidity following the implementation of the Government COVID-19 regulations.

At 30 June 2020, the Group's cash and cash equivalent balances amounted to £67.9m (30 June 2019: £53.8m; 31 December 2019: £37.2m).

The Group's net LTV ratio stands at 39.7% (31 December 2019: 38.9%) before unamortised costs. The Board continues to target a net LTV ratio of 40%, with a maximum limit of 50%.

### DEBT PROFILE AND LOAN-TO-VALUE RATIOS AS AT 30 JUNE 2020

Lender	Original facility £'000	Outstanding debt <sup>1</sup> £'000	Maturity date	Gross Loan-to-Value <sup>2</sup> %	Annual Interest Rate %
The Royal Bank of Scotland	55,000	53,328	Jun 2024	45.2	2.15 over 3 months £ LIBOR
Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	Dec 2027	46.9	3.28 Fixed
Scottish Widows Ltd	36,000	36,000	Dec 2028	41.1	3.37 Fixed
Santander UK	65,870	58,403	Jun 2029	37.0	2.20 over 3 months £ LIBOR
	<u>321,870</u>	<u>312,731</u>			
Retail Bond	50,000	50,000	Aug 2024	N/A	4.50 Fixed
<b>Total</b>	<u>371,870</u>	<u>362,731</u>			

Table may not sum due to rounding.

The Managers continue to monitor the borrowing requirements of the Group. As at 30 June 2020, the Group had substantial headroom against its applicable borrowing covenants.

The net gearing ratio (net debt to Ordinary Shareholders' equity (diluted)) of the Group was 67.4% as at 30 June 2020 (30 June 2019: 67.9%; 31 December 2019: 63.4%).

Interest cover, excluding amortised costs and finance lease interest, stands at 2.9 times (30 June 2019: 3.5 times; 31 December 2019: 3.6 times) and including amortised and finance lease interest costs stands at 2.5 times (30 June 2019: 3.0 times; 31 December 2019: 3.2 times).

<sup>1</sup> Before unamortised debt issue costs

<sup>2</sup> Based on Cushman & Wakefield property valuation

## Asset and Investment Managers' Report continued

### HEDGING

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

	Six months ended 30 June 2020 (%)	Six months ended 30 June 2019* (%)	Year ended 31 December 2019* (%)
<b>Borrowings interest rate hedged</b>	102.5	108.9	108.1
Thereof:			
Fixed	69.2	73.5	73.0
Swap	16.7	17.7	17.6
Cap	16.7	17.7	17.6
WACD <sup>1</sup>	3.4	3.5	3.5
WACD – excluding the ZDPs*	3.4	3.5	3.5

Table may not sum due to rounding

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

### TAX

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

At 30 June 2020, the Group recognised a tax credit of £0.1m, which comprised tax provisions for the year offset by the release of tax previously provided for in prior years, which are now concluded and not payable.

### Toscafund Asset Management LLP

Investment Manager

16 September 2020

<sup>1</sup> Weighted Average Cost of Debt – Weighted Average Effective Interest Rate including the cost of hedging

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



## Directors' Statement of Principal Risks and Uncertainties

Effective risk management is a cornerstone in the delivery of the Company's strategy and integral to the achievement of its objective of delivering long term value through active asset management across a highly diversified portfolio. The principal risks and uncertainties that the Group faces are summarised below and described in detail on pages 50 to 55 of the 2020 Annual Report, which is available on the Group's website at [www.regionalreit.com](http://www.regionalreit.com) – Annual Report 2020. The Audit Committee, which assists the Board with its responsibility for managing risk, considers that there have been no substantial changes to these principal risks. However, several principal risks are currently elevated (as set out in the 2020 Annual Report & Accounts), as a result of Covid-19 restrictions and potential economic uncertainty associated with the UK's departure from the EU.

A summary of the Group's principal risks for the second half of the year is provided below.

### STRATEGIC

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

### COVID-19

The economic disruption resulting from Covid-19 could further impact rental incomes, the valuation of the Group's property portfolio, the ability to access funding at competitive rates, the Company's ability to maintain a dividend and adherence to the HMRC REIT regime requirements, especially if restrictions remain in place for a prolonged period of time. In particular, Government restrictions on the use of landlord remedies may impact the Company's ability to operate as effectively as usual.

### VALUATION

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

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. The run-up to the Brexit transition period at the end of 2020 and the subsequent period is likely to see increased disruption in the UK economy.

### FUNDING

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 interest reference rates maybe set to rise accompanying higher inflation.

### TENANT

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

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

### OPERATIONAL

Business disruption could result in lower rental income.

### ACCOUNTING, LEGAL AND REGULATORY

Changes to accounting, legal and regulatory requirements could affect current operating processes and the Board's ability to achieve the investment objective and provide favourable returns to our Shareholders.

### ENVIRONMENTAL AND ENERGY EFFICIENCY STANDARDS

Changes in the regulatory environment could impact upon the Group's cost base, operations and legal requirements which need to be adhered too. All of these risks could impinge upon the profitability of the Group.

# 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 2019 and are summarised above.

The condensed consolidated financial statements for the period from 1 January 2020 to 30 June 2020 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.

Further detail on the assessment of going concern can be found in note 2.3.

## 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:

- i. 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 loss of the Group;
- ii. 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
- iii. 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 16 September 2020 and the above responsibility statement was signed on its behalf by:

**Kevin McGrath**  
Chairman

16 September 2020



Property Name: Portland Street, Manchester  
Sector: Office





# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
<b>Continuing Operations</b>				
<b>Revenue</b>				
Rental and property income	5	36,964	35,411	75,645
Property costs	6	(12,886)	(9,399)	(20,681)
<b>Net rental and property income</b>		<b>24,078</b>	<b>26,012</b>	<b>54,964</b>
Administrative and other expenses	7	(5,945)	(5,430)	(10,904)
<b>Operating profit before gains and losses on property assets and other investments</b>		<b>18,133</b>	<b>20,582</b>	<b>44,060</b>
(Loss)/gain on disposal of investment properties	13	(1,965)	1,653	1,662
Change in fair value of investment properties	13	(33,218)	(2,883)	(3,513)
Change in fair value of right of use assets		(98)	(105)	(194)
<b>Operating (loss)/profit</b>		<b>(17,148)</b>	<b>19,247</b>	<b>42,015</b>
Finance income	8	80	65	155
Finance expenses	9	(7,117)	(6,860)	(13,880)
Impairment of goodwill	14	(279)	(279)	(557)
Net movement in fair value of derivative financial instruments	17	(2,562)	(1,436)	(1,479)
<b>(Loss)/profit before tax</b>		<b>(27,026)</b>	<b>10,737</b>	<b>26,254</b>
Taxation	10	65	(49)	257
<b>Total comprehensive (loss)/income for the period (attributable to owners of the parent Company)</b>		<b>(26,961)</b>	<b>10,688</b>	<b>26,511</b>

Total comprehensive income arises from continuing operations.

(Losses)/earnings per share – basic and diluted	11	(6.2p)	2.9p	6.6p
---	----	--------	------	------

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

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Investment properties	13	742,300	721,695	787,915
Right of use assets		16,253	15,989	16,351
Goodwill	14	279	836	558
Non-current receivables on tenant loan		1,108	1,274	1,156
		<u>759,940</u>	<u>739,794</u>	<u>805,980</u>
<b>Current assets</b>				
Trade and other receivables		35,973	27,571	32,158
Cash and cash equivalents		67,913	53,834	37,248
		<u>103,886</u>	<u>81,405</u>	<u>69,406</u>
<b>Total assets</b>		<b>863,826</b>	<b>821,199</b>	<b>875,386</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(36,071)	(34,143)	(22,153)
Deferred income		(12,408)	(9,601)	(13,301)
Taxation liabilities		(633)	(968)	(736)
		<u>(49,112)</u>	<u>(44,712)</u>	<u>(36,190)</u>
<b>Non-current liabilities</b>				
Bank and loan borrowings	15	(306,917)	(285,633)	(287,856)
Retail eligible bonds	16	(49,363)	(49,214)	(49,286)
Derivative financial instruments	17	(4,378)	(1,773)	(1,816)
Lease liabilities		(16,491)	(16,068)	(16,510)
		<u>(377,149)</u>	<u>(352,688)</u>	<u>(355,468)</u>
<b>Total liabilities</b>		<b>(426,261)</b>	<b>(397,400)</b>	<b>(391,658)</b>
<b>Net assets</b>		<b>437,565</b>	<b>423,799</b>	<b>483,728</b>
<b>Equity</b>				
Stated capital	18	430,819	370,316	430,819
Retained earnings		6,746	53,483	52,909
<b>Total equity attributable to owners of the parent Company</b>		<b>437,565</b>	<b>423,799</b>	<b>483,728</b>
<b>Net asset value per share – basic and diluted</b>	19	<b>101.4p</b>	<b>113.7p</b>	<b>112.1p</b>

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 2020

		Attributable to owners of the parent company		
	Notes	Stated capital £'000	Retained earnings £'000	Total £'000
For the six months ended 30 June 2020				
Balance at 1 January 2020		430,819	52,909	483,728
Total comprehensive loss		–	(26,961)	(26,961)
Dividends paid	12	–	(19,202)	(19,202)
Balance at 30 June 2020		430,819	6,746	437,565

		Attributable to owners of the parent company		
	Notes	Stated capital £'000	Retained earnings £'000	Total £'000
<b>For the six months ended 30 June 2019</b>				
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

		Attributable to owners of the parent company		
	Notes	Stated capital £'000	Retained earnings £'000	Total £'000
<b>For the year ended 31 December 2019</b>				
Balance at 1 January 2019		370,316	59,199	429,515
Total comprehensive income		–	26,511	26,511
Issue of share capital	18	62,500	–	62,500
Share issue costs	18	(1,997)	–	(1,997)
Dividends paid	12	–	(32,801)	(32,801)
<b>Balance at 31 December 2019</b>		<b>430,819</b>	<b>52,909</b>	<b>483,728</b>

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 2020

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year before taxation	(27,026)	10,737	26,254
– Change in fair value of investment properties	33,218	2,883	3,513
– Change in fair value of financial derivative instruments	2,562	1,436	1,479
– Loss/(gain) on disposal of investment properties	1,965	(1,653)	(1,662)
– Change in fair value of right of use assets	97	105	194
Impairment of goodwill	279	279	557
Finance income	(80)	(65)	(155)
Finance expenses	7,117	6,860	13,880
Increase in trade and other receivables	(5,244)	(4,898)	(7,881)
Increase/(decrease) in trade and other payables and deferred income	6,754	(5,233)	(10,157)
<b>Cash generated from operations</b>	<b>19,642</b>	<b>10,451</b>	<b>26,022</b>
Finance costs	(6,325)	(6,236)	(12,165)
Payment for the interest portion of the lease liability	(290)	–	(583)
Taxation received/(paid)	32	(844)	(839)
<b>Net cash flow generated from operating activities</b>	<b>13,059</b>	<b>3,371</b>	<b>12,435</b>
<b>Investing activities</b>			
Purchase of investment properties and subsequent expenditure	(4,625)	(4,273)	(49,917)
Sale of investment properties	15,057	19,703	24,294
Interest received	73	76	163
Acquisition of subsidiaries, net of cash acquired	–	(19,769)	(43,943)
<b>Net cash flow generated from/(used in) investing activities</b>	<b>10,505</b>	<b>(4,263)</b>	<b>(69,403)</b>
<b>Financing activities</b>			
Proceeds from the issue of shares	–	–	62,500
Share issue costs	–	–	(1,997)
Dividends paid	(11,516)	(9,741)	(32,534)
Zero Dividend Preference Shareholders repaid	–	(39,879)	(39,879)
Bank borrowings advanced	30,698	20,246	22,911
Bank borrowings repaid	(11,967)	(19,103)	(19,398)
Bank borrowing costs paid	(95)	(1,620)	(2,168)
Bond issue costs paid	–	–	(7)
Lease repayments	(19)	–	(35)
<b>Net cash flow generated from/(used in) financing activities</b>	<b>7,101</b>	<b>(50,097)</b>	<b>(10,607)</b>
<b>Net increase/(decrease) in cash and cash equivalents for the period</b>	<b>30,665</b>	<b>(50,989)</b>	<b>(67,575)</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>37,248</b>	<b>104,823</b>	<b>104,823</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>67,913</b>	<b>53,834</b>	<b>37,248</b>

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

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2020

## 1. Corporate information

The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 comprise the results of the Company and its subsidiaries (together constituting the "Group") and were approved by the Board and authorised for issue on 16 September 2020.

The Company is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (the "Law"). The Company's Ordinary Shares are admitted to, 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 its 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 2020 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 EU.

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 2019, 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 2019 and year ended 31 December 2019 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 2019 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 made an assessment of the Group's ability to continue as a going concern. This assessment included consideration of the current uncertainties created by COVID-19, coupled with the Group's cash resources, borrowing facilities, rental income, acquisition and disposals of investment properties, elective and committed capital expenditure and dividend distributions.

The Group ended the period under review with £67.9m of cash and cash equivalents, of which £50.8m was unrestricted cash. In light of the challenges presented by COVID-19 and to ensure ample liquidity, the Directors decided to draw down available borrowing headroom. On 26 March 2020, the Group drew down £30.7m of available borrowing headroom from the Santander UK and the Royal Bank of Scotland facilities. As a result of the drawdown and combined with repayments, the borrowing facilities increased from £344.0m at 31 December 2019 to £362.7m as at 30 June 2020, with an LTV of 39.7%, based upon the value of Company's investment properties as at 30 June 2020. In respect of the Company's borrowings, the first of its facilities to mature is for £55.0m in June 2024, which is held with the Royal Bank of Scotland.

As at 11 September 2020, the first half 2020 rent collected was 97.6%, only 180bps reduced from the position as at the same date in the first half 2019.



## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 2. Basis of preparation continued

Given the substantial amount of unrestricted cash currently held by the Group and the limited level of committed capital expenditure in the forthcoming 12 months, the Directors are satisfied that the Company has adequate resources to continue in operational existence, for a period no less than 12 months from the date of these Financial Statements.

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

#### 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.

#### 2.5. Leases

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

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. At 30 June 2020, there was £26,407,000 of ground rent committed under these leases (30 June 2019: £25,272,000; 31 December 2019: £50,054,000) and the charge for ground rent for the period ended 30 June 2020 was £309,000 (30 June 2019: £309,000 and for the year 31 December 2018: £618,000).

Under IFRS 16, the Group recognises the right of use asset in the Consolidated Statement of Financial Position and this is valued at fair value as the underlying asset is an Investment Property. The change in fair value is recognised

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

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

The right of use asset and the financial liability were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate used to determine the right of use asset has been determined with consideration to the rate at which the Group would pay on its borrowings to acquire 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%. This single discount rate has been applied across the whole portfolio of leases.

At 30 June 2020, the financial liability was adjusted for the interest as the lease liability is carried at fair value, with amounts recognised within finance costs for movements on the finance liability. The right of use asset was calculated at fair value with the change in fair value charged to the Consolidated Statement of Comprehensive Income. Under the modified retrospective approach in IFRS 16, comparative information is not required to be restated.

### 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.

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 3. Significant accounting judgements, estimates and assumptions continued

#### 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 £742,300,000 (30 June 2019: £721,695,000; 31 December 2019: £787,915,000) 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 requirements of the RICS Valuation – Global Standards which incorporate the International Valuation Standards ("IVS") and the RICS Valuation UK National Supplement (the "RICS Red Book") edition current at the Valuation Date. It follows that the valuations are compliant with "IVS". 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.

In relation to Brexit, the ongoing negotiations with regards to the terms of the UK's exit from the EU has meant that property market remains uncertain, however there is further uncertainty concerning the impact of COVID 19.

Included within the valuation report is the following COVID 19 Material Valuation Uncertainty clause:

*"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted many aspects of daily life and the global economy – with some real estate markets experiencing significantly lower levels of transactional activity and liquidity.*

*As at the valuation date, in the case of those properties expressly highlighted in an Appendix of this report there is a shortage of market evidence for comparison purposes, to inform opinions of value. Our valuation of these properties is therefore reported as being subject*

*to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.*

*For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes, we recommend that you keep the valuations contained within this report under frequent review."*

##### 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 a liability of £4,378,000 (30 June 2019: £1,773,000; 31 December 2019: £1,816,000).

##### 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 £279,000 (30 June 2019: £836,000; 31 December 2019: £558,000).

##### 3.1.4. Dilapidation income

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 3. Significant accounting judgements, estimates and assumptions continued

#### 3.1.5. Operating lease contracts – the group as lessee

The Group holds a number of leases concerning the long-term lease of land. Under IFRS 16, most leased assets are capitalised as "right of use assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. Assumptions and estimates for the calculation of the value of the right of use asset and financial liability are outlined in note 2.5.

#### 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.

##### 3.2.3. Recognition of income

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

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 4. Summary of significant accounting policies

With the exception of new accounting standards listed below, the accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the year ended 31 December 2019 and are expected to be consistently applied for the current year ending 31 December 2020. The changes to the condensed consolidated financial statements arising from accounting standards effective for the first time are noted below:

**Amendments to IFRS 3 'Business Combinations'** (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions.

As detailed in note 2.4, careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the amendments to this standard have not had any impact on the financial statements.

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

### 5. Rental and property income

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Rental income – freehold property	26,407	25,272	53,404
Rental income – long leasehold property	3,033	4,668	10,989
Recoverable service charge income and other similar items	7,524	5,471	11,252
<b>Total</b>	<b>36,964</b>	<b>35,411</b>	<b>75,645</b>

### 6. Property costs

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Other property expenses and irrecoverable costs	5,362	3,928	9,429
Recoverable service charge income and other similar costs	7,524	5,471	11,252
<b>Total</b>	<b>12,886</b>	<b>9,399</b>	<b>20,681</b>

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

Operating lease expenses are now accounted for under IFRS 16 as detailed in note 2.5.

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 7. Administrative and other expenses

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Investment management fees	1,413	1,180	2,356
Property management fees	1,127	1,122	2,280
Asset management fees	1,430	1,180	2,356
Directors' remuneration	125	125	255
Administration fees	296	320	746
Legal and professional fees	823	930	2,107
Marketing and promotion	30	50	96
Other administrative costs (including bad debts)	690	485	657
Bank charges	11	38	51
<b>Total</b>	<b>5,945</b>	<b>5,430</b>	<b>10,904</b>

### 8. Finance income

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Interest income	80	65	155
<b>Total</b>	<b>80</b>	<b>65</b>	<b>155</b>

### 9. Finance expenses

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Interest payable on bank borrowings	5,208	4,820	9,904
Accrued capital entitlement on ZDP Shares	–	60	60
Amortisation of loan arrangement fees	425	510	912
Amortisation of ZDP Share acquisition costs	–	3	3
Bond interest	1,113	1,106	2,250
Bond issue costs amortised	77	78	157
Bond expenses	4	–	11
Lease interest	290	283	583
<b>Total</b>	<b>7,117</b>	<b>6,860</b>	<b>13,880</b>



## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 10. Taxation

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Corporation tax (credit)/charge	(26)	10	(359)
(Decrease)/increase in deferred tax creditor	(39)	39	102
<b>Total</b>	<b>(65)</b>	<b>49</b>	<b>(257)</b>

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.

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 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.

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

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
<b>Calculation of earnings per share</b>			
Net (loss)/profit attributable to Ordinary Shareholders	(26,961)	10,688	26,511
Adjustments to remove:			
Changes in value of investment properties	33,218	2,883	3,513
Changes in fair value of interest rate derivatives and financial assets	2,562	1,436	1,479
Loss/(gain) on disposal of investment property	1,965	(1,653)	(1,662)
Impairment of goodwill	279	279	557
Deferred tax (credit)/charge	(39)	–	102
Income tax charge on disposal profits	–	39	–
Close out costs on borrowings and derivatives	–	487	487
<b>EPRA net profit attributable to Ordinary Shareholders</b>	<b>11,024</b>	<b>14,159</b>	<b>30,987</b>
Add performance fee	–	–	–
<b>Company specific adjusted earnings figure</b>	<b>11,024</b>	<b>14,159</b>	<b>30,987</b>
 Weighted average number of Ordinary Shares	 431,506,583	 327,821,136	 398,867,828
(Losses)/earnings per share – basic and diluted	(6.2p)	2.9p	6.6p
EPRA earnings per share – basic and diluted	2.6p	3.8p	7.8p
Company specific adjusted earnings per share – basic and diluted	2.6p	3.8p	7.8p

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 12. Dividends

	Six months ended 30 June 2020 (unaudited) £'000	Six months ended 30 June 2019 (unaudited) £'000	Year ended 31 December 2019 (audited) £'000
Dividend of 2.55 (2019: 2.50) pence per Ordinary Share for the period 1 October – 31 December	11,004	9,320	9,321
Dividend of 1.90 (2019: 1.90) pence per Ordinary Share for the period 1 January – 31 March	8,198	7,084	7,084
Dividend of nil (2019: 1.90) pence per Ordinary Share for the period 1 April – 30 June	–	–	8,198
Dividend of nil (2019: 1.90) pence per Ordinary Share for the period 1 July – 30 September	–	–	8,198
	<u>19,202</u>	<u>16,404</u>	<u>32,801</u>

On 27 February 2020, the Company declared a dividend of 2.55 pence per share in respect of the period 1 October 2019 to 31 December 2019. The dividend payment was made on 9 April 2020 to Shareholders on the register as at 6 March 2020.

On 21 May 2020, the Company declared a dividend of 1.90 pence per share in respect of the period 1 January 2020 to 31 March 2020. The dividend payment was made on 17 July 2020 to Shareholders on the register as at 5 June 2020.

On 26 August 2020, the Company declared a dividend in respect of the period 1 April 2020 to 30 June 2020 of 1.50 pence per share, which will be paid on 16 October 2020 to Shareholders on the register as at 4 September 2020. 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 valuers have included a materiality uncertainty clause in their valuation report concerning the impact of COVID 19. Please refer to note 3.1.1 for full details.

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 13. Investment properties continued

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
<b>Movement in investment properties for the six months ended 30 June 2020</b>			
Valuation at 1 January 2020	697,908	90,007	787,915
Property additions – acquisitions	83	–	83
Property additions – subsequent expenditure	4,519	23	4,542
Property disposals	(14,793)	(264)	(15,057)
Loss on the disposal of investment properties	(1,714)	(251)	(1,965)
Change in fair value during the period	(26,223)	(6,995)	(33,218)
<b>Valuation at 30 June 2020 (unaudited)</b>	<b>659,780</b>	<b>82,520</b>	<b>742,300</b>

### 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 on the disposal of investment properties	1,653	–	1,653
Change in fair value during the period	(3,582)	699	(2,883)
<b>Valuation at 30 June 2019 (unaudited)</b>	<b>627,437</b>	<b>94,258</b>	<b>721,695</b>

### Movement in investment properties for the year ended 31 December 2019

Valuation at 1 January 2019	625,020	93,355	718,375
Property additions – acquisitions	89,920	–	89,920
Property additions – subsequent expenditure	5,527	238	5,765
Property disposals	(24,003)	(291)	(24,294)
Gain/(loss) on the disposal of investment properties	1,679	(17)	1,662
Change in fair value during the year	(235)	(3,278)	(3,513)
<b>Valuation at 31 December 2019 (audited)</b>	<b>697,908</b>	<b>90,007</b>	<b>787,915</b>

The historic cost of the properties was £739,576,000 (30 June 2019: £682,011,000, 31 December 2019: £751,638,000).

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 13. Investment properties continued

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 2020	742,300	–	–	742,300
30 June 2019	721,695	–	–	721,695
31 December 2019	787,915	–	–	787,915

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, 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 2020, 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 fair 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: £9,000 – £3,092,291 per annum (30 June 2019: £6,000 – £3,100,291 per annum; 31 December 2019: £6,000 – £3,092,291 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% – 23.90%; (30 June 2019: 0% – 26.91%; 31 December 2019: 0.00% to 28.70%)).

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.



## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 14. Goodwill

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
At start of period	558	1,115	1,115
Impairment	(279)	(279)	(557)
At end of period	279	836	558

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.

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 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 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Bank borrowings drawn at start of period</b>	<b>294,000</b>	<b>290,487</b>	<b>290,487</b>
Bank borrowings drawn	30,698	20,246	22,911
Bank borrowings repaid	(11,967)	(19,103)	(19,398)
<b>Bank borrowings drawn at end of period</b>	<b>312,731</b>	<b>291,630</b>	<b>294,000</b>
Less: unamortised costs at start of period	(6,144)	(4,888)	(4,888)
Less: loan issue costs incurred in the period	(95)	(1,620)	(2,168)
Add: loan issue costs amortised in the period	425	511	912
<b>At end of period</b>	<b>306,917</b>	<b>285,633</b>	<b>287,856</b>
<b>Maturity of bank borrowings</b>			
Repayable within 1 year	–	–	–
Repayable between 1 to 2 years	–	–	–
Repayable between 2 to 5 years	53,328	45,919	48,584
Repayable after more than 5 years	259,403	245,711	245,416
Amortised loan issue costs	(5,814)	(5,997)	(6,144)
	<b>306,917</b>	<b>285,633</b>	<b>287,856</b>

The table below lists the Group's borrowings.

Lender	Original facility £'000	Outstanding debt <sup>1</sup> £'000	Maturity date	Gross loan to value <sup>2</sup> %	Annual interest rate %	Amortisation
Royal Bank of Scotland	55,000	53,328	June 2024	45.2%	2.15% over 3 months £ LIBOR	Mandatory prepayment
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	46.9%	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	December 2028	41.1%	3.37% Fixed	None
Santander UK	65,870	58,403	June 2029	37.0%	2.20% over 3 months £ LIBOR	Mandatory prepayment
<b>Total bank borrowings</b>	<b>321,870</b>	<b>312,731</b>				
Retail eligible bond	50,000	50,000	August 2024	n/a	4.50 Fixed	None
<b>Total</b>	<b>371,870</b>	<b>362,731</b>				

LIBOR = London Interbank Offered Rate (Sterling)

<sup>1</sup> Before unamortised debt issue costs

<sup>2</sup> Based upon Cushman & Wakefield property valuations

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 15. Bank and loan borrowings continued

The weighted average term to maturity of the Group's debt at the period end was 6.8 years (30 June 2019: 7.8 years; 31 December 2019: 7.3 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.2% per annum (30 June 2019: 3.4% per annum; 31 December 2019: 3.4% 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 to rent 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.

### 16. Retail Eligible Bonds

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

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Principal at start of period	50,000	50,000	50,000
Unamortised issue costs at start of period	(714)	(864)	(864)
Issue costs	–	–	(7)
Amortisation of issue costs	77	78	157
<b>Fair value at end of period</b>	<b>49,363</b>	<b>49,214</b>	<b>49,286</b>

### 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 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Fair value at start of period	(1,816)	(337)	(337)
Revaluation in the period	(2,562)	(1,436)	(1,479)
<b>Fair value at end of period</b>	<b>(4,378)</b>	<b>(1,773)</b>	<b>(1,816)</b>

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 17. Derivative financial instruments continued

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	Original facility £'000	Outstanding debt £'000	Maturity date	Annual interest rate %	Notional amount £'000	Rate %
Royal Bank of Scotland	55,000	53,328	June 2024	2.15% over 3 months £ LIBOR	swap £27,500 cap £27,500	1.26 1.26
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	3.28% Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	December 2028	3.37% Fixed	n/a	n/a
Santander UK	65,870	58,403	June 2029	2.20% over 3 months £ LIBOR	swap £32,935 cap £32,935	1.80 1.80
<b>Total</b>	<b>321,870</b>	<b>312,731</b>				

LIBOR = London Interbank Offered Rate (Sterling)

As at 30 June 2020, the swap notional arrangements were £60.4m (30 June 2019: £60.5m; 31 December 2019: £60.5m).

The Group weighted average cost of debt of 3.4%, (30 June 2019: 3.5%; 31 December 2019: 3.5%) is inclusive of hedging costs.

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 102.9% (30 June 2019: 110.4%; 31 December 2019: 109.5%), as shown below.

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Total bank borrowings	312,731	291,630	294,000
Notional value of interest rate caps and swaps	120,870	121,000	121,000
Value of fixed rate debts	201,000	201,000	201,000
	<b>321,870</b>	<b>322,000</b>	<b>322,000</b>
Proportion of hedged debt	<b>102.9%</b>	<b>110.4%</b>	<b>109.5%</b>

#### 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.



## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 17. Derivative financial instruments continued

- 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
<b>30 June 2020</b>	(4,378)	–	(4,378)	–
30 June 2019	(1,773)	–	(1,773)	–
31 December 2019	(1,816)	–	(1,816)	–

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.

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Issued and fully paid shares of no par value</b>			
At start of the period	430,819	370,316	370,316
Shares issued 23 July 2019	–	–	62,500
Share issue costs	–	–	(1,997)
<b>At end of the period</b>	<b>430,819</b>	<b>370,316</b>	<b>430,819</b>
<b>Number of shares in issue</b>			
At start of the period	431,506,583	372,821,136	372,821,136
Shares issued 23 July 2019	–	–	58,685,447
<b>At end of the period</b>	<b>431,506,583</b>	<b>372,821,136</b>	<b>431,506,583</b>

### 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.

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 19. Net asset value per share (NAV) continued

EPRA net asset value 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 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Net asset value per Condensed Consolidated Statement of Financial Position	437,565	423,799	483,728
Adjustment for calculating EPRA net replacement value			
Derivative financial instruments	4,378	1,773	1,816
Deferred tax liability	698	673	736
<b>EPRA net asset value</b>	<b>442,641</b>	<b>426,245</b>	<b>486,280</b>
Number of Ordinary Shares in issue	431,506,583	372,821,136	431,506,583
Net asset value per share – basic and diluted	101.4p	113.7p	112.1p
EPRA net asset value per share – basic and diluted	102.6p	114.3p	112.7p

New EPRA NAV performance metrics have recently been introduced. These are disclosed in the table of EPRA performance measures in appendix on page 43. The table above refers to the old EPRA NAV measure which is used in the calculation of fees as disclosed in note 21.

### 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

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 ("LSPIM") and a director of London & Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

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

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

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 21. Transactions with related parties continued

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:

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Asset management fees charged <sup>1</sup>	1,430	1,180	2,356
Property management fees charged <sup>1</sup>	1,127	1,122	2,280
Performance fee	–	–	–
<b>Total</b>	<b>2,557</b>	<b>2,302</b>	<b>4,636</b>

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Total fees outstanding<sup>1</sup></b>	<b>1,347</b>	<b>870</b>	<b>1,275</b>

<sup>1</sup> 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:

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
Investment management fees charged	1,413	1,180	2,356
Performance fee	–	–	–
<b>Total</b>	<b>1,413</b>	<b>1,180</b>	<b>2,356</b>

	30 June 2020 (unaudited) £'000	30 June 2019 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Total fees outstanding</b>	<b>665</b>	<b>590</b>	<b>591</b>

## Notes to the Consolidated Financial Statements continued

For the six months ended 30 June 2020

### 21. Transactions with related parties continued

#### 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 fees are now 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 2020 and assuming the annual hurdle rate of return is exceeded on average over the remainder of the period to 31 December 2020, the performance fee liability for the period from 1 January 2020 to 30 June 2020 was estimated at £nil (1 January 2019 to 30 June 2019: £nil; 1 January 2019 to 31 December 2019: £nil).

### 22. Subsequent events

There have been no subsequent events between the period end and the release of this report.

## 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 2020	31 December 2019
EPRA Earnings	Earnings from operational activities	EPRA Earnings	£11,024,000	£30,987,000
		EPRA Earnings per share (basic and diluted)	2.6p	7.8p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings	£11,024,000	£30,987,000
		EPRA Earnings per share (basic and diluted)	2.6p	7.8p
EPRA Net Reinstatement Value	This EPRA Net Asset Value Measure assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	EPRA Net Reinstatement Value	£442,641,000	£486,280,000
		EPRA NRV per share (diluted)	102.6p	112.7p
EPRA Net Tangible Assets	This EPRA Net Asset Value Measure assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	EPRA Net Tangible Assets	£442,362,000	£485,722,000
		EPRA NTA per share (diluted)	102.5p	112.6p
EPRA Net Disposal Value	This EPRA Net Asset Value Measure represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	EPRA Net Disposal Value	£425,504,000	£475,135,000
		EPRA NDV per share (diluted)	98.6p	109.7p
EPRA Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property with (estimated) purchasers' costs	EPRA Net Initial Yield	6.4%	6.2%
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	7.0%	6.9%
EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio	EPRA Vacancy Rate	11.0%	10.6%
EPRA Costs Ratio	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income	EPRA Costs Ratio	36.3%	31.6%
		EPRA Costs Ratio (excluding direct vacancy costs)	21.4%	18.7%



## Notes to the Calculation of EPRA Performance Measures

### 1. EPRA earnings

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

### 2. EPRA Net Reinstatement Value

	30 June 2020 £'000	31 December 2019 £'000
NAV per the financial statements	437,565	483,728
Fair value of derivative financial instruments	4,378	1,816
Deferred tax liability	698	736
<b>EPRA NRV</b>	<b>442,641</b>	<b>486,280</b>
Dilutive number of shares	431,506,583	431,506,583
<b>EPRA NRV per share</b>	<b>102.6p</b>	<b>112.7p</b>

### 3. EPRA Net Tangible Assets

	30 June 2020 £'000	31 December 2019 £'000
NAV per the financial statements	437,565	483,728
Fair value of derivative financial instruments	4,378	1,816
Deferred tax liability	698	736
Goodwill	(279)	(558)
<b>EPRA NTA</b>	<b>442,362</b>	<b>485,722</b>
Dilutive number of shares	431,506,583	431,506,583
<b>EPRA NTA per share</b>	<b>102.5p</b>	<b>112.6p</b>

### 4. EPRA Net Disposal Value

	30 June 2020 £'000	31 December 2019 £'000
NAV per the financial statements	437,565	483,728
Fair value of bank borrowings	(16,432)	(7,019)
Fair value of retail eligible bonds	4,650	(2,574)
Goodwill	(279)	(558)
<b>EPRA NDV</b>	<b>425,504</b>	<b>473,577</b>
Dilutive number of shares	431,506,583	431,506,583
<b>EPRA NDV per share</b>	<b>98.6p</b>	<b>109.7p</b>

## Notes to the Calculation of EPRA Performance Measures continued

### 5. EPRA Net Initial Yield

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

	30 June 2020 £'000	31 December 2019 £'000
<b>Investment properties</b>	<b>742,300</b>	<b>787,915</b>
Annualised cash passing rental income	56,531	57,067
Property outgoings	4,537	5,104
Annualised net rents	51,994	51,962
Add notional rent expiration of rent free periods or other lease incentives	5,526	6,157
Topped-up net annualised rent	57,520	58,119
<b>EPRA NIY</b>	<b>6.4%</b>	<b>6.2%</b>
<b>EPRA topped up NIY</b>	<b>7.0%</b>	<b>6.9%</b>

### 6. EPRA Vacancy Rate

	30 June 2020 £'000	31 December 2019 £'000
Estimated Market Rental Value (ERV) of vacant space	7,915	7,853
Estimated Market Rental Value (ERV) of whole portfolio	71,692	73,897
<b>EPRA Vacancy Rate</b>	<b>11.0%</b>	<b>10.6%</b>

### 7. EPRA Cost Ratios

	30 June 2020 £'000	31 December 2019 £'000
Property costs	12,886	20,681
Less recoverable service charge income and other similar costs	(7,524)	(11,252)
Add administrative and other expenses	5,945	10,904
<b>EPRA costs (including direct vacancy costs)</b>	<b>11,307</b>	<b>20,333</b>
Direct vacancy costs	(5,006)	(8,312)
<b>EPRA costs (excluding direct vacancy costs)</b>	<b>6,301</b>	<b>12,021</b>
Gross rental income	36,964	75,645
Less recoverable service charge income and other similar items	(7,524)	(11,252)
<b>Gross rental income less ground rents</b>	<b>29,440</b>	<b>64,393</b>

## Notes to the Calculation of EPRA Performance Measures continued

### 7. EPRA Cost Ratios continued

	30 June 2020	31 December 2019
EPRA Cost Ratio (including direct vacancy costs)	38.4%	31.6%
EPRA Cost Ratio (excluding direct vacancy costs)	21.4%	18.7%

## Property Related Capital Expenditure Analysis

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

	30 June 2020 £'000	31 December 2019 £'000
Acquisitions	83	89,920
Subsequent capital expenditure	4,542	5,765
<b>Total capital expenditure</b>	<b>4,625</b>	<b>95,685</b>

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.





Property Name: 800 Aztec West, Bristol  
Sector: Office



## 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 Group.

In the event of queries regarding your holding, please contact the Registrar on 0371 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 [shareholdersenquiries@linkgroup.co.uk](mailto:shareholdersenquiries@linkgroup.co.uk).

Changes of names and/or address must be notified in writing to the Registrar:

Link Group  
Shareholder Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### FORTHCOMING EVENTS

<b>October 2020</b>	Payment of Q2 2020 Dividend
<b>November 2020</b>	Q3 2020 Trading Update and Dividend Declaration Announcement
<b>March 2021</b>	Full year 2020 Preliminary Results Announcement Q4 2020 Dividend Declaration Announcement and Portfolio Valuation
<b>May 2021</b>	Q1 2021 Trading Update and Dividend Declaration Announcement Annual General Meeting

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

### WEBSITE

The Company's website is located at: [www.regionalreit.com](http://www.regionalreit.com)

### OTHER INFORMATION

<b>Listing (ticker)</b>	LSE Main Market (RGL)
<b>Date of Listing</b>	6 November 2015
<b>Shares in issue</b>	431.5m
<b>Joint Broker</b>	Peel Hunt LLP and Panmure Gordon (UK) Limited
<b>Financial PR</b>	Buchanan Communications
<b>Incorporated</b>	Guernsey
<b>ISIN</b>	GG00BYV2ZQ34
<b>SEDOL</b>	BYV2ZQ3
<b>Legal Entity Identifier</b>	549300D8G4NKLRIKBX73

### ELECTRONIC COMMUNICATIONS FROM THE COMPANY

Shareholders now have the opportunity to be notified by email when the Company's annual reports, interim reports and other formal communications are available on the Company's website, instead of receiving printed copies by post. This has environmental benefits in the reduction of paper, printing, energy and water usage, as well as reducing costs to the Company. If you have not already elected to receive electronic communications from the Company and wish to do so, visit [www.signalshares.com](http://www.signalshares.com). To register, you will need your investor code, which can be found on your share certificate.

Alternatively, you can contact Link's Customer Support Centre, which is available to answer any queries you have in relation to your shareholding:

By phone: call +44 (0)371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday (excluding public holidays in England and Wales).

By email: [shareholder.enquiries@linkgroup.co.uk](mailto:shareholder.enquiries@linkgroup.co.uk)

By post: Link Group, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, UK



## Glossary of Terms

**AIC** – Association of Investment Companies. A trade body for closed-end investment companies ([www.theaic.co.uk](http://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.

**Asset Manager** – London & Scottish Property Investment Management Limited.

**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 52.

**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 Net Reinstatement Value (EPRA NRV)** – EPRA NAV metric which assumes that entities never sell assets and aims to represent the value required to rebuild the entity.

**EPRA Net Tangible Assets (EPRA NTA)** – EPRA NAV metric which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

**EPRA Net Disposal Value (EPRA NDV)** – EPRA NAV metric which represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

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

**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 is Cushman & Wakefield.

## Glossary of Terms continued

**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.

**Investment Manager** – Toscafund Asset Management LLP.

**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.

**Listing** – the Company listed on the main market of the London Stock Exchange on 6 November 2015.

**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 Property Investment Management 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.

## Glossary of Terms continued

**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/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 (NINIY)** – (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) or Weighted Average Debt Duration** – 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 Cost of Debt** – 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 Chairman)

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

**Daniel Taylor** (Independent Non-Executive Director)

**Tim Bee** (Non-Executive Director)

**Stephen Inglis** (Non-Executive Director)

### Administrator

**Jupiter Fund Services 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

### Company Secretary

**Link Company Matters Limited**

Beaufort House  
51 New North Road  
Exeter  
Devon EX4 4EP

### Depository

**Ocorian Depository (UK) Limited  
(previously Estera Depository  
(UK) Limited)**

27-28 Eastcastle Street  
London W1W 8DH

### Financial Adviser and Joint Broker

**Peel Hunt LLP**

Moor House  
120 London Wall  
London EC2Y 5ET

### Joint Broker

**Panmure Gordon (UK) Limited**

One New Change  
London EC4M 9AF

### Independent Auditor

**RSM UK Audit LLP**

25 Farringdon Street  
London EC4A 4AB

### Investment Manager

**Toscafund Asset Management LLP**

7th Floor  
90 Long Acre  
London WC2E 9RA

### Legal Adviser to the Company

**Macfarlanes LLP**

20 Cursitor Street  
London EC4A 1LT

### Property Valuers

**Cushman & Wakefield Debenham  
Tie Leung Limited (trading as  
Cushman & Wakefield)**

125 Old Broad Street  
London EC2N 2BQ

### Public Relations

**Buchanan Communications Limited**

107 Cheapside  
London EC2V 6DN

### Registered office

**Regional REIT Limited**

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

### Registrar

**Link Market Services (Guernsey)  
Limited**

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Sub-Administrator

**Link Alternative Fund Administrators  
Limited**

Beaufort House  
51 New North Road  
Exeter  
Devon EX4 4EP

### Tax Adviser

**Grant Thornton UK LLP**

110 Queen Street  
Glasgow G1 3BX



Mont Crevelt House, Bulwer Avenue,  
St. Sampson, Guernsey GY2 4LH  
[www.regionalreit.com](http://www.regionalreit.com)