PROSPECTUS DATED 18 JULY 2018

REGIONAL REIT LIMITED

FIXED INTEREST RATE OF 4.5 PER CENT. PER ANNUM

MATURITY DATE OF 2024

MANAGER

Peel Hunt LLP

AN INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS. YOU SHOULD HAVE REGARD TO THE FACTORS DESCRIBED IN SECTION 2 ("*RISK FACTORS*") OF THIS PROSPECTUS. YOU SHOULD ALSO READ CAREFULLY SECTION 10 ("*IMPORTANT LEGAL INFORMATION*").

IMPORTANT NOTICES

Use of defined terms in this Prospectus

Certain terms or phrases in this Prospectus are defined in bold and subsequent references to that term are designated with initial capital letters. The locations in this Prospectus where these terms are first defined are set out in Appendix 1 of this Prospectus.

About this Prospectus

This Prospectus (the "**Prospectus**") has been prepared in accordance with the Prospectus Rules of the United Kingdom Financial Conduct Authority (the "**FCA**") and relates to the offer by Regional REIT Limited of its sterling denominated 4.5 per cent. bonds due 2024 at 100 per cent. of their principal amount (the "**Bonds**"). The Bonds are transferable, unsecured debt instruments and are to be issued by Regional REIT Limited on 6 August 2018. The principal amount of each Bond (being the amount which is used to calculate payments made on each Bond) is £100. The aggregate principal amount of the Bonds to be issued will be specified in the Sizing Announcement published by the Issuer via a Regulatory Information Service.

This Prospectus contains important information about Regional REIT Limited, the Group (as defined below), the terms of the Bonds and details of how to apply for the Bonds. This Prospectus also describes the risks relevant to Regional REIT Limited and its business, the Group (as defined below) and risks relating to an investment in the Bonds generally. You should read and understand fully the contents of this Prospectus before making any investment decisions relating to the Bonds.

The Issuer is responsible for the information contained in this Prospectus

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In this Prospectus, references to the "**Issuer**" are to Regional REIT Limited, which is the issuer of the Bonds. All references to the "**Group**" are to the Issuer and its subsidiaries taken as a whole. See Section 6 (*Description of the Issuer and the Group*) for further details of the Issuer and the Group.

At the date of this Prospectus, the Issuer has not been assigned a credit rating by any independent credit rating agency and, accordingly, the Bonds have not been assigned a credit rating by any independent credit rating agency.

MiFID II product governance / Retail investors, professional investors and ECPs

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Bonds are appropriate including investment advice, portfolio management, non-advised sales and pure execution services. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation

The Bonds have a fixed rate of interest and the redemption amounts are fixed as described in this Prospectus. Accordingly, no key information document pursuant to Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") has been prepared by the Issuer.

The Bonds are not protected by the Financial Services Compensation Scheme

The Bonds are not protected by the Financial Services Compensation Scheme (the "**FSCS**"). As a result, neither the FSCS nor anyone else will pay compensation to you upon the failure of the Issuer or the Group. If the Issuer or the Group as a whole go out of business or become insolvent, you may lose all or part of your investment in the Bonds.

How to apply

Applications to purchase Bonds cannot be made directly to the Issuer or any other member of the Group. Bonds will be issued to you in accordance with the arrangements in place between you and your stockbroker or other financial intermediary, including as to the application process, allocations, payment and delivery arrangements. You should approach your stockbroker or other financial intermediary to discuss any application arrangements that may be available to you.

After the closing time and date of the offer period, which is expected to be 12.00 (noon) (London time) on 1 August 2018 or such earlier time and date as may be agreed between the Issuer and Peel Hunt LLP (the "**Manager**") and announced via a Regulatory Information Service, no Bonds will be offered for sale (a) by or on behalf of the Issuer or (b) by any of the Authorised Offerors, except with the permission of the Issuer.

See Section 4 (*How to apply for the Bonds*) for more information.

Queries relating to this Prospectus and the Bonds

If you have any questions regarding the content of this Prospectus and/or the Bonds or the actions you should take, you should seek advice from your financial adviser or other professional adviser before deciding to invest.

How do I use this Prospectus?

You should read and understand fully the contents of this Prospectus before making any investment decision in respect of any Bonds. This Prospectus contains important information about the Issuer and other members of the Group, the terms of the Bonds, as well as describing certain risks relating to the Issuer and other members of the Group and their businesses and also other risks relating to an investment in the Bonds generally. An overview of the various sections comprising this Prospectus is set out below.

Section 1 (*Summary*) sets out in tabular format standard information which is arranged under standard headings and which the Issuer is required, for legal and regulatory reasons, to include in a prospectus summary for a prospectus of this type.

Section 2 (*Risk Factors*) describes the principal risks and uncertainties which may affect the ability of the Issuer to fulfil its obligations under the Bonds as well as the risks relating to the Bonds and other risks including those relating to taxation and to the market generally.

Section 3 (*Information about the Bonds*) provides an overview of the Bonds in order to assist the reader.

Section 4 (*How to apply for the Bonds*) provides certain information about how to apply for the Bonds and how the Bonds are allocated.

Section 5 (*Taxation*) provides a brief outline of certain taxation implications and considerations which may be relevant to the Bonds.

Section 6 (*Description of the Issuer and the Group*) provides certain information about the Issuer and the Group, the structure of the Group and the nature of the Group's business.

Section 7 (*Selected Financial Information*) sets out important historical financial information relating to the Issuer and the Group.

Section 8 (*Subscription and Sale*) contains a description of the material provisions of the Subscription Agreement.

Section 9 (*Additional Information*) contains some additional information.

Section 10 (*Important Legal Information*) contains some important legal information regarding the basis on which this Prospectus may be used.

Appendix 1 "*Glossary of Defined Terms and Defined Terms Index*" is set out on page 119.

Appendix 2 "*Terms and Conditions of the Bonds*" sets out the terms and conditions which apply to the Bonds.

Appendix 3 *"Summary of Provisions Relating to the Bonds while in global form in the Clearing Systems"* provides a summary of certain terms of the Global Bond which apply to the Bonds while they are held in global form by the clearing systems, some of which include minor and/or technical modifications to the Terms and Conditions of the Bonds as set out in this Prospectus.

Appendix 4 "*Issuer's annual report and accounts (including consolidated financial statements) for the years ended 31 December 2016 and 31 December 2017*" sets out the Issuer's annual reports and accounts (including the Issuer's consolidated Financial Statements) for the years ended 31 December 2016 and 31 December 2017.

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SUMMARY

SUMMARY

The following is a summary of information relating to the Issuer and the Bonds.

Summaries are made up of disclosure requirements known as 'Elements'. These elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.

	SECTION A – INTRODUCTIONS AND WARNINGS
A.1	This summary must be read as an introduction to this Prospectus (the "**Prospectus**"). Any decision to invest in the Bonds (as defined below) should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the claimant investor might, under the national legislation of the EU Member States, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Bonds.
A.2	Regional REIT Limited (the "**Issuer**") consents to the use of this Prospectus in connection with any public offer of Bonds in the U.K. (a "**Public Offer**") during the period commencing from, and including, 18 July 2018 until 12.00 (noon) (London time) on 1 August 2018 or such earlier time and date as may be agreed between the Issuer and Peel Hunt LLP (the "**Manager**") and announced via a Regulatory Information Service (the "**Offer Period**") by: (i) the Manager; and (ii) any financial intermediary (an "**Authorised Offeror**") which satisfies the Authorised Offeror Terms and other conditions as set out below. The "**Authorised Offeror Terms**" are that the relevant financial intermediary represents and agrees that it: (a) is authorised to make such offers under Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments ("**MiFID**") (in which regard, you should consult the register of authorised entities maintained by the Financial Conduct Authority ("**FCA**") at www.fca.org.uk/firms/systems-reporting/register). MiFID governs the organisation and conduct of the business of investment firms and the operation of regulated markets across the European Economic Area in order to seek to promote cross-border business, market transparency and the protection of investors; (b) acts in accordance with all applicable laws, rules, regulations and guidance of any applicable regulatory bodies (the "**Rules**"), including the Rules published by the FCA (including its guidance for distributors in "The Responsibilities of Providers and Distributors for the Fair Treatment of Customers") from time to time including, without limitation and in each case, Rules relating to both the appropriateness or suitability of any investment in the Bonds by any person and disclosure to any potential investor; (c) complies with the restrictions set out under "*Subscription and Sale*" in this Prospectus which would apply as if it were a Manager and considers the relevant manufacturer's target market assessment and distribution channels identified under the "*MiFID II product governance*"

		legend set out in this Prospectus;
	(d)	ensures that any fee (and any commissions, rebate or benefits of any kind) received or paid by that financial intermediary in relation to the offer or sale of the Bonds does not violate the Rules and is fully and clearly disclosed to investors or potential investors;
	(e)	holds all licences, consents, approvals and permissions required in connection with solicitation of interest in, or offers or sales of, the Bonds under the Rules, including authorisation under the Financial Services and Markets Act 2000 ("**FSMA**") and/or the Financial Services Act 2012;
	(f)	complies with and takes appropriate steps in relation to applicable anti-money laundering, anti-bribery and "know your client" Rules, and does not permit any application for Bonds in circumstances where the financial intermediary has any suspicions as to the source of the application monies;
	(g)	retains investor identification records for at least the minimum period required under applicable Rules, and shall, if so requested and to the extent permitted by the Rules, make such records available to the Manager and the Issuer or directly to the appropriate authorities with jurisdiction over the Issuer and/or the Manager in order to enable the Issuer and/or the Manager to comply with anti-money laundering, anti-bribery and "know your client" Rules applying to the Issuer and/or the Manager;
	(h)	does not, directly or indirectly, cause the Issuer or the Manager to breach any Rule or subject the Issuer or the Manager to any requirement to obtain or make any filing, authorisation or consent in any jurisdiction;
	(i)	agrees and undertakes to indemnify each of the Issuer and the Manager (in each case on behalf of such entity and its respective directors, officers, employees, agents, affiliates and controlling persons) against any losses, liabilities, costs, claims, charges, expenses, actions or demands (including reasonable costs of investigation and any defence raised thereto and counsel's fees and disbursements associated with any such investigation or defence) which any of them may incur or which may be made against any of them arising out of or in relation to, or in connection with, any breach of any of the foregoing agreements, representations or undertakings by such financial intermediary, including (without limitation) any unauthorised action by such financial intermediary or failure by such financial intermediary to observe any of the above restrictions or requirements or the making by such financial intermediary of any unauthorised representation or the giving or use by it of any information which has not been authorised for such purposes by the Issuer or the Manager;
	(j)	will immediately give notice to the Issuer and the Manager if at any time such Authorised Offeror becomes aware or suspects that they are or may be in violation of any Rules or the Authorised Offeror Terms, and will take all appropriate steps to remedy such violation and comply with such Rules and the Authorised Offeror Terms in all respects;
	(k)	will not give any information other than that contained in this Prospectus (as may be amended or supplemented by the Issuer from time to time) or the information booklet prepared by the Issuer and the Manager or make any representation in connection with the offering or sale of, or the solicitation of interest in, the Bonds;
	(l)	agrees that any communication in which it attaches or otherwise includes the Prospectus or any announcement published by the Issuer via a Regulatory Information Service ("**RIS**") at the end of the Offer Period will be consistent with the Prospectus, and (in any case) must be fair, clear and not misleading and in compliance with the Rules and must state that such Authorised Offeror has provided it independently from the Issuer and must expressly confirm that the Issuer does not accept any responsibility for the content of any such communication;

	(m) will not use the legal or publicity name of the Manager, the Issuer (other than to describe such entity as a Manager or the Issuer of the Bonds (as applicable)) or any other name, brand or logo registered by the Issuer or any of its subsidiaries or any material over which any member of the Group (as defined below) retains a proprietary interest or in any statements (oral or written), marketing material or documentation in relation to the Bonds; and (n) agrees and accepts that: (i) the contract between the Issuer and the financial intermediary formed upon acceptance by the financial intermediary of the Issuer's offer to use the Prospectus with its consent in connection with the relevant Public Offer (the "**Authorised Offeror Agreement**"), and any non-contractual obligations arising out of or in connection with the Authorised Offeror Agreement, shall be governed by, and construed in accordance with, English law; (ii) the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Authorised Offeror Agreement (including a dispute relating to any non-contractual obligations arising out of or in connection with the Authorised Offeror Agreement) and accordingly submits to the exclusive jurisdiction of the English courts; and (iii) a Manager will, pursuant to the Contracts (Rights of Third Parties) Act 1999, be entitled to enforce those provisions of the Authorised Offeror Agreement which are, or are expressed to be, for its benefit, including the agreements, representations, undertakings and indemnity given by the financial intermediary pursuant to the Authorised Offeror Terms.
	Any financial intermediary who wishes to use this Prospectus in connection with a Public Offer as set out above is required, for the duration of the Offer Period, to publish on its website that it is using this Prospectus for such Public Offer in accordance with the consent of the Issuer and the conditions attached thereto in the following form (with the information in square brackets completed with the relevant information):
	"*We, [insert legal name of financial intermediary], refer to the 4.5 per cent. sterling denominated Bonds due 2024 of Regional REIT Limited. In consideration of Regional REIT Limited offering to grant its consent to our use of the Prospectus dated 18 July 2018 relating to the Bonds in connection with the offer of the Bonds in the U.K. (the "**Public Offer**") during the Offer Period (as specified in the Prospectus) and subject to the other conditions to such consent, each as specified in the Prospectus, we hereby accept the offer by the Issuer in accordance with the Authorised Offeror Terms (as specified in the Prospectus) and we are using the Prospectus in connection with the Public Offer accordingly*". A Public Offer may be made, subject to the conditions set out above, during the Offer Period by any of the Issuer, the Manager or the other Authorised Offerors. Other than as set out above, neither the Issuer nor the Manager has authorised the making of any Public Offer by any person in any circumstances and such person is not permitted to use this Prospectus in connection with any offer of Bonds. Any such offers are not made on behalf of the Issuer or by the Manager or the other Authorised Offerors and none of the Issuer, the Manager or the other Authorised Offerors has any responsibility or liability for the actions of any person making such offers. Neither the Issuer nor the Manager has any responsibility for any of the actions of any Authorised Offeror (except for the Manager, where they are acting in the capacity of an Authorised Offeror), including compliance by an Authorised Offeror with applicable conduct of business rules or other local regulatory requirements or other securities law requirements in relation to such offer.

	It is expected that any new information with respect to a financial intermediary that is unknown as at the date of this Prospectus will be published in the investor relations section of the website of such financial intermediary. **If you intend to acquire or do acquire any Bonds from an Authorised Offeror, you will do so, and offers and sales of the Bonds to you by such an Authorised Offeror will be made, in accordance with any terms and other arrangements in place between such Authorised Offeror and you including as to price, allocations and settlement arrangements at the time the offer and sale is made.** The Issuer will not be a party to any such arrangements with you in connection with the offer or sale of the Bonds and, accordingly, this Prospectus does not contain such information. The information relating to the procedure for making applications will be provided by the relevant Authorised Offeror to you at the relevant time. None of the Issuer, the Manager or the other Authorised Offerors has any responsibility or liability for such information.	
	SECTION B – THE ISSUER	
B.1 (B.33)	**Legal and commercial name**	The Issuer's legal and commercial name is Regional REIT Limited (the "**Issuer**").
B.2 (B.33)	**Domicile / legal form / legislation / country of incorporation**	The Issuer is a limited liability company, incorporated in Guernsey, Channel Islands under The Companies (Guernsey) Law 2008, as amended (the "**Companies Law**") on 22 June 2015 with registered number 60527 with its registered office situated in Guernsey. The principal legislation under which the Issuer operates is the Companies Law.
B.4b	**Trend information**	***Background:*** The Issuer and its subsidiary undertakings from time to time (the "**Group**") operate a diversified portfolio of regional offices and industrial properties which are located predominantly in the regional centres of the UK outside the M25 motorway (the "**Portfolio**"). ***UK real estate market:*** The UK commercial property market is broad and diverse, owned and managed by a mixture of institutional managers, listed entities, corporations and private individuals and enterprises. ***Trends in capital value and yields:*** The Issuer thinks that it is difficult to be precise about the current prospects for capital value, yield growth, and transaction volumes in the current economic environment given the uncertainty surrounding the UK's planned exit from the European Union ("**Brexit**"). Notwithstanding this, the Issuer continues to see attractive acquisition and asset management opportunities in the market. The Group continues to target regional office and industrial sector acquisitions for value in excess of £15 million with net initial yields in excess of seven per cent. Further, the Group continues to actively manage the portfolio to generate income uplift opportunities, a strong feature of the Group's portfolio, thus giving the potential for improved capital values over the longer term. The UK regional office and industrial sectors are also affected by the impact of macro-economic conditions. ***Macro-economic factors:*** Despite the results of the UK's referendum on its membership of the EU on 23 June 2016 and of the UK's general election on 8 June 2017, the UK economy has continued to expand. Even though quarterly GDP growth slowed in 2017, the rate of unemployment continues to decline, reaching 4.2 per cent. in January 2018, the lowest since 1975. The employment

		rate (the proportion of people aged from 16 to 64 years who were in work) was 75.4 per cent., higher than a year earlier (74.6 per cent.) and the highest since comparable records began in 1971. With their concentration of export-facing manufacturing industries, a more competitive pound has been a major contributor to improved labour market fortunes in the Midlands and the North of England. Labour market conditions are a significant influence on occupational demand across the commercial real estate sector, which suggests a positive outlook for 2018. ***Net asset value of the Group:*** In the year to 31 December 2017, the Group's European Public Real Estate Association ("**EPRA**") net asset value rose from £293.25 million to £395.70 million. The EPRA net asset value increase of £102.45 million since 31 December 2016 is predominantly from the issuance of two tranches of new equity by the Issuer and the revaluation of the Group's investment Property Portfolio (as defined in element B.5). The Group owns a large highly diversified cash generative portfolio, geographically spread across the UK regions, with a large number of tenants. Whilst the Issuer is aware of general economic caution, it believes the Group is well placed to meet the challenges that could arise in this environment.
B.5 **(B.33)**	**Description of the Group**	The Issuer owns the entire issued share capital of Regional Commercial Midco Limited ("**Midco**") which indirectly owns the portfolio of properties and debt receivables that the Group will acquire from time to time (the "**Property Portfolio**").
B.6 **(B.33)**	**The name of any person who, directly or indirectly, has an interest in the Issuer's capital or voting rights which is notifiable under the Issuer's national law, together with the amount of each such person's interest**	As at the close of business on 17 July 2018 (the "**Latest Practicable Date**"), so far as is known to the Issuer by virtue of notifications to it pursuant to the disclosure guidance and transparency rules made by the FCA pursuant to Part 6 FSMA, as amended from time to time (the "**Disclosure Guidance and Transparency Rules**"), the following persons are directly or indirectly interested in five per cent. or more of the Issuer's issued share capital: (a) Toscafund Investments Limited (27,154,198 ordinary shares of no par value in the capital of the Issuer ("**Ordinary Shares**")); (b) The Conygar Investment Company plc (26,326,644 Ordinary Shares); and (c) AXA Investment Managers (18,778,679 Ordinary Shares). There are no different voting rights for any holder of Ordinary Shares (each a "**Shareholder**").
B.7 **(B.12)** **(B.33)** **(B.44)**	**Selected historical key financial information**	The tables below set out the Group's summary financial information for the periods indicated. The consolidated financial information for the Group for the financial period ended 31 December 2016 has been extracted without material adjustment from the audited consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union ("**IFRS**") for the year ended 31 December 2016 (the "**2016 Financial Statements**"). The consolidated financial information for the Group for the year ended 31 December 2017 has been extracted without material adjustment from the audited consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2017 (the "**2017 Financial Statements**").

Summarised Consolidated Income Statement		
	Year ended 31 December 2017	**Year ended 31 December 2016**
	£'000s	**£'000s**
Net rental income	45,847	38,128
Administration costs	(9,429)	(8,217)
Operating profit	**36,418**	**29,911**
Gain on the disposal of properties	1,234	518
Change in the fair value of properties	5,893	(6,751)
Operating profit	**43,545**	**23,678**
Finance income	215	193
Finance expense	(14,728)	(8,822)
Impairment of goodwill	(557)	(557)
Revaluation of derivatives	217	(1,097)
Profit before tax	**28,692**	**13,395**
Taxation	(1,632)	23
Total comprehensive income	**27,060**	**13,418**

Statement of summarised consolidated financial position		
	Year ended 31 December 2017	**Year ended 31 December 2016**
	£'000s	**£'000s**
Assets		
Non - current assets	740,928	506,401
Current assets	66,587	27,574
Total Assets	**807,515**	**533,975**
Liabilities		
Current liabilities	(42,644)	(23,285)
Non - current liabilities	(371,972)	(218,955)
Total Liabilities	**(414,616)**	**(242,240)**
Net Assets	**392,899**	**291,735**
Equity		
Stated capital	370,318	274,217
Retained earnings	22,581	17,518
Total equity attributable to owners of the parent	**392,899**	**291,735**

Certain significant changes in the financial condition or operating results of the

Group occurred during the period covered by the financial reports and accounts of the Group for the financial years ended 31 December 2016 and 31 December 2017. These are described below.

Review of significant changes in the financial condition and operating results for the financial years ended 31 December 2016 and 31 December 2017

Equity issuances

Over the period from 6 November 2015 to the date of this Prospectus, the Issuer issued 98,603,872 Ordinary Shares: (i) 26,326,644 Ordinary Shares on 24 March 2017; and (ii) 72,277,228 Ordinary Shares on 21 December 2017, which increased the scale of its operations. The enlarged share base now consists of 372,821,136 Ordinary Shares.

The issue of the 26,326,644 Ordinary Shares on 24 March 2017 was part of the consideration for a transaction with The Conygar Investment Company plc in which the Group acquired 31 mixed–use UK regional property assets, which in aggregate were valued at around £129 million. As part of the transaction, the Group also assumed two banking facilities (totalling £69.4m), and Midco acquired Conygar ZDP plc and assumed the obligation to fund the liabilities of Conygar ZDP plc (being approximately £35.6 million). Conygar ZDP plc has been renamed Regional REIT ZDP PLC.

The Issuer issued 72,277,228 Ordinary Shares on 21 December 2017 which generated gross proceeds of £73,000,000. The gross proceeds were mostly used to acquire two portfolios together comprising 20 properties.

Borrowings

In addition to the equity issuances noted above, the borrowings have changed as detailed in the tables below:

As at 31 December 2016:

Debt Provider	**Borrower**	**Maturity**	**Total Facility Amount (£m)**	**Total Amount Outstanding (£m)**	**Annual Interest Rate**
Santander UK	Toscafund Glasgow Ltd	December 2018	48.300	45.432	Libor + 2.00 per cent.
Santander UK	TCP Channel Ltd	December 2018	25.343	14.340	Libor + 2.00 per cent.
Royal Bank of Scotland	TCP Arbos	June 2019	25.000	24.450	Libor + 2.15 per cent.
ICG Longbow Ltd	Tosca UK CP Ltd	August 2019	65.000	65.000	Fixed 5.00 per cent.
Santander UK	RR Wing Portfolio Limited	January 2021	30.990	30.990	Libor + 2.15 per cent.
Royal Bank of Scotland	RR Rainbow North Limited / RR Rainbow South Limited / RR Rainbow Aylesbury	March 2021	40.000	39.848	Libor + 2.40 per cent.

	Limited				

As at 31 December 2017:

Debt Provider	Borrower	Maturity	Total Facility Amount (£m)	Total Amount Outstanding (£m)	Annual Interest Rate
Regional REIT ZDP plc	Midco	January 2019	39.879	37.388	0 per cent.
ICG Longbow Ltd	Tosca UK CP Limited	August 2019	65.000	65.000	Fixed 5.00 per cent.
Royal Bank of Scotland	RR (UK) Central Limited and others	December 2020	19.336	17.376	Libor + 2.00 per cent.
HSBC	RR Sea St. Helens Ltd and others	December 2021	20.998	20.998	Libor + 2.15 per cent.
Santander UK	Toscafund Glasgow Limited and others	November 2022	70.700	70.700	Libor + 2.15 per cent.
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	RR Range Limited	December 2027	165.000	165.000	Fixed 3.28 per cent.

Other significant changes up to 31 December 2017 are listed below.

(a) Net rental income increased from £38.1 million for the financial year ended 31 December 2016, to £45.8 million for the financial year ended 31 December 2017, and amounted to £19.5 million for the six months to 30 June 2017. The reason for the uplift in net rental income across these periods was the increased rent roll received from the enlarged Property Portfolio.

(b) Operating profit before gains and losses on property assets and other investments increased from £29.9 million for the financial year ended 31 December 2016 to £36.4 million for the financial year ended 31 December 2017, and amounted to £14.3 million for the six months ended 30 June 2017. The increase across the periods was due to the increased rent roll received from the enlarged Property Portfolio.

(c) Total comprehensive income increased from £13.4 million for the financial year ended 31 December 2016 to £27.1 million for the financial year ended 31 December 2017, and amounted to £16.2 million for the six month period ended 30 June 2017. The increase in profit after tax between the financial years ended 31 December 2016 and 31 December 2017 was largely the result of the increased rent roll and the change in fair value of investment properties held by the Group. The increase in profit after tax between the financial year ended 31 December 2016 to the six months ended 30 June 2017, was predominantly due to the increased rent roll received and an increase in

		the change in fair value of investment properties. (d) Net asset value increased from £291.7 million at 31 December 2016 to £392.9 million at 31 December 2017, having amounted to £322.0 million at 30 June 2017. The increase from 31 December 2016 to 31 December 2017 was predominantly from: the issuance of two tranches of new Ordinary Shares, 26,326,644 issued on 24 March 2017 and 72,277,228 issued on the 21 December 2017; and the change in the fair value of investment properties. The increase in net asset value between 31 December 2016 and 30 June 2017 was largely due to the Group issuance of 26,326,644 Ordinary Shares on 24 March 2017, and the change in fair value of investment properties. (e) EPRA net asset value: the diluted per share net asset value decreased from 106.9 pence at 31 December 2016 to 105.9 pence at 31 December 2017, having amounted to 107.3 pence at 30 June 2017. The movements were primarily derived from the change in fair value of investment properties between the respective accounting period ends, and the impact of the equity issuances. Save as set out above, there has been no significant change in the financial condition and operating results and no material adverse change in the prospects of the Issuer since 31 December 2017. The Issuer has commenced operations and financial statements have been made up.
B.9 (B.33)	**Profit forecast or estimate**	Not applicable; there are no profit forecasts or estimates made in the Prospectus.
B.10 (B.33)	**Audit report qualifications**	Not applicable; the audit reports on the Issuer's audited consolidated financial statements for the years ended 31 December 2016 and 31 December 2017 do not include any qualifications.
B.13	**Events impacting the Issuer's solvency**	Not applicable; there have been no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.
B.14	**Dependence upon other group entities**	The Issuer owns the entire issued share capital of Midco which indirectly owns the interests in the Property Portfolio. The Issuer does not own any assets (other than shares in Midco) and its income is dependent on other members of the Group.
B.15	**Principal activities**	The Issuer's main activity is to act as a holding company for asset-owning entities within the Group, but it will also issue the Bonds (and any further Bonds, which are to be consolidated and form a single series with the existing Bonds, issued in accordance with the Terms and Conditions of the Bonds (the "**Terms and Conditions of the Bonds**")). The Group operates a diversified portfolio of regional offices and industrial properties which are located predominantly in the regional centres of the UK outside the M25 motorway and the Issuer is the ultimate holding company of the Group whose only assets are its shares in Midco, which owns shares in various subsidiaries within the Group.

B.16	**Controlling shareholders**	The following persons are directly or indirectly interested in five per cent. or more of the Issuer's issued share capital: (a) Toscafund Investments Limited; (b) The Conygar Investment Company plc; and (c) AXA Investment Managers. The Issuer owns the entire issued share capital of Midco.
B.17	**Credit ratings**	The Issuer has not been assigned a credit rating by any independent credit rating agency and, accordingly, the Bonds have not been assigned a credit rating by any independent credit rating agency.
B.33 **(C.3)** **(C.7)**	**Information about the Issuer**	*Issuer's issued share capital* The issued ordinary share capital of the Issuer as at the date of this Prospectus is 372,821,136 Ordinary Shares of no par value, each of which was issued fully paid. As at the Latest Practicable Date, the Issuer held no Ordinary Shares in treasury. *Dividend policy* As a company or group to which Part 12 of the Corporation Tax Act 2010 (as amended, "**CTA 2010**") applies ("**REIT**"), the Issuer is required to distribute at least 90 per cent. of the profits from its property rental business as dividends. Currently, the Issuer pays dividends on a quarterly basis with dividends declared in February, May, August and November in each year and paid as soon as practicable thereafter. The Issuer intends to pursue a progressive dividend policy and its quarterly dividends provide a source of regular income for Shareholders, thus improving their cash flow return profile. The level of future dividends will be determined by the Directors of the Issuer having regard to, among other things, the financial position and performance of the Group at the relevant time, UK REIT requirements and the interests of Shareholders as a whole.
B.34	**A description of the investment objective and policy, including any investment restrictions, which the collective investment undertaking will pursue with a description of the instruments used**	*Investment objective* The investment objective of the Issuer is to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in the Portfolio. The Issuer believes that there is opportunity to build up a Portfolio of commercial real estate assets with strong income and added value characteristics. *Investment policy* The Group will continue to pursue its investment objective by investing in the Portfolio, in accordance with its investment strategy and financing strategy as detailed below. The Issuer may and will typically make investments in property via a number of methods, which include (but are not limited to) (i) direct investment in or acquisition of the real estate asset or portfolio of assets; (ii) direct investment in or acquisition of the holding company of the real estate asset or portfolio of assets; and (iii) direct investment in or acquisition of a joint venture vehicle, which has a direct investment in or holds the real estate assets or the holding company of the real estate asset or portfolio of assets. In addition, the Issuer may, from time to time, acquire, manage and dispose of debt portfolios whose receivables are secured principally against real property that conform to its investment policy criteria and where each secured property

		complies with the investment restrictions below. For the avoidance of doubt, the Issuer may make an investment through any type of entity it considers appropriate, taking into account the requirement to have an appropriately diversified portfolio of assets, including, without limitation, any member of the Group, and references in the Issuer's investment policy (the "**Investment Policy**") to the Issuer making investments, acquiring or holding assets should be construed accordingly. The intention of the Issuer is that it will continue to invest predominantly in income producing investments capable of delivering an attractive total return to Shareholders, with a strong focus on income. Investment decisions will continue to be based on analysis of, inter alia, prospects for future income and capital growth, sector and geographic prospects, tenant covenant strength, lease length, initial and equivalent yields and the potential for active asset management of the property. The Issuer intends to continue to conduct its affairs at all times so as to enable the Issuer to remain qualified as a REIT. *Investment strategy* The Issuer intends to be opportunistic in its approach and exploit what London & Scottish Investments Limited (the "**Asset Manager**") and Toscafund Asset Management LLP (the "**Investment Manager**"), working jointly and subject to oversight by the Issuer, believe to be pricing inefficiencies and mismatches in the available yields between those available on regional commercial prime properties and those available on regional commercial secondary properties in regional centres outside of the M25 motorway. The Issuer intends to enhance the capital and income growth prospects of its properties through the services of the Asset Manager, who will do so, inter alia, by way of lease restructuring, improvement of the tenant mix, letting vacant space, minimising void costs, making physical improvements by way of refurbishment, increasing the size of properties and effecting changes of use. *Investment restrictions* The Group will continue to acquire real estate asset, debt or other security or other interests ("**Portfolio Interests**") that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and sectors across a number of assets and tenants, and through letting properties, where possible, to low risk tenants. No single property, in the ordinary course, is expected to exceed 10 per cent. of the aggregate value of the investment properties of the Group, as determined in accordance with the accounting principles adopted by the Issuer from time to time ("**Gross Investment Properties Value**") at the time of investment; however, the Directors of the Issuer may, in exceptional circumstances, consider a property having a value of up to 20 per cent. of Gross Investment Properties Value at the time of investment. The minimum market value of any single asset at the time of acquisition shall be £5,000,000, except where such asset is acquired within a portfolio of properties, in which case there shall be no such minimum. No more than 20 per cent. of the Gross Investment Properties Value shall be exposed to any single tenant or group undertaking (within the meaning of section 1161(5) of the Companies Act 2006) ("**Group Undertaking**") of that tenant.

		Speculative development (i.e. properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. Development, other than such speculative development, is restricted to an aggregate maximum of 15 per cent. of Gross Investment Properties Value at the time of investment or commencement of the development. The Issuer does not expect to acquire Portfolio Interests by way of joint ventures, nor does it expect to acquire less than 100 per cent. ownership in any single property. However, the Issuer is permitted to make investments through these types of investment structures provided that (i) the Issuer is able to exert a level of control over the underlying investment that the Directors of the Issuer and the Investment Manager consider reasonable in the circumstances; and (ii) no more than 25 per cent. of Gross Investment Properties Value at the time of acquisition is attributable to investments where the Issuer (or its wholly-owned subsidiaries) does not have 100 per cent. ownership. These investment restrictions shall not require the Group to dispose of Portfolio Interests and/or to rebalance its Property Portfolio as a result of a change in the respective valuations of the Portfolio Interests, except to the extent required by the rules and regulations made by the FCA under section 73A of FSMA (the "**Listing Rules**") or for the Group to continue to qualify as a REIT.
B.35	**The borrowing and/or leverage limits of the collective investment undertaking. If there are no such limits, include a statement to that effect**	The Group will continue to use gearing and make use of borrowed funds and other forms of leverage to execute its investment strategy and enhance equity returns, provided that the Directors of the Issuer consider it to be in the best interests of Shareholders to do so. Such leverage will vary significantly depending on prevailing market conditions. The Directors of the Issuer expect that the Group will continue to predominantly look to traditional sources such as banks for gearing, but it is permitted to utilise leverage from other commercial providers and market counterparties. Based on current market conditions, the Directors of the Issuer will target Group net borrowings of 40 per cent. of Gross Investment Properties Value at any time. However, the Directors of the Issuer may modify the Issuer's gearing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Issuer's assets, growth and acquisition opportunities or other factors that the Directors of the Issuer deem appropriate. The level of gearing will be monitored carefully by the Directors of the Issuer in light of the cost of borrowing and the Issuer will seek to use hedging where considered appropriate to mitigate interest rate risk. The Group's net borrowings may not exceed 50 per cent. of the Gross Investment Properties Value at any time. The Group will be under no obligation to reduce borrowings to the extent that this target is exceeded for reasons outside of its control, for instance as a result in changes in property values. The Group's borrowings are expected to be secured on one or more Portfolio Interests. The Group may borrow for any purpose. Other than described above, no restrictions have been imposed on the circumstances in which the Issuer may employ leverage. The Issuer has no intention to make use of collateral and asset reuse arrangements in connection with any leverage.
B.36	**A description of the regulatory status of the collective investment**	The Issuer is registered with the Guernsey Financial Services Commission ("**GFSC**") as a closed-ended collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the "**POI Law**") and The Registered Collective Investment Schemes Rules 2015 (the "**RCIS Rules**").

	undertaking together with the name of any regulator in its country of incorporation	The Issuer is an alternative investment fund within the meaning of the Alternative Investment Fund Managers Directive, 2011/61/EU, as amended (the "**AIFM Directive**") ("**AIF**") and the Investment Manager has been appointed as its alternative investment fund manager within the meaning of the AIFM Directive ("**AIFM**"). The Issuer is subject to the Listing Rules, the prospectus rules made by the FCA pursuant to Part 6 FSMA, as amended from time to time (the "**Prospectus Rules**"), the Disclosure Guidance and Transparency Rules, and the Market Abuse Regulation (Regulation 596/2014) ("**MAR**"). The Issuer became a REIT on the admission of its Ordinary Shares to the Official List of the UKLA (as defined below) and trading on the London Stock Exchange's main market for listed securities on 6 November 2015 and the Group will need to comply with certain ongoing regulations and conditions (including minimum distribution requirements) in order to retain its REIT status.
B.37	**A brief profile of a typical investor for whom the collective investment undertaking is designed**	The typical investors in the Issuer are expected to be institutional and sophisticated investors, and/or all types of private investors acting on the advice of their stockbroker or financial advisor, who are looking to allocate part of their investment portfolio to the UK regional commercial real estate market. An investment in the Issuer is suitable only for investors who are capable of evaluating the risks and merits of such investment, who understand the potential risk of capital loss and that there may be limited liquidity in the underlying investments of the Issuer and in the Ordinary Shares, for whom an investment in the Ordinary Shares constitutes part of a diversified investment portfolio, who fully understand and are willing to assume the risks involved in investing in the Issuer and who have sufficient resources to bear any loss (which may be equal to the whole amount invested) which might result from such investment.
B.38	**Investment in single underlying asset or undertaking**	Not applicable. The Issuer may not, pursuant to the Investment Policy, invest more than 20 per cent. of the aggregate value of the total assets of the Issuer as determined in accordance with the accounting principles adopted by the Issuer from time to time (the "**Gross Asset Value**") at the time of investment in a single underlying issuer or investment company.
B.39	**Investment in another collective investment undertaking**	Not applicable. The Issuer may not, pursuant to the Investment Policy, invest more than 40 per cent. of the Gross Asset Value at the time of investment in a single underlying issuer or investment company.
B.40	**A description of the applicant's service providers including the maximum fees payable**	***Investment Manager*** Toscafund Asset Management LLP has been appointed as the investment manager of the Issuer (and to provide certain related services to Midco and the Jersey limited companies which hold property directly) pursuant to the agreement entered into between the Issuer, Midco and the Investment Manager dated 3 November 2015 (the "**Investment Management Agreement**"). ***Asset Manager*** Under the agreement entered into between the Issuer, Midco and the Asset Manager dated 3 November 2015 (the "**Asset Management Agreement**"), the Asset Manager is responsible for the day to day management of the Property Portfolio. In respect of each Portfolio Interest, the Asset Manager has procured and shall, with the Issuer, in future procure, that London & Scottish Property Asset Management Limited or such other suitably qualified property manager as the Asset Manager may determine is appointed to act as property manager (the

		"**Property Manager**"). ***Administrator*** Jupiter Fund Services Limited (the "**Administrator**") has been appointed as the administrator pursuant to the agreement entered into between the Issuer and the Administrator on 23 October 2015 in respect of administration services (the "**Administration Agreement**"). An annual fee of £35,880 is payable by the Issuer to the Administrator. An annual fee of £113,160 is payable by the Issuer to Link Alternative Fund Administrators Limited (formerly Capita Sinclair Henderson Limited) (the "**Sub-Administrator**"). ***Company secretary*** Link Company Matters Limited, formerly Capita Company Secretarial Services Limited (the "**Company Secretary**") has been appointed as the company secretary pursuant to the agreement entered into between the Company Secretary and the Issuer on 2 November 2015 in respect of company secretarial services (the "**Company Secretary Agreement**"). A fee of £5,000 for support at each quarterly board meeting, and £7,500 for support at each annual general meeting, will be payable by the Issuer. Advice in respect of AIC Code of Corporate Governance (the "**AIC Code**") produced by the Association of Investment Companies ("**AIC**"), the Listing Rules and the Disclosure Guidance and Transparency Rules compliance is £25,000 per annum. ***Depositary*** Estera Depositary (UK) Limited (the "**Depositary**") has been appointed to perform the depositary functions pursuant to Articles 21(7), (8) and (9) of the AIFM Directive pursuant to the agreement entered into between the Issuer, the Investment Manager and the Depositary on 2 November 2015 in respect of depositary services (the "**Depositary Agreement**"). The Depositary is entitled to a fee of £46,500 per annum. If additional special purpose vehicles controlled by the Issuer ("**SPVs**") are added to the Group, there will be a one-off fee of £500 and the annual fee will also increase by £250 per annum. ***Share Registrar*** Link Market Services (Guernsey) Limited (the "**Share Registra**r") has been appointed share registrar of the Issuer pursuant to the agreement entered into between the Issuer and the Share Registrar on 3 November 2015 in respect of share registrar services (the "**Share Registrar Agreement**"). An annual fee of £2.05 per holder of Ordinary Shares appearing on the Issuer's register during the fee year (with a minimum charge per annum of £7,000) shall be payable by the Issuer. The Share Registrar will also charge the Issuer (i) a £0.26 fee for each CREST transfer (ii) a £5.13 fee for each non-CREST transfer; and (iii) £1,500 fee for each dividend declared and paid.
B.41	**The identity and regulatory status of the Investment Manager and Depositary**	The Investment Manager is authorised and regulated by the FCA (firm number: 454907). The Depositary is authorised and regulated by the FCA (firm number 606784).

<table>
<tr><td>B.42</td><td>A description of how often the net asset value of the collective investment undertaking will be determined and how such net asset value will be communicated to investors</td><td>The aggregate value of the assets of the Group after deduction of all liabilities, determined in accordance with the accounting policies adopted by the Group companies from time to time ("Net Asset Value") (and at any time the Net Asset Value attributable to the Ordinary Shares divided by the number of Ordinary Shares in issue (other than Ordinary Shares held in treasury) at the date of calculation ("Net Asset Value per Share")) is calculated half-yearly by the Administrator on behalf of the Issuer. Details of each half-yearly valuation, and of any suspension in the making of such valuations are announced by the Issuer through a RIS as soon as practicable after the end of the relevant six month period. The half-yearly valuations of the Net Asset Value (and Net Asset Value per Share) are calculated on the basis of the Group's properties and any other assets or most recent half-yearly desktop valuation.</td></tr>
<tr><td>B.43</td><td>Statement of any cross liability that may occur</td><td>Not applicable. The Issuer is not an umbrella collective investment undertaking and as such there is no cross liability between classes or investment in another collective investment undertaking.</td></tr>
<tr><td>B.45</td><td>A description of the collective investment undertaking's portfolio</td><td>As at 31 March 2018, the Property Portfolio comprised of the following assets:
Property portfolio by business sector
<table>
<tr><td></td><td>Properties (no.)</td><td>Investment property values (£m)</td><td>Occupancy by value per cent.)</td><td>Lettable area (million sq. ft.)</td><td>Annualised gross rental income (£m)</td></tr>
<tr><td>Office</td><td>92</td><td>487.1</td><td>84.5</td><td>3.94</td><td>41.5</td></tr>
<tr><td>Industrial</td><td>37</td><td>169.8</td><td>87.5</td><td>4.23</td><td>14.2</td></tr>
<tr><td>Retail</td><td>29</td><td>60.0</td><td>90.0</td><td>0.58</td><td>5.3</td></tr>
<tr><td>Other</td><td>2</td><td>9.9</td><td>94.9</td><td>0.12</td><td>0.7</td></tr>
<tr><td>Total</td><td>160</td><td>726.9</td><td>85.7</td><td>8.87</td><td>61.7</td></tr>
</table>
Property portfolio by geography
<table>
<tr><td>Regional segment</td><td>Properties (no.)</td><td>Market values (£m)</td><td>Occupancy by value (per cent.)</td><td>Lettable area (million sq. ft.)</td><td>Annualised gross rental income (£m)</td></tr>
<tr><td>Scotland</td><td>45</td><td>165.0</td><td>85.7</td><td>2.73</td><td>16.0</td></tr>
<tr><td>South East</td><td>31</td><td>203.9</td><td>94.0</td><td>1.53</td><td>17.2</td></tr>
<tr><td>North East</td><td>22</td><td>84.6</td><td>82.5</td><td>1.36</td><td>6.8</td></tr>
<tr><td>Midlands</td><td>31</td><td>109.3</td><td>87.2</td><td>1.30</td><td>9.4</td></tr>
<tr><td>North West</td><td>17</td><td>80.3</td><td>79.5</td><td>1.13</td><td>6.0</td></tr>
<tr><td>South West</td><td>11</td><td>57.3</td><td>68.6</td><td>0.42</td><td>4.1</td></tr>
<tr><td>Wales</td><td>3</td><td>26.4</td><td>89.3</td><td>0.39</td><td>2.2</td></tr>
<tr><td>Total</td><td>160</td><td>726.9</td><td>85.7</td><td>8.87</td><td>61.7</td></tr>
</table>
Gross rental income by business sector
<table>
<tr><td>Business sector</td><td>Annualised gross rental income (£m)</td><td>Average rent per sq. ft.</td><td>WAULT* (to break) (years)</td><td>Occupancy by lettable area (per cent.)</td><td>ERV (£m)</td></tr>
<tr><td>Office</td><td>41.4</td><td>12.74</td><td>3.0</td><td>82.7</td><td>48.8</td></tr>
<tr><td>Industrial</td><td>14.2</td><td>3.91</td><td>4.1</td><td>85.9</td><td>16.1</td></tr>
<tr><td>Retail</td><td>5.3</td><td>10.45</td><td>4.6</td><td>87.7</td><td>5.7</td></tr>
</table></td></tr>
</table>

Other	0.7	9.85	9.1	59.1	0.8
Total	**61.7**	**8.26**	**3.5**	**84.2**	**71.3**

* "**WAULT**" means weighted average unexpired lease term.

Gross rental income by geography

Regional segment	*Annualised gross rental income (£m)*	*Average rent per sq. ft.*	*WAULT (to break) (years)*	*Occupancy by lettable area (per cent.)*	*ERV (£m)*
Scotland	16.0	7.19	3.4	81.5	18.2
South East	17.2	11.99	2.9	93.6	17.8
North East	6.8	5.81	3.0	85.2	8.4
Midlands	9.4	8.36	3.5	86.2	10.1
North West	6.0	6.77	5.4	78.4	8.3
South West	4.1	13.21	3.1	74.0	6.1
Wales	2.2	6.91	5.7	83.1	2.4
Total	**61.7**	**8.26**	**3.5**	**84.2**	**71.3**

There have been no material sales or purchases of the investments within the Property Portfolio and no material changes to the Property Portfolio composition since 31 March 2018 other than as set out in the paragraph entitled "Recent developments" below.

Recent developments

On 20 June 2018, the Issuer announced the unconditional exchange of contracts to sell The Point Trade & Retail Park, Glasgow, for £14.1 million. Completion of the sale occurred on 5 July 2018.

On 26 June 2018, the Issuer announced the completion of the acquisition of five regional offices and one office/distribution property for £35.2 million.

On 2 July 2018, the Issuer announced the completion of the sale of a regionally diverse industrial portfolio, comprising of 15 properties for £39.1 million.

B.46	**The most recent net asset value per security.**	Not applicable.
	SECTION C – BONDS	
C.1	**Description of Bonds / ISIN**	The 4.5 per cent. bonds due 2024 (the "**Bonds**") will be issued in registered form. The principal amount of each Bond (being the amount which is used to calculate payments made on each Bond) is £100. The International Securities Identification Number ("**ISIN**") for the Bonds is XS1849479602, the Common Code ("**Common Code**") is 184947960, the Classification of Financial Instruments ("**CFI**") is DBFXFR and the Financial Instrument Short Name ("**FISN**") is REGIONAL REIT L/BD 22001231 RESTN.
C.2	**Currency**	The currency of the Bonds will be pounds sterling.
C.5	**Restrictions on transferability**	Not applicable; there are no restrictions on the free transferability of the Bonds.
C.8	**A description of the rights attached to the**	***Status of the Bonds:*** The Bonds constitute unsecured debt obligations of the Issuer. The Bonds will

	securities including: • **ranking** • **limitations to those rights**	rank *pari passu* (i.e. equally in right of payment), without any preference between themselves, with all other outstanding unsecured and unsubordinated debt obligations of the Issuer.
		Negative Pledge The Bonds contain a negative pledge provision with respect to the Issuer and Midco. In general terms, a negative pledge provision prohibits an entity from granting security over certain of its indebtedness which diminishes the priority of the Bondholders' claims against any of the entity's other assets. Therefore, under the negative pledge provision set out in the Terms and Conditions of the Bonds, neither the Issuer nor Midco may create or at any time have outstanding, any security interest over any of its present or future business, undertakings, assets or revenues to secure certain financial indebtedness without securing the Bonds equally, subject to certain exemptions.
		Other covenants The Terms and Conditions of the Bonds also contain certain other covenants, including: (a) limitations on the incurrence of secured or unsecured financial indebtedness by the Issuer and its subsidiaries where such financial indebtedness would exceed limits specified in the Terms and Conditions of the Bonds; (b) a requirement for the Issuer to meet an interest cover test on each testing date; and (c) a requirement for the Issuer not to take any action that would directly result in it losing its status as a UK REIT.
		Events of default The Terms and Conditions of the Bonds will contain, amongst others, the following events of default: (a) default in payment of any principal or interest due in respect of the Bonds, continuing for a specified period of time; (b) non-performance or non-observance by the Issuer of any of its other obligations under the terms of the Bonds or the trust deed (the "**Trust Deed**") to be dated 6 August 2018 between the Issuer and U.S. Bank Trustees Limited (the "**Trustee**"), continuing for a specified period of time; (c) other financial indebtedness in an aggregate amount in excess of £5,000,000 (or its equivalent in any other currency) of the Issuer or certain subsidiaries of the Issuer becoming due and repayable as a result of non-payment; and (d) events relating to the insolvency or winding up of the Issuer, or certain subsidiaries of the Issuer.

		Optional early repayment by the Issuer for tax reasons In the event of any change in tax law after the Bonds have been issued that would result in the Issuer being required to pay any additional amount in respect of a withholding or deduction on account of tax, the Bonds may be repaid if the Issuer chooses to do so. The redemption price in these circumstances is at the principal amount of the Bonds plus accrued interest.
		Meetings of Bondholders The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting the interests of the Bondholders. These provisions permit certain majorities to bind all Bondholders including Bondholders who did not vote on the relevant resolution and Bondholders who did not vote in the same way as the majority did on that resolution.
		Modification, waiver and substitution The Terms and Conditions of the Bonds provide that the Trustee may, without the consent of the Bondholders, agree to:
		(a) modify any of the provisions of the Trust Deed that is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error (which is an indisputable error) or an error which, in the opinion of the Trustee, is proven;
		(b) waive, modify or authorise any proposed breach or breach by the Issuer of a provision of the Trust Deed if, in the opinion of the Trustee, such modification is not prejudicial to the interests of the Bondholders; or
		(c) the substitution of any of the Issuer's subsidiaries as principal debtor under the Bonds in place of the Issuer, in certain circumstances and subject to the satisfaction of certain conditions.
C.9	• **Interest / Redemption**	***Interest rate*** Subject to the following paragraph, the Bonds will accrue interest from and including the Issue Date at the fixed rate of 4.5 per cent. per annum. The interest on the Bonds is payable twice a year at the end of the interest period to which the payment relates. Interest is payable in equal instalments of £2.25 per £100 in principal amount of the Bonds on 6 February and 6 August in each year commencing on 6 February 2019. The final payment of interest will be made on the Maturity Date. ***Maturity Date*** Unless previously redeemed or purchased and cancelled in accordance with the Terms and Conditions of the Bonds, the Bonds will mature on 6 August 2024 (the "**Maturity Date**"). ***Indication of yield*** On the basis of the issue price of the Bonds being 100 per cent. of their principal amount and the rate of interest being 4.5 per cent. per annum, the initial yield of the Bonds on the Issue Date is 4.5 per cent. on an annual basis. This initial yield is not an indication of future yield. ***Trustee*** The Trustee is U.S. Bank Trustees Limited.
C.10	**Derivative**	Not applicable; the interest rate on the Bonds is fixed and there is no derivative

	component in interest payments	component in the interest payments made in respect of the Bonds. This means that the interest payments are not linked to specific market references, such as inflation, an index or otherwise.
C.11	**Listing and Admission to trading**	It is expected that the admission of the Bonds to the Official List will be granted on or about 7 August 2018, after the publication of the Sizing Announcement (the "**Sizing Announcement**") subject only to the issue of the global certificate which will initially represent the Bonds (the "**Global Certificate**"). Application will be made to the UK Listing Authority (the "**UKLA**") for the Bonds to be admitted to the Official List of the UKLA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on its regulated market and through its electronic Order book for Retail Bonds (the "**ORB**"). Admission of the Bonds to trading is also expected to occur on or about 7 August 2018.
	SECTION D – RISKS	
D.1/D.2 **(B.33)**	**Key information on the key risks that are specific to the Issuer and the Group**	• The Issuer is a holding company of the Group and its main activity is to act as a holding company for asset owning entities within the Group. Accordingly, the Issuer's income is dependent on other members of the Group. The net proceeds from the issue of the Bonds (after deduction of expenses incurred in connection with the issue) will be made available by the Issuer to other members of the Group by way of one or more loan agreements (together the "**Loan Agreements**" and each a "**Loan Agreement**"). Each Loan Agreement will be made between the Issuer and one other member of the Group (each such member of the Group being a "**Borrower**") under which the Issuer agrees to make advances to that Borrower and, accordingly, the Bondholders will take credit risk on each Borrower. Under each Loan Agreement, the Issuer will advance a portion of the proceeds from the issue of the Bonds (after the deduction of expenses incurred in connection with the issue) to the relevant Borrower which will be used to repay certain of the Group's external debt facilities which are set out in Element B.7 above. Under each Loan Agreement, the relevant Borrower agrees (i) to pay to the Issuer interest on the loan calculated at a rate of interest that is no less than the rate of interest used to calculate the interest payable in respect of the Bonds; (ii) to pay to the Issuer interest on the loan on the date on which interest is payable in respect of the Bonds; and (iii) to repay the principal of the loan on the date on which the Bonds are to be redeemed. Each Borrower's obligations to make payments to the Issuer are unsecured. • The Issuer is dependent on payments being made by the members of the Group under the Loan Agreements and otherwise to make payments on the Bonds. The Issuer's ability to make payments on the Bonds is accordingly subject to the risks to which the Group is subject. • In the event the Issuer fails to make payments on the Bonds, the Bondholders will have no direct recourse to the assets of the Issuer.
		• Members of the Group are not legally committed to making any payments to the Issuer aside from under the contractual obligations set out above. If the income of the Group is negatively affected by any of the risks outlined below, this could reduce the payments made to the Issuer and the subsequent ability of the Issuer to make payments on the

		Bonds. • The Issuer is the ultimate holding company of the Group and its only assets are its shares in Midco, which itself owns shares in subsidiaries within the Group. The Issuer's income is therefore dependent on the financial position of other subsidiaries within the Group.
		Risks relating to the market in which the Group operates • The Group's financial position and performance will depend on the general economic environment and general property and investment market conditions – variations of which may affect the value of property investments and the rental income of the Group and therefore the subsequent ability of the members of the Group to make payments under the Loan Agreements and otherwise fund the Issuer so that it can make payments on the Bonds. • Market conditions of the UK property market will affect the Group's ability to adjust its portfolio strategically, i.e. the Group may not be able to buy or sell properties in its portfolio easily if market conditions are unfavourable or at an ideal price. This could reduce the value of the Group's portfolio and its income which may impact on payments made on the Bonds. ***Real estate risks*** • The valuation of the Group's Property Portfolio is inherently uncertain due to, amongst other things, the individual nature of each property and the subjective assumptions and estimations made by valuers. There is no assurance that the valuation of the Property Portfolio will be reflected in actual transaction prices. In the event the Group is unable to realise the book value of a property on sale, this would negatively affect the value of the Group and its income and may impact on payments made on the Bonds. ***Risks of leverage*** • Bondholders should be aware that borrowing exposes the Group to potential risks involved in the cost of maintaining the debt created. In particular the cost of any such debt to the Group will be adversely impacted by increases in interest rates. This may limit the ability of the Group to make investments in the future and/or may increase the cost of the debt to the Group which could, as a consequence, have an adverse impact on the financial position of the Group and its income which may impact on payments made on the Bonds. ***Risks relating to service providers*** • The Issuer has no employees and is reliant on the performance of specialised third party service providers (such as the Asset Manager and the Depositary). Material failure by any such service provider to carry out its obligations could cause disruptions in the operation of the Group that could lead to Bondholders incurring losses on the Bonds. ***Risks relating to taxation and regulation***

		• The Group is, as at the date of this Prospectus, a group UK REIT. If the Group does not maintain this status or if the rules regarding maintenance of this status change, this could have an impact on the current tax treatment of the Group which could have a material impact on the financial condition of the Group and may affect the ability of the Issuer to fulfil its obligations in respect of the Bonds.
D.3	**Key information on the key risks that are specific to the securities.**	• The Bonds are unsecured obligations of the Issuer and accordingly the Bondholders will not have a direct claim on any of the Issuer's assets. • The Bonds are not protected by the Financial Services Compensation Scheme. Therefore (unlike in the case of a bank deposit), if the Issuer or the Group as a whole were to become insolvent or go out of business, the Bondholders may lose all or part of their investment in the Bonds and no governmental body would be required to compensate them for such loss. • The Bonds may be repaid early at the Issuer's option in certain circumstances which may mean Bondholders are unable to reinvest amounts repaid by the Issuer in investments that generate similar amounts of interest. • Defined majorities may be permitted to bind all the Bondholders with respect to modification and waivers of the terms and conditions of the Bonds. Therefore, for instance, if a significant majority of Bondholders were to vote to amend the Terms and Conditions of the Bonds (for example, to change the final maturity date of the Bonds) then that amendment would be binding on all other Bondholders. • A market for the Bonds may not develop, or may not be very liquid (i.e. the Bonds may not be easily tradable) and such illiquidity may have a severely adverse effect on the market value of the Bonds. The realisation from a sale of the Bonds at any time prior to their maturity may be below the investment price paid by a Bondholder. • The Bonds bear interest at a fixed rate and the Issuer will pay principal and interest on the Bonds in pounds sterling, which potentially exposes you to interest rate risk and inflation risk. If interest rates rise, then the rate of income payable on the Bonds may become less attractive to investors.
	SECTION E - OFFER	
E.2b	**Use of proceeds**	The offer of the Bonds is being made in order to raise funding for the Group to be applied in part repayment of certain of the external debt facilities of the Group set out in Element B.7 above, to increase the number of sources from which the Group obtains its funding and to spread the debt maturity profile of the Group. Element B.7 contains all of the external debt facilities of the Group. After deduction of expenses incurred in connection with the issue, the proceeds from the issue of the Bonds will be advanced by the Issuer to one or more members of the Group to be applied as described above.
E.3	**A description of the terms and conditions of the offer**	The Offer is expected to open on 18 July 2018 and close at 12.00 (noon) (London time) on 1 August 2018 or such earlier time and date as may be agreed between the Issuer and the Manager and announced via an RIS.

		You will be notified by the relevant Authorised Offeror of your allocation of Bonds and instructions for delivery of and payment for the Bonds. You may not be allocated all (or any) of the Bonds for which you apply.
		The Bonds will be issued at the issue price (which is 100 per cent. of the principal amount of the Bonds) and the aggregate principal amount of the Bonds to be issued will be specified in the Sizing Announcement published by the Issuer on an RIS, but will not exceed an aggregate principal amount of £105 million.
		The issue of Bonds is conditional upon a subscription agreement being signed by the Issuer and the Manager on or about 2 August 2018 (the "**Subscription Agreement**"). The Subscription Agreement will include certain conditions, customary for transactions of this type (including the issue of the Bonds and the delivery of legal opinions and comfort letters from the independent auditors of the Issuer satisfactory to the Manager). The minimum subscription amount per investor is for a principal amount of £2,000 of the Bonds.
E.4	**Interests of natural and legal persons involved in the issue/offer**	So far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer. There are no conflicts of interest which are material to the offer of the Bonds.
E.7	**Expenses charged to the investor by the Issuer**	Neither the Issuer nor the Manager will charge you any expenses relating to an application for or purchase of any Bonds. However, expenses may be charged to you by an Authorised Offeror. These expenses are beyond the control of the Issuer, are not set by the Issuer and will be disclosed to any potential investor by the relevant Authorised Offeror at the relevant time. The Issuer estimates that, in connection with the sale of Bonds to you, the expenses charged to you by one of the Authorised Offerors known to the Issuer as at the date of the Prospectus may be between 0 and 7 per cent. of the aggregate nominal amount of the Bonds sold to you. This is an estimated range. The actual expenses to be charged will depend on your individual circumstances and your relationship with your stock broker or other financial adviser; they will vary from investor to investor.

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RISK FACTORS

RISK FACTORS

The following is a description of the principal risks and uncertainties which may affect the Issuer's ability to fulfil its obligations under the Bonds.

Before applying for any of the 4.5 per cent. bonds due 2024 (the "**Bonds**"), you should consider whether the Bonds are a suitable investment for you. There are risks associated with an investment in the Bonds, many of which are outside the control of Regional REIT Limited (the "**Issuer**") and, together with its subsidiaries, the "**Group**"). These risks include those described in this Section.

You should carefully consider the risks described below and all other information contained in this Prospectus and reach your own view before making an investment decision. The Issuer believes that the factors described below represent the principal risks and uncertainties which may affect its ability to fulfil its obligations under the Bonds, but the Issuer may face other risks that may not be considered significant risks by the Issuer based upon information available to it at the date of this Prospectus or that it may not be able to anticipate. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Bonds are also described below. If any of the following risks, as well as other risks and uncertainties that are not yet identified or that the Issuer thinks are immaterial at the date of this Prospectus, actually occur, then these could have a material adverse effect on the Issuer's ability to fulfil its obligations to pay interest, principal or other amounts in connection with the Bonds.

You should note that the risks relating to the Issuer, the Group and its industry and the Bonds summarised in Section 1 (*Summary*) are the risks that the Issuer believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Bonds. However, as the risks which the Issuer faces relate to events and depend on circumstances that may or may not occur in the future, you should consider not only the information on the key risks summarised in Section 1 (*Summary*) but also, among other things, the risks and uncertainties described below.

Risks which may affect the Issuer's ability to fulfil its obligations under the Bonds

The Issuer is the holding company of the Group

The Issuer's main activity is to act as a holding company for asset-owning entities within the Group. Accordingly, the Issuer's income is dependent on other members of the Group. The net proceeds from the issue of the Bonds (after deduction of expenses incurred in connection with the issue) will be made available by the Issuer to other members of the Group by way of loan agreements entered into with various members of the Group (together the "**Loan Agreements**" and each a "**Loan Agreement**") to enable the Group to further pursue its general corporate purposes. Payments under the Loan Agreements will be paid by various members of the Group to the Issuer, therefore interest payments in respect of the Bonds will effectively be paid from cash flows generated from the business of the Group, which, as referred to in "*Information about the Bonds – What is the relationship between the Issuer and the Group*" below, is generally conducted through the Issuer's direct and indirect subsidiaries rather than by the Issuer itself. If members of the Group do not make payments to the Issuer to assist it to meet its obligations under the Bonds, the Issuer is unlikely to be able to meet such obligations. Accordingly the ability of the Issuer to pay interest on and repay the Bonds will be subject to all the risks to which the Group is subject and will be dependent on the performance of the Group. See "*Risks relating to the Group*" below for a further description of certain of these risks.

The Bonds will constitute unsecured obligations of the Issuer and the Bondholders will not have direct recourse to any subsidiary of the Issuer

The Bonds will be not be secured on any of the assets of the Issuer and the Bondholders will not have direct recourse to any other member of the Group. In the event of a default by any member of the Group to whom the Issuer has on-lent all or part of the issue proceeds from the Bonds under the Loan Agreements, the Issuer will have no direct claim against such member against specific assets of such member and, in the event that it does

not recover sufficient funds from such member and it otherwise unable to obtain funding from any other member of the Group, its ability to pay interest on and repay the Bonds will be adversely affected.

Risks relating to the Group

As outlined above, the Issuer is dependent on the asset-owning entities in the Group in order to make payments on the Bonds. The factors below may together or individually have a material adverse effect on the Group's financial condition, business, prospects and results of operations should they come to pass, which will affect the Group's ability to make payments under the terms of the Loan Agreements and otherwise assist the Issuer to make payments on the Bonds.

The Group's performance will depend on the general economic environment and general property and investment market conditions

The Group's financial performance will be affected by variations in the macro-economic environment, as well as general conditions affecting the office and light industrial property real estate market as a whole and/or events specific to the Group's investments, such as a decrease in capital values and weakening of rental yields. While UK real estate markets have, in general, recovered in recent years following the global economic recession and credit crisis, there nevertheless remain certain downward pressures that the market may need to contend with, such as a potential rise in interest rates, political uncertainty relating to the tax regime and the availability of third party funding (which, while more available than at the height of the recession, is still scarce for certain types of investment and may be impacted further by increases in banking regulation and political uncertainty following the triggering of Article 50 of the Lisbon Treaty and the negotiation of Brexit (as referred to below)).

Returns from an investment in property depend largely upon the amount of rental income generated from the property versus the expenses incurred in the acquisition, construction or redevelopment and management of the property, as well as changes in its market value.

The Group's ability to generate revenues from its portfolio is linked to occupancy levels, rental payments (including the timeliness thereof) and the scope for rental increases. These factors are themselves determined to varying degrees by a number of other general economic factors outside of the Group's control, including, but not limited to: the underlying performance of the tenants that rent space in those properties, which is influenced by consumer spending and fluctuations in disposable income, the solvency of retailers, the availability of lending and consumer credit, the level of consumer indebtedness, consumer and business confidence, gross domestic product growth, infrastructure quality, financial performance and productivity of industry, levels of employment, interest rates, tax rates, business rates, government policies on spending and/or fiscal stimulus, trends in house prices, fluctuations in weather and other seasonal cycles, taxation, changes in laws and governmental regulations in relation to property (including those governing permitted and planning usage, taxes and governmental charges, health and safety and environmental compliance) and oil prices. The Group manages its properties with a focus on net income but is also mindful of protecting values and tenant mix strategies for medium and long term value creation.

Negative changes in a significant number of the Group's tenants, including actual tenant failure, could result in a substantial decrease in the Group's rental income, which would have an adverse impact on the Group's business, financial condition and/or results of operations.

Both rental income and the value of properties may also be affected by other factors specific to the real estate market, such as competition from other property owners, the perception by prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rent because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and release space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

Any significant decline in the valuation of the Group's property portfolio would have an adverse impact on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make any payments on the Bonds.

Risks relating to the outcome of Brexit

The UK held a referendum on its continued membership of the European Union on 23 June 2016, the result of which was a majority vote in favour of the UK's exit from the European Union. Following this vote, on 29 March 2017, the UK Government issued a withdrawal notice pursuant to Article 50 of the Lisbon Treaty, commencing the process for Brexit. The political, economic, legal and social consequences, the exact timing of Brexit and the ultimate agreement to be reached between the UK and the European Union regarding Brexit remain uncertain as at the date of this Prospectus. The longer-term potential for there to be another referendum on Scottish independence has also grown in the wake of the UK's triggering of Article 50, with the Scottish Parliament voting on 28 March 2017 in favour of requesting a second independence referendum from the UK government on or around the time of Brexit. This increases the uncertainty arising from Brexit.

Such potentially prolonged uncertainty and the potential negative economic trends that may follow, for example, a fall in GDP and a significant and prolonged devaluation of sterling, could have a material adverse effect on the Group's business, financial position and/or results of operations, including the availability and cost of finance for investment and development activity, tenants' ability to service rental costs, tenants' willingness to enter into long-term commitments, an increase in construction and other development costs potentially impacting on the viability of development activities, investment flows into real estate and the valuation of real estate in the United Kingdom. Any such material adverse effect on the Group's business, financial position and/or results of operations could have a material adverse impact on the Issuer's ability to make payments on the Bonds.

Market conditions will affect the Group's ability to adjust its portfolio strategically

While the Issuer is not a limited life company and is under no obligation to sell its assets within a fixed time frame, there can be no assurance that, at the time it seeks to dispose of its assets, conditions in the relevant market will be favourable or that the Group will be able to maximise the returns on such disposed assets. As property assets are relatively illiquid (see the risk factor below headed "*The market for the Group's real estate investments is relatively illiquid and may result in low disposal prices or an inability to sell certain properties*" for further information), such illiquidity may affect the Group's ability to adjust, dispose of, or liquidate its portfolio in a timely fashion and at satisfactory prices. To the extent that market conditions are not favourable, the Group may not be able to dispose of property assets at a gain or at all. If the Group were required to dispose of or liquidate an investment on unsatisfactory terms, it may realise less than the value at which the investment was previously recorded in its accounts, which could result in a decrease in net asset value and which would, in turn, have a negative impact on the Group's financial condition and/or results of operations as well as potentially having a negative impact on its wider business.

Further, in acquiring a particular property, the Group may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. In addition, in circumstances where the Group purchases properties when capitalisation rates are low and purchase prices are high, the value of properties may not increase over time. This may restrict the Group's ability to sell its properties or, in the event that it is able to sell such a property, may lead to losses on the sale. As a result of the foregoing, there can be no assurance that the Issuer will be able to fulfil its obligations on the Bonds.

The Group's success depends on attracting and retaining key personnel

The Group's success depends, to a significant extent, on the continued services of the Asset Manager's management team, which has substantial experience in the property industry. In addition, the Group's ability to continue to identify, manage and develop properties depends on the Asset Manager's management team's knowledge of, and expertise in, the property market. The sudden and/or unanticipated loss of the services of one or more members of that management team could have an adverse effect on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make payments on the Bonds.

The Group is exposed to the effects of material business disruption or other detrimental events

Natural disasters, terrorist attacks, power outages or other detrimental events, whether man-made or natural in origin, that prevent the Group from using all or a significant part of its offices or computer systems, or that otherwise disrupt operations, may make it difficult and, in some cases, impossible for the Group to continue to operate its business for a substantial period of time which could materially and adversely affect the Group's business, results of operations and financial performance and consequently, on the Issuer's ability to make payments on the Bonds. Whilst the Group has in place disaster recovery plans and procedures which the Issuer considers to be appropriate, there can be no assurance that these will be adequate to ensure that any disruption is minimised.

Interest rate risk

Where the Group has borrowed on a variable rate basis it has entered into derivative instruments to mitigate the risk of movements in interest rates. The Group's policy is that any future variable rate borrowings may also be appropriately hedged. To the extent that the relevant members of the Group do not enter into hedging arrangements, or if such arrangements are no longer available or are only available on unacceptable terms, the Group may be exposed to interest rate risk and consequently, on the Issuer's ability to make payments on the Bonds. It is the Group's target to hedge at least 90 per cent. of the total debt portfolio using interest rate derivatives and fixed rate facilities.

Risks relating to real estate

The risk factors below relating to real estate may have a material adverse effect on the Group's financial condition, business, prospects and results of operations which may affect the Group's ability to make payments under the terms of the Loan Agreements and to otherwise assist the Issuer to make payments on the Bonds.

The valuation of the Group's property is inherently subjective and uncertain and is based on assumptions which may prove to be inaccurate

The valuation of the Group's properties is inherently uncertain due to, amongst other things, the individual nature of each property, its location and the expected future rental revenues from that particular property and the fact that the valuation of property is inherently a subjective exercise based on a range of assumptions and estimations which require professional judgment. The Group's Property Portfolio has been valued by external valuers half-yearly on a fair value basis in accordance with the RICS Valuation – Professional Standards (Incorporating the International Valuation Standards) January 2014 prepared by the Royal Institution of Chartered Surveyors. In determining market value, the valuers are required to make certain assumptions. Such assumptions may prove to be inaccurate. Incorrect assumptions or flawed assessments underlying a valuation report could negatively affect the Group's financial condition and potentially inhibit the Group's ability to realise a sale price that reflects the stated valuation. This is particularly so in periods of volatility or when there has been limited transactional evidence against which property valuations can be benchmarked. Further, if the Group acquires properties based on inaccurate valuations, the Group's net assets and results of operations may be materially adversely affected. There can be no assurance that the valuations of the Group's current and prospective properties will be reflected in actual transaction prices, even where any such transactions occur shortly after the relevant valuation date, or that the estimated yield and estimated annual rental income will prove to be attainable. In addition, property valuations are dependent on the level of rental income receivable and anticipated to be receivable on that property in the future and, as such, declines in rental income could have an adverse impact on revenue and the value of the Group's properties. Any such adverse impact could have a material adverse effect on the Issuer's ability to make payments on the Bonds.

Due diligence may not identify all risks and liabilities in respect of an acquisition

Prior to entering into an agreement to acquire any property, the Group will perform due diligence on the proposed investment. In doing so, it would typically rely, in part, on third parties to conduct a significant portion of this due diligence (including legal reports on title and property valuations). To the extent that the Group or

other third parties underestimate or fail to identify risks and liabilities associated with the investment in question, the investment may be subject to defects in title; to environmental, structural or operational defects requiring investigation, removal or remediation; or the Group may be unable to obtain necessary permits.

If there is a due diligence failure, there may be a risk that properties are acquired that are not consistent with the Issuer's investment strategy, that properties are purchased for a price which exceeds their realistic value or that properties are acquired that fail to perform in accordance with projections and this may have a material adverse effect on the Group and consequently, on the Issuer's ability to make payments on the Bonds.

The Group may not be able to maintain or increase the rental rates for its properties, which may, in the longer term, have a material adverse impact on the value of the Group's properties, as well as the Group's turnover

The value of the Property Portfolio, and the Group's turnover will be dependent on the rental rates that can be achieved from the Property Portfolio. The ability of the Group to maintain or increase the rental rates for its properties generally may be adversely affected by general UK economic conditions. In addition, there may be other factors that depress rents or restrict the Group's ability to increase rental rates, including local factors relating to particular properties/locations (such as increased competition). Any failure to maintain or increase the rental rates within the Property Portfolio generally may have a material adverse effect on the Issuer's ability to fulfil its obligations in respect of the Bonds and to meet interest and capital repayments on any debt facilities.

The market for the Group's real estate investments is relatively illiquid and may result in low disposal prices or an inability to sell certain properties

The Group's properties, and those in which the Group may invest in the future, are relatively illiquid in the sense that there may not be ready buyers with financing and who are willing to pay fair value at the time the Group desires to sell. In addition, in the case of leasehold properties, consents are often required from landlords to transfer such properties. Such illiquidity and/or consent requirements may affect the Group's ability to dispose of, or liquidate part of, its portfolio in a timely fashion and at satisfactory prices (or at all) in response to changes in economic, real estate market or other conditions or to finance its risk-controlled development activity. In the case of an accelerated sale, or a sale required for compliance with covenants contained in the Group's financing, or in the event of enforcement of security by a lender under one of the Group's borrowing facilities, there may be a significant shortfall between the carrying value of the property on the Group's consolidated balance sheet and the price achieved on the disposal of such property, and there can be no assurance that the price obtained from such a sale would cover the book value of the property sold.

Periods of reduced liquidity in the capital markets may also mean that it may be difficult to achieve the sale of property assets at prices reflecting the Group's property valuations. In addition, the lack of relevant transactional evidence increases the possibility of being unable to achieve successful sales of properties at acceptable prices. Failure to achieve successful sales of properties in the future at acceptable prices could have an adverse impact on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make payments on the Bonds.

The Group may be exposed to future liabilities and/or obligations with respect to the disposal of property investments

The Group may be exposed to future liabilities and/or obligations with respect to the disposal of its property investments. The Group may be required, or may consider it prudent, to set aside provisions for warranty claims or contingent liabilities in respect of property disposals. The Group may be required to pay damages (including, but not limited to, litigation costs) to a purchaser to the extent that any representations and/or warranties that it has given to a purchaser prove to be inaccurate or to the extent that it has breached any of its covenants or obligations contained in the disposal documentation. In certain circumstances, it is possible that any representations and/or warranties incorrectly given could give rise to a right by the purchaser to rescind the contract in addition to the payment of damages. Further, the Group may become involved in disputes or litigation in connection with such disposed investments. Certain obligations and liabilities associated with the

ownership of investments (such as certain environmental liabilities) can also continue to exist notwithstanding any disposal. Any such claims, litigation or obligations, and any steps which the Group is required to take to meet such costs, such as sales of assets or increased borrowings, may have a material adverse effect on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make payments on the Bonds.

Real estate development may incur more cost and time than expected

Returns from investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the repair, maintenance and management of the property, as well as upon changes in its market value. Development or redevelopment expenditure may be necessary in the future to preserve the rental income generated from and/or the value of properties, and this may affect the Group's profits and/or cashflows and consequently, the Issuer's ability to make payments on the Bonds.

Redevelopment, refurbishment and/or expansion potential may be adversely affected by a number of factors

The potential for the redevelopment, refurbishment and/or expansion of properties may be adversely affected by a number of factors, including constraints on location, planning legislation and the need to obtain other licences, consents and approvals and the existence of restrictive covenants affecting the title to such property. Consequently, on some of its assets, there may not be an opportunity for the Group to carry out redevelopment or expansion or refurbishment or enhancement work, which, in each case, may have an adverse effect on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make payments on the Bonds.

The quality of tenants and occupancy levels at the Group's properties may decline over time as leases expire, having an adverse effect on the Group's business, financial condition and results of operations

There can be no assurance that existing tenants of the Group will renew their respective leases on expiry of their existing leases and, if they do not, that new tenants of equivalent standing (or at all) will be found to take up replacement leases. This is particularly the case where a property requires refurbishment or redevelopment following the expiry of the tenancy. Tenants with the benefit of contractual break rights may also exercise these to bring the lease to an end before the contractual termination date. Furthermore, even if renewals are effected or replacement leases granted, there can be no assurance that such renewals or replacement leases will be on terms (including as to rental levels) as favourable as those which exist now or before such termination, nor that the financial strength of tenants who renew their leases or new tenants who replace them will be the same as, or equivalent to, those now existing or existing before such termination. In addition, there can be no assurance that a significant number of existing and/or future leases will not expire at the same time or within a short period of each other, either with respect to any particular property or across all or a large number of properties, thereby concentrating any such occupancy risk within a limited time period. During void periods, the Group will suffer a rental shortfall and incur additional expenses until the property is re-let. Any prolonged period of reduced occupancy could have an adverse effect on the Group's business, financial condition and/or results of operations.

The Group's consolidated balance sheet and income statement may be significantly affected by fluctuations in the fair market value of the Group's properties as a result of revaluations

In accordance with IAS 40, as adopted by the European Union, the Group's properties are independently revalued on a biannual basis and any increase or decrease in the value of its properties is recorded in the Group's income statement in the period during which the revaluation occurs. As a result, the Group can have significant non-cash gains and losses from period to period depending on the change in the fair value of its properties, whether or not such properties are sold, and could have difficulty maintaining its internal target balance sheet gearing ratio and other financial measures. Any such fluctuations could have an adverse impact on the Group's business, financial condition and/or results of operations and consequently, on the Issuer's ability to make payments on the Bonds.

The Group may be subject to environmental liabilities

As the owner of real property, the Group is subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Group acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Group is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Risks relating to service providers

These factors may have a material adverse effect on the Issuer's financial condition, business, prospects and results of operations which may affect its ability to make payments on the Bonds to the Bondholders.

The Issuer has no employees and is reliant on the performance of third party service providers

The Issuer has no employees and the Directors of the Issuer are non-executive directors. While the Issuer has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Issuer is reliant upon the performance of third party service providers for certain of its executive functions. In particular, the Asset Manager, the Investment Manager, the Administrator, the Company Secretary, the Share Registrar, the Depositary and the Valuers each perform services which are integral to the operation of the Issuer. Failure by any such service provider to carry out its obligations in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Issuer and its ability to make payments on the Bonds.

The past performance of other investments managed or advised by the Asset Manager, the Investment Manager or their respective investment professionals cannot be relied upon as an indicator of the future performance of the Group. The success of the Group depends, inter alia, on the ability of the Asset Manager, with the assistance from the Investment Manager, to identify, acquire, refurbish, let and realise properties in accordance with the Issuer's investment objective. This, in turn, depends on the ability of the Asset Manager to apply its investment analysis processes in a way which is capable of identifying suitable properties for the Issuer to invest in. There can be no assurance that the Asset Manager will be able to do so or that the Issuer will be able to invest its assets on attractive terms or avoid investment losses. Failure by any such service provider to carry out its obligations in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Issuer and its ability to make payments on the Bonds.

The Issuer is dependent on the expertise of the Asset Manager and the Investment Manager and their respective key personnel to evaluate investment opportunities and to assist in the implementation of the Issuer's investment objective and Investment Policy

In accordance with the Asset Management Agreement and Investment Management Agreement, the Asset Manager is responsible for providing property management services to the Issuer and the Investment Manager is responsible for providing AIFM services to the Issuer pursuant to the AIFM Directive. Accordingly, the Issuer is reliant upon, and its success depends on, the Asset Manager and Investment Manager and its personnel, services and resources.

Consequently, the future ability of the Issuer to successfully pursue its investment objective and Investment Policy may, among other things, depend on the ability of the Asset Manager and Investment Manager to retain their respective existing staff and/or to recruit individuals of similar experience and calibre. Whilst the Asset Manager and Investment Manager have each endeavoured to ensure that the principal members of its management team are suitably incentivised, the retention of key members of the team cannot be guaranteed. Furthermore, in the event of a departure of a key employee of the Asset Manager or Investment Manager, there is no guarantee that the Asset Manager or Investment Manager (as applicable) would be able to recruit a suitable replacement or that any delay in doing so would not adversely affect the performance of the Issuer. Events

impacting but not entirely within the Asset Manager's or Investment Manager's control, such as its financial performance, it being acquired or making acquisitions or changes to its internal policies and structures could in turn affect its ability to retain key personnel.

Under the terms of the Asset Management Agreement and the Investment Management Agreement, the Asset Manager and Investment Manager, respectively, are required to devote appropriate time and resources to the Issuer's investments. However, if the Asset Manager or Investment Manager fails to allocate the appropriate time or resources to the Issuer's investments, the Issuer may be unable to achieve its investment objective. In addition, although the Asset Management Agreement and the Investment Management Agreement require the Asset Manager and Investment Manager, respectively, to dedicate suitably qualified personnel to the Issuer's business or to require personnel servicing the Issuer's business to allocate a specific amount of time to the Issuer they may not be able to do so.

The Issuer is also subject to the risk that the Asset Management Agreement or Investment Management Agreement may be terminated and that no suitable replacement will be found. If the Asset Management Agreement or Investment Management Agreement is terminated and a suitable replacement is not secured in a timely manner or key personnel of the Asset Manager or Investment Manager (as applicable) are not available to the Issuer with an appropriate time commitment, the ability of the Issuer to execute its investment objective and Investment Policy may be adversely affected.

The obligations of the Asset Manager under the Asset Management Agreement are not guaranteed by any other person. The obligations of the Investment Manager under the Investment Management Agreement are not guaranteed by any other person.

If any of the risks detailed above were to materialise it may have a material adverse effect on the ability of the Issuer to make payments on the Bonds.

The Asset Manager or its associates may have conflicts of interest

The services of the Asset Manager, its associates and their respective officers and employees, are not exclusive to the Issuer. Although the Asset Manager has in place a conflicts of interest policy (which complies with the Investment Policy), in fulfilling its responsibilities to the Issuer, it will be subject to certain conflicts of interest arising from its relations with third parties to whom it also owes duties or in whom it has an interest. These potential conflicts of interest may result in the Asset Manager being unable to carry out its obligations in accordance with the terms of its appointment which could have a materially detrimental impact on the operation of the Issuer and the Issuer's ability to make payments on the Bonds.

The Investment Manager or its associates may have conflicts of interest

The services of the Investment Manager, its associates and their respective officers and employees, are not exclusive to the Issuer. Although the Investment Manager has in place a conflicts of interest policy (which complies with the Investment Policy), in fulfilling its responsibilities to the Issuer, it will be subject to certain conflicts of interest arising from its relations with third parties to whom it also owes duties or in whom it has an interest. These potential conflicts of interest may result in the Investment Manager being unable to carry out its obligations in accordance with the terms of its appointment which could have a materially detrimental impact on the operation of the Issuer and the Issuer's ability to make payments on the Bonds.

Risks relating to taxation and regulation

Risks relating to the REIT status of the Group

The Group is, at the date of this Prospectus, a group UK REIT.

The requirements for maintaining REIT status are complex. While minor breaches of the REIT regime conditions and requirements may result only in specific additional amounts of tax being payable or will not be punished if remedied within a given period of time (provided that the regime is not breached more than a certain

number of times), the Issuer cannot guarantee that the Group will maintain continued compliance with all of the REIT conditions. There is a risk that the REIT regime may cease to apply in some circumstances. HM Revenue and Customs ("**HMRC**") may require the Group to exit the REIT regime if:

(a) it regards a breach of the conditions relating to the REIT regime (including in relation to its property business) or an attempt to obtain a tax advantage as sufficiently serious;

(b) the Group has committed a certain number of breaches in a specified period; or

(c) HMRC has given the Group at least two notices in relation to the obtaining of a tax advantage within a ten-year period.

In addition, if the conditions for REIT status relating to the share capital of the Issuer or the prohibition on entering into certain prohibited loans are breached or the Issuer ceases to be UK tax resident, becomes dual tax resident or becomes an open-ended investment company, or (in certain circumstances) ceases to satisfy the close company conditions or ceases to be listed or traded, the Group will automatically lose REIT status.

The Group could therefore lose its status as a REIT as a result of actions by third parties, for example, in the event of a successful takeover by a company that is not a REIT (and which does not qualify as an institutional investor under Section 528(4A) CTA 2010) or due to a breach of the close company condition if it is unable to remedy the breach within a specified timeframe. If the Group were to be required to leave the REIT regime within ten years of joining, HMRC has wide powers to direct how it would be taxed, including in relation to the date on which the Issuer would be treated as exiting the REIT regime. If the Group fails to remain qualified as a REIT, its rental income (and any capital gains within the scope of UK taxation) will be subject to UK tax. In addition, incurring a tax liability might require the Group to borrow funds, liquidate some of its assets or take other steps that could negatively affect its operating results.

This could have a material impact on the financial condition of the Group and, consequently, on the ability of the Issuer to make payments on the Bonds.

Tax charges in respect of distributions to holders of excessive rights

A REIT may become subject to an additional tax charge if it pays a dividend to, or in respect of, a holder of excessive rights (as defined in section 553 CTA 2010). This additional tax charge will not be incurred if the REIT has taken reasonable steps to avoid paying dividends to, or in respect of, a holder of excessive rights. Therefore, the Articles contain provisions designed to avoid the situation where dividends may become payable to a holder of excessive rights. These provisions provide the Issuer with powers to identify holders of excessive rights and to prohibit the payment of dividends on Ordinary Shares that form part of a holding of excessive rights, unless certain conditions are met. The Articles also allow the board of directors of the Issuer as described in 6 (*Description of the Issuer and the Group*) (the "**Board of the Issuer**") to require the disposal of Ordinary Shares forming part of a holding of excessive rights in certain circumstances where the holder of excessive rights has failed to comply with the above provisions.

Nonetheless, if any of these provisions were ineffective and the Issuer were subject to such additional tax charge it may have an adverse effect on the Issuer's ability to make payments on the Bonds.

Tax charges associated with borrowings

Under the UK REIT legislation, a UK tax charge will arise on the Issuer if, in respect of an accounting period, the Group's ratio of income profits to financing costs (in respect of its qualifying property rental business) is less than 1.25:1. If such tax charge were to arise it may have an adverse effect on the Issuer's ability to make payments on the Bonds.

Changes in taxation rules

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this Prospectus are those currently available and their value depends on the individual circumstances of investors. Any change in the Issuer or Group's tax status or in taxation legislation in the UK or any other tax jurisdiction could affect the value of the investments held by the Issuer, or affect the Issuer's ability to achieve its investment objective. Changes to tax legislation could include the imposition of new taxes or increases in tax rates. In particular, an increase in the rates of stamp duty land tax could have a material impact on the price at which UK land can be sold, and therefore on asset values and, consequently, on the Issuer's ability to make payments on the Bonds. **If you are in any doubt as to your tax position, you should consult your own professional adviser without delay.**

Any changes under Guernsey law could affect the Issuer's ability to be a REIT

The Issuer is incorporated in Guernsey although it is managed, controlled and taxed in the UK. In order to qualify as a REIT, the Issuer must be tax resident in the UK and in no other jurisdiction. Failure to satisfy this condition would result in immediate expulsion from the REIT regime. An exemption has been obtained, with the effect that the Issuer is not tax resident in Guernsey. Any changes under Guernsey law or failure to obtain or renew its status as an exempt company for Guernsey tax purposes such that the Issuer is also considered tax resident in Guernsey could impact the Issuer's ability to satisfy the REIT conditions and consequently to remain within the REIT regime and, consequently, on the Issuer's ability to make payments on the Bonds.

Disposals of property

If a member of the Group disposes of a property in the course of a trade, any gain will generally be subject to corporation tax (currently at 19 per cent). For example, acquiring a property with a view to sale followed by a disposal of the asset would indicate a trading activity, whereas disposal of a property as part of a normal variation of a property rental portfolio would not indicate a trading activity. Whilst the Group does not intend to dispose of property in the course of a trade, there can be no assurance that HMRC will not scrutinise any disposals and successfully contend that any or some of them have been in the course of a trade, with the consequence that corporation tax may be payable in respect of any profits from the disposal of such property.

Distribution requirements may limit the Issuer's flexibility in executing its acquisition plans

The REIT distribution requirements may limit the Issuer's ability to fund acquisitions and capital expenditures through retained income earnings. To maintain REIT status (and therefore full exemption from UK corporation tax and UK income tax on the profits of the Group's qualifying property rental business), the Issuer is required to distribute annually to Shareholders an amount sufficient to meet the 90 per cent. distribution test by way of property income distributions. As a result of this condition, the Issuer's ability to grow through acquisition of new assets and development of existing assets could be limited if the Issuer was unable to obtain debt or issue shares.

These factors may have a material adverse effect on the Issuer's financial condition, business, prospects and results of operations which may affect its ability to make payments on the Bonds.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Risks related to the Bonds

The Bonds are not protected by the Financial Services Compensation Scheme ("FSCS")

Unlike a bank deposit, the Bonds are not protected by the FSCS. As a result, neither the FSCS nor anyone else will pay compensation to you upon the failure of the Issuer to pay amounts owing under the Bonds. If the Issuer goes out of business or becomes insolvent, the Bondholders may lose all or part of their investment in the Bonds.

The value of the Bonds could be adversely affected by a change in English law

The structure of the issue of the Bonds is based on English law, regulatory and administrative practice in effect as at the date of this Prospectus, and has due regard to the expected tax treatment of all relevant entities under UK tax law and the published practice of HMRC in force or applied in the UK as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory or administrative practice in the UK, or to UK tax law, or the interpretation or administration thereof, or to the published practice of HMRC as applied in the UK after the date of this Prospectus.

Risk of early repayment

In the event of any change in tax law after the Bonds have been issued that would result in the Issuer being required to pay any additional amount in respect of a withholding or deduction on account of tax, the Bonds may be repaid if the Issuer chooses to do so pursuant to Condition 7.2. The redemption price in these circumstances is at the principal amount of the Bonds plus accrued interest.

Upon repayment of the Bonds, if you chose to reinvest the repayment proceeds from the Bonds, you may not be able to reinvest those proceeds at an effective interest rate as high as the interest rate on the Bonds being repaid and may only be able to do so at a significantly lower rate. At the time you invest in the Bonds, you should consider this reinvestment risk in light of other investments available at that time.

The Terms and Conditions of the Bonds contain provisions which may permit their modification, waiver and substitution without the consent of all Bondholders

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit majorities of certain sizes to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a different manner than the majority did. Therefore, for instance, if a significant majority of Bondholders were to vote to amend the Terms and Conditions of the Bonds (for example, to change the final maturity date of the Bonds) then that amendment would be binding on all other Bondholders.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to: (a) any modification of any of the provisions of the trust deed constituting the Bonds dated 6 August 2018 (the "**Trust Deed**") that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven; (b) any other modification of, and any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed if, in the opinion of the Trustee such modification is not materially prejudicial to the interests of the Bondholders; or (c) the substitution of another member of the Group as principal debtor under the Bonds in place of the Issuer, in the circumstances described in Condition 14 and subject to the satisfaction of certain conditions.

Status and ranking of the Bonds

The Bonds constitute unsecured debt obligations of the Issuer. As of the date of this Prospectus, the Issuer's only outstanding debt is its guarantee of Midco's obligations to fund the repayment of the zero dividend preference shares issued by Regional REIT ZDP PLC (see Section 9 (*Additional Information*) for further information about the guarantee). The Bonds will rank *pari passu* (i.e. equally in right of payment), without any preference between themselves, and with all other outstanding unsecured and unsubordinated debt obligations of the Issuer should they incur any, save for certain debts preferred by law. Bondholders will therefore not have any direct claim against the assets of the Issuer.

Trustee indemnity

In certain circumstances, the Bondholders may be dependent on the Trustee to take certain actions in respect of the Bonds. Prior to taking such action, pursuant to the Terms and Conditions of the Bonds the Trustee may require to be indemnified and/or secured and or pre-funded to its satisfaction. If so, and the Trustee is not indemnified and/or secured and/or pre-funded to its satisfaction, it may decide not to take such action and such

inaction will not constitute a breach by it of its obligations under the Trust Deed. Consequently, the Bondholders would have either to provide such indemnity and/or security and/or pre-funding or accept the consequences of such inaction by the Trustee. Bondholders should be prepared to bear the costs associated with any such indemnity and/or security and/or pre-funding and/or the consequences of any potential inaction by the Trustee. Such inaction by the Trustee will not entitle Bondholders to take action directly against the Issuer to pursue remedies for any breach by it of terms of the Trust Deed or the Bonds unless the Trustee has failed within a reasonable time to do so.

Holding CREST depository interests

You may hold the Bonds through Euroclear UK & Ireland Limited (formerly known as CREST Co Limited) ("**CREST**"). CREST allows bondholders to hold bonds in a dematerialised form, rather than holding physical bonds. Instead of issuing physical bonds, CREST issues what are known as depositary interests which are held and transferred through CREST ("**CDIs**"), representing the interests in the relevant Bonds underlying the CDIs (the "**Underlying Bonds**"). Holders of CDIs (the "**CDI Holders**") will not be the legal owners of the Underlying Bonds. The rights of CDI Holders to the Underlying Bonds are represented by the relevant entitlements against CREST Depository Limited (the "**CREST Depository**") through which CREST International Nominees Limited (the "**CREST Nominee**") holds interests in the Underlying Bonds. Accordingly, rights under the Underlying Bonds cannot be enforced by CDI Holders directly against the Issuer; instead they must be enforced through CREST. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Bonds in the event of any insolvency or liquidation of any of CREST, the CREST Depositary and the CREST Nominee, in particular where the Underlying Bonds held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of CREST.

The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the Issuer, including the global deed poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated) ("**CREST Deed Poll**"). You should note that the provisions of the CREST Deed Poll, the CREST International Manual dated 14 April 2008 as amended, modified, varied or supplemented from time to time (the "**CREST Manual**") and the CREST Rules contained in the CREST Manual applicable to the CREST International Settlement Links Service (the "**CREST Rules**") contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the CREST Depository. CDI Holders are bound by such provisions and may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the amounts originally invested by them. As a result, the rights of and returns received by CDI Holders may differ from those of holders of Bonds which are not represented by CDIs.

In addition, CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service (the "**CREST International Settlement Links Service**"). These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Bonds through the CREST International Settlement Links Service.

You should note that none of the Issuer, the Manager, the Trustee or the Paying Agent will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

You should note that the CDIs are the result of the CREST settlement mechanics and are not the subject of this Prospectus.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

There may not be a liquid secondary market for the Bonds and their market price may be volatile

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, neither the Manager nor any other person is under an obligation to maintain such a market for the life of the Bonds and the market may not be liquid. Therefore, you may not be able to sell your Bonds easily or at prices that will provide you with a then current yield comparable to similar investments that have a developed secondary (i.e. after the Issue Date) market. The Bonds are sensitive to interest rate, currency or market risks and are designed to meet the investment requirements of limited categories of investors. For these reasons, the Bonds generally will have a limited secondary market. This lack of liquidity may have a severely adverse effect on the market value of the Bonds.

The Manager is expected to be appointed as registered market-maker on the Order book for Retail Bonds in respect of the Bonds from the date of admission of the Bonds to trading. Market-making means that a person will quote prices for buying and selling the Bonds during trading hours. However, the Manager may not continue to act as market-maker for the life of the Bonds. If a replacement market-maker was not appointed in such circumstances, this could have an adverse impact on your ability to sell the Bonds.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent the Bonds are legal investments for it. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

A credit rating is only an opinion and is subject to change

At the date of this Prospectus, the Issuer has not been assigned a credit rating by any independent credit rating agency and, accordingly, the Bonds have not been assigned a credit rating by any independent credit rating agency. Investors will need to make their own assessment of the credit of the Issuer and the other factors which may affect the value of the Bonds without the benefit of an independent credit rating.

There can be no guarantee that a credit rating will be assigned to the Issuer or the Bonds in the future. Even if such a credit rating is obtained, investors in the Bonds should be aware that a credit rating is not a recommendation to buy, sell or hold any of the Bonds and any credit rating that may be assigned to the Bonds may be subject to suspension, change or withdrawal at any time by the rating agency. Any credit rating that may be assigned to the Bonds may go down as well as up.

Yield

The indication of yield (i.e. the income return on the Bonds) stated within this Prospectus (see Section 3 (*Information about the Bonds – What is the yield on the Bonds?*)) applies only to investments made at (as opposed to above or below) the issue price of the Bonds. If you invest in the Bonds at a price other than the issue price of the Bonds, the yield on the investment will be different from the indication of yield on the Bonds as set out in this Prospectus.

Realisation from sale of the Bonds may be less than your original investments

If you choose to sell the Bonds at any time prior to their maturity, the price received from such sale could be less than the original investment you made. Factors that will influence the price may include, but are not limited to, market appetite, inflation, the time of redemption, interest rates and the current financial position and an assessment of the future prospects of the Issuer.

Changes in interest or inflation rates may adversely affect the value of the Bonds

The Bonds bear interest at a fixed rate rather than by reference to an underlying index. Accordingly, you should note that if interest rates rise, then the income payable on the Bonds might become less attractive and the price that you could realise on a sale of the Bonds may fall. However, the market price of the Bonds from time to time has no effect on the total income you receive on maturity of the Bonds if you hold the Bonds until the Maturity Date. Further, inflation will reduce the real value of the Bonds over time, which may affect what you could buy with your investment in the future and may make the fixed rate payable on the Bonds less attractive in the future, again affecting the price that you could realise on a sale of the Bonds.

The clearing systems

Because the Global Certificate may be held by or on behalf of Euroclear and Clearstream, Luxembourg and a nominee of the common depository of such clearing systems entered in the register of Bondholders, you will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Bonds will be evidenced by the Global Certificate. Such Global Certificate may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, you will not be entitled to receive Certificate Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the interests in the Global Certificate. While the Bonds are represented by the Global Certificate, you will be able to trade your interests only through Euroclear or Clearstream, Luxembourg.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under such Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Certificate.

Holders of interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg.

3

INFORMATION ABOUT THE BONDS

INFORMATION ABOUT THE BONDS

The following is an overview of the key terms of the Bonds.

The full Terms and Conditions of the Bonds are contained in Appendix 2. It is important that you read the entirety of this Prospectus, including the Terms and Conditions of the Bonds, before deciding to invest in the Bonds. If you have any questions, you should seek advice from your independent financial adviser or other professional adviser before deciding to invest.

		Refer to
What are the Bonds?	The Bonds are debt instruments issued by the Issuer. The Bonds will be subject to the "*Terms and Conditions of the Bonds*" which are set out in Appendix 2. The Bonds:	Appendix 2 (*Terms and Conditions of the Bonds*)
	(a) entitle Bondholders to receive semi-annual interest payments at a fixed interest rate of 4.5 per cent. per annum;	
	(b) have a principal amount of £100 per Bond;	
	(c) must be paid back in full on 6 August 2024 (the "**Maturity Date**");	
	(d) in certain circumstances however, may be repaid prior to the Maturity Date if the Issuer chooses to do so;	
	(e) are not secured by the Issuer's assets; and	
	(f) are intended to be admitted to trading on the London Stock Exchange, through its Order book for Retail Bonds.	
Who is issuing the Bonds?	The Bonds will be issued by Regional REIT Limited (the "**Issuer**").	Section 6 (*Description of the Issuer and the Group*)
What is the relationship between the Issuer and the Group?	The Issuer is a holding company. It is the parent company of the group comprising of the Issuer and its subsidiaries (the "**Group**").	Section 6 (*Description of the Issuer and the Group*)
Why are the Bonds being issued? What will the proceeds be used for?	The offer of the Bonds is being made in order to raise funding for the Group to be applied in part repayment of the external debt facilities of the Group set out in Section 9 (*Additional Information*), to increase the number of sources from which the Group obtains its funding and to spread the debt maturity profile of the Group. Section 9 (*Additional Information*) sets out all of the external debt facilities of the Group. After deduction of expenses incurred in connection with the issue, the proceeds from the issue of the Bonds will be advanced by the Issuer to one or more members of the Group to be applied as described above.	Section 6 (*Description of the Issuer and the Group*) Section 9 (*Additional Information – Material Contracts*)

Will I be able to trade the Bonds?	The Issuer will make an application for the Bonds to be admitted to trading on the London Stock Exchange plc, on its regulated market and through its electronic Order book for Retail Bonds (the "**ORB**"). If this application is accepted, the Bonds are expected to commence trading on or about 7 August 2018.	Section 9 (*Additional Information – Listing and admission to trading of the Bonds*)
	Once admitted to trading, the Bonds may be purchased or sold through a broker. The market price of the Bonds may be higher or lower than their issue price depending on, among other things, the level of supply and demand for the Bonds, movements in interest rates and the financial performance of the Issuer and the Group. See Section 2 (*Risk Factors – Risks related to the market generally – There may not be a liquid secondary market for the Bonds and their market price may be volatile*).	
How will interest payments on the Bonds be funded?	Interest payments in respect of the Bonds will effectively be paid from cash flows generated from the business of the Group, which, as referred to in "*What is the relationship between the Issuer and the Group*" above, is generally conducted through the Issuer's direct and indirect subsidiaries rather than by the Issuer itself.	Section 6 (*Description of the Issuer and the Group*)
What is the interest rate?	The interest rate payable on the Bonds will be fixed until the Maturity Date at 4.5 per cent. per annum.	Appendix 2 (*Terms and Conditions of the Bonds – Condition 5 (Interest)*)
Can the interest rate change?	No. The rate of interest payable on the bonds will be a fixed rate of 4.5 per cent. per annum for the life of the Bonds.	Appendix 2 (*Terms and Conditions of the Bonds – Condition 5 (Interest)*)
When will interest payments be made?	The first payment of interest in relation to the Bonds is due to be made on 6 February 2019. Following the first payment, interest is expected to be paid on 6 February and 6 August in each year up to and including the date the Bonds are repaid.	Appendix 2 (*Terms and Conditions of the Bonds – Condition 5 (Interest)*)
How is the amount of interest payable calculated?	The Issuer will pay a fixed rate of 4.5 per cent. interest per year in respect of the Bonds. Interest will be payable in two semi-annual instalments. Therefore, for each £100 principal amount of Bonds that you buy on 6 August 2018, for instance, you will receive £2.25 on 6 February 2019 and every six months thereafter until and including the Maturity Date (unless you sell the Bonds or they are repaid by the Issuer before the Maturity Date).	Appendix 2 (*Terms and Conditions of the Bonds – Condition 5 (Interest)*)

<table>
<tr><td>What is the yield on the Bonds?</td><td colspan="3">On the basis of the issue price of the Bonds being 100 per cent. of their principal amount and the rate of interest being 4.5 per cent. per annum, the initial yield (being the interest received from the Bonds expressed as a percentage of their principal amount) of the Bonds on the Issue Date is 4.5 per cent. on an annual basis. This initial yield is not an indication of future yield.</td><td>N/A</td></tr>
<tr><td>What will Bondholders receive in a winding up of the Issuer?</td><td colspan="3">If the Issuer becomes insolvent and is unable to pay its debts, an administrator or liquidator would be expected to make distributions to its creditors in accordance with a statutory order of priority. Your claim as a Bondholder would be expected to rank after the claims of any creditors that are given preferential treatment by applicable laws of mandatory application relating to creditors, but ahead of any shareholder of the Issuer. A simplified illustration of the expected ranking of the Bonds compared with other creditors of the Issuer is set out below:</td><td>N/A</td></tr>
<tr><td></td><td></td><td>Type of obligation</td><td>Examples of obligations</td><td></td></tr>
<tr><td></td><td>Higher Ranking</td><td>Proceeds of fixed charge assets</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Expenses of the liquidation /administration</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Preferential creditors</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Proceeds of floating charge assets</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Unsecured obligations, including guarantees in respect of them</td><td>Including the Bonds.</td><td></td></tr>
<tr><td></td><td>Lower Ranking</td><td>Shareholders</td><td>Ordinary shareholders</td><td></td></tr>
<tr><td></td><td colspan="3">However, as well as being aware of the ranking of the Bonds compared with the other categories of creditor, and shareholders of the Issuer, you should note that the Issuer does not own any assets other than shares in Midco, which itself holds all of its assets in its subsidiaries (see Section 6 (Description of the Issuer and the Group) for details of the Issuer's principal subsidiaries held through Midco) and therefore if the Issuer were to become insolvent, an administrator or liquidator would have limited assets of value to distribute and you would have no direct claim to the assets in the subsidiaries of Midco.</td><td></td></tr>
<tr><td></td><td colspan="3">The Issuer's right to participate in a distribution of Midco's assets upon its liquidation, re-organisation or insolvency is generally subject to any claims made against Midco, including creditors such as any lending bank and trade creditors. The obligations of the Issuer in respect of the Bonds are therefore structurally subordinated to any liabilities of Midco. Structural subordination in this context means that, in the event of a winding up or insolvency of Midco, the claims of any creditors of Midco would rank ahead of creditors of the Issuer (i.e. including Bondholders).</td><td></td></tr>
</table>

<table>
<tr><td></td><td colspan="3">A simplified illustration of the structural subordination of the Issuer's obligations under the Bonds to any liabilities of the Issuer's subsidiaries referred to above is set out below by way of example by reference to an indirect subsidiary of the Issuer, whose shares are held by Midco, RR UK (South) Limited.</td><td></td></tr>
<tr><td></td><td></td><td>Type of obligation</td><td>Examples of obligations</td><td></td></tr>
<tr><td></td><td>Higher Ranking</td><td>Proceeds of fixed charge assets</td><td>Fixed charges over assets securing loan facilities</td><td></td></tr>
<tr><td></td><td></td><td>Expenses of the liquidation /administration</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Preferential creditors</td><td>Currently none</td><td></td></tr>
<tr><td></td><td></td><td>Proceeds of floating charge assets</td><td>Floating charges over assets securing loan facilities</td><td></td></tr>
<tr><td></td><td></td><td>Unsecured obligations, including guarantees in respect of them</td><td>Trade creditors and unsecured obligations (including obligations as borrower or guarantor)</td><td></td></tr>
<tr><td></td><td>Lower Ranking</td><td>Shareholders</td><td>Midco as sole shareholder of the ordinary shares</td><td></td></tr>
<tr><td>Are the Bonds secured?</td><td colspan="3">The Issuer's obligations to pay interest and principal on the Bonds will not be secured either by any of the Issuer's or any other member of the Group's assets or otherwise.</td><td>N/A</td></tr>
<tr><td>Do the Bonds have a credit rating?</td><td colspan="3">At the date of this Prospectus, the Issuer has not been assigned a credit rating by any independent credit rating agency and, accordingly, the Bonds have not been assigned a credit rating by any independent credit rating agency.</td><td>Section 2 (Risk Factors)</td></tr>
<tr><td>When will the Bonds be repaid?</td><td colspan="3">The Issuer must repay all the Bonds on the Maturity Date (unless repaid earlier), which is 6 August 2024. The repayment price under such circumstances will be the principal amount of the Bonds.

The Issuer may repay all or any part of the Bonds prior to the Maturity Date in certain circumstances. In the event of any change in tax law after the Bonds have been issued that would result in the Issuer being required to pay any additional amount in respect of a withholding or deduction on account of tax, the Bonds may be repaid if the Issuer chooses to do so. The redemption price in these circumstances is at the principal amount of the Bonds plus accrued interest.</td><td>Appendix 2 (Terms and Conditions of the Bonds – Condition 7 (Redemption and Purchase))</td></tr>
<tr><td>Do the Bonds have voting rights?</td><td colspan="3">Bondholders have certain rights to vote at meetings of Bondholders, but are not entitled to vote at any meeting of shareholders of the Issuer or any member of the Group.</td><td>Appendix 2 (Terms and Conditions of the Bonds – Condition 15 (Meetings of Bondholders,</td></tr>
</table>

		Modification, Waiver, Authorisation and Determination))
Who will represent the interests of the Bondholders ?	U.S. Bank Trustees Limited (the "**Trustee**") is appointed to act on behalf of the Bondholders as an intermediary between Bondholders and the Issuer throughout the life of the Bonds. The main obligations of the Issuer (such as the obligation to pay and observe the various covenants in the Terms and Conditions of the Bonds) are owed to the Trustee. These obligations are enforceable by the Trustee only, not the Bondholders themselves. Although the entity chosen to act as Trustee is chosen and appointed by the Issuer, the Trustee's role is to protect the interests of the Bondholders.	Appendix 2 (*Terms and Conditions of the Bonds*)
Can the Terms and Conditions of the Bonds be amended?	The Terms and Conditions of the Bonds provide that the Trustee may agree to: (a) any modification of any of the provisions of the trust deed pursuant to which the Bonds are constituted dated 6 August 2018 (the "**Trust Deed**") that is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error (which is an indisputable error) or an error which, in the opinion of the Trustee, is proven; (b) waive, modify or authorise a proposed breach by the Issuer of a provision of the Trust Deed if, in the opinion of the Trustee, such modification is not prejudicial to the interests of the Bondholders; or (c) the substitution of a member of the Group as principal debtor under the Bonds in place of the Issuer, in certain circumstances and subject to the satisfaction of certain conditions. The Trustee can agree to any such changes without obtaining the consent of any of the Bondholders.	Appendix 2 (*Terms and Conditions of the Bonds – Condition 15 (Meetings of Bondholders, Modification, Waiver, Authorisation and Determination)*)
	Bondholders may also sanction a modification of the Terms and Conditions of the Bonds by passing an Extraordinary Resolution.	
How do I apply for Bonds?	Details on how to apply for the Bonds are set out in Section 4 (*How to apply for the Bonds*).	Section 4 (*How to apply for the Bonds*)
What if I have further queries?	If you are unclear in relation to any matter, or uncertain if the Bonds are a suitable investment, you should seek professional advice from your broker, solicitor, accountant or other independent financial adviser before deciding whether to invest.	N/A

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HOW TO APPLY FOR THE BONDS

HOW TO APPLY FOR THE BONDS

The following is a description of what you must do if you wish to apply for any Bonds.

How and on what terms will Bonds be allocated to me?	Applications to purchase the 4.5 per cent. bonds due 2024 (the "**Bonds**") cannot be made directly to Regional REIT Limited (the "**Issuer**"). Bonds will be issued to you in accordance with the arrangements in place between you and your stockbroker or other financial intermediary, including as to application process, allocations, payment and delivery arrangements. You should approach your stockbroker or other financial intermediary to discuss any application arrangements that may be available to you.
	It is important to note that none of the Issuer, Peel Hunt LLP (the "**Manager**") or U.S. Bank Trustees Limited (the "**Trustee**") are party to such arrangements between you and the relevant Authorised Offeror (being any financial intermediary which satisfies the conditions as set out in Section 10 (*Important Legal Information*). You must therefore obtain this information from the relevant "**Authorised Offeror**". Because they are not party to the dealings you may have with the Authorised Offeror, the Issuer, the Manager and the Trustee will have no responsibility to you for any information provided to you by the Authorised Offeror.
How many Bonds will be issued to investors?	The total amount of the Bonds to be issued will depend partly on the amount of Bonds for which indicative offers to purchase Bonds are received during the Offer Period (as defined below) but will not exceed an aggregate principal amount of £105 million. This total amount will be specified in an announcement which the Issuer intends to publish through a Regulatory Information Service (which is expected to be the Regulatory News Service operated by the London Stock Exchange plc (the "**London Stock Exchange**") (www.london stock exchange.com/exchange/news/market-news/market-news-home.html)) on or about 1 August 2018 (the "**Sizing Announcement**").
How and when must I pay for my allocation and when will that allocation be delivered to me?	You will be notified by the relevant Authorised Offeror of your allocation of Bonds (if any) and the arrangements for the Bonds to be delivered to you in return for payment.
When can the Authorised Offerors offer the Bonds for sale?	An offer of the Bonds may, subject to applicable law or regulation, be made by the Manager and the other Authorised Offerors in the U.K., the Bailiwick of Guernsey, Jersey and/or the Isle of Man during the period from 18 July 2018 until 12.00 (noon) (London time) on 1 August 2018, or such earlier time and date as agreed between the Issuer and the Manager and announced via a Regulatory Information Service (which is expected to be the Regulatory News Service operated by the London Stock Exchange) (the "**Offer Period**").
Is the offer of the Bonds conditional on anything else?	The issue of the Bonds is conditional upon the subscription agreement to be dated on or around 2 August 2018 (the "**Subscription Agreement**") being signed by the Issuer and the Manager. The Subscription Agreement will include certain conditions which must be satisfied (including the delivery of legal opinions and auditors comfort letters satisfactory to the Manager and the execution of the Trust Deed). If these conditions are not satisfied, the Manager may be released from its obligations under the Subscription Agreement before the issue of the Bonds. For further information on the Subscription Agreement, see Section 8 (*Subscription and Sale*).
Is it possible that I may not be	You may not be allocated all (or any) of the Bonds for which you apply. This might happen for example if the total amount of orders for the Bonds exceeds the number of

issued with the number of Bonds I apply for? Will I be refunded for any excess amounts paid?	Bonds that are issued. There will be no refund as you will not be required to pay for any Bonds until any application for the Bonds has been accepted and the Bonds have been allocated to you.
Is there a minimum or maximum amount of Bonds that I can apply for?	The minimum application amount for each investor is £2,000. There is no maximum amount of application.
How and when will the results of the offer of the Bonds be made public?	The results of the offer of the Bonds will be made public in the Sizing Announcement, which will be published prior to the Issue Date. The Sizing Announcement is currently expected to be made on or around 1 August 2018.
Who can apply for the Bonds? Have any Bonds been reserved for certain countries?	Subject to certain exceptions, and to applicable law and regulation, Bonds may only be offered by the Authorised Offerors in the U.K., the Bailiwick of Guernsey, Jersey and/or the Isle of Man during the Offer Period. No Bonds have been reserved for certain countries.
When and how will I be told of how many Bonds have been allotted to me?	You will be notified by the relevant Authorised Offeror of your allocation of Bonds (if any) in accordance with the arrangements in place between you and the Authorised Offeror.
Have any steps been taken to allow dealings in the Bonds before investors are told how many Bonds have been allotted to them?	No steps have been taken by the Issuer to allow the Bonds to be traded before informing you of your allocation of Bonds.
What is the amount of any expenses and taxes specifically that will be charged to me?	Neither the Issuer nor the Manager will charge you any expenses relating to an application for or purchase of any Bonds. However, expenses may be charged to you by an Authorised Offeror. These expenses are beyond the control of the Issuer, are not set by the Issuer and will be disclosed to any potential investor by the relevant Authorised Offeror at the relevant time. The Issuer estimates that, in connection with the sale of Bonds to you, the expenses charged to you by one of the Authorised Offerors known to the Issuer as at the date of the Prospectus may be between 0 per cent. and 7 per cent. of the aggregate nominal amount of the Bonds sold to you. This is an estimated range of expenses. The actual expenses to be charged will depend on your individual circumstances and your relationship with your stock broker or other financial adviser; they will vary from investor to investor.

What are the names and addresses of those distributing the Bonds?	As of the date of this Prospectus, the persons listed below are initial Authorised Offerors who have each been appointed by the Issuer and the Manager to offer and distribute, subject to applicable law or regulation, the Bonds in the U.K., the Bailiwick of Guernsey, Jersey and/or the Isle of Man during the Offer Period. AJ Bell Securities Limited 4 Exchange Quay Salford Quays Manchester M5 3EE Equiniti Financial Services Limited Level 6, Broadgate Tower 20 Primrose Street London EC2A 2EW iDealing Limited 114 Middlesex Street London E1 7HY Redmayne-Bentley LLP 9 Bond Court Leeds LS1 2JZ
	The Issuer has granted consent to the use of this Prospectus by other relevant stockbrokers and financial intermediaries during the Offer Period on the basis of, and so long as they comply with, the conditions described in Section 10 (*Important Legal Information - Consent*). Neither the Issuer nor the Manager has authorised, nor will it authorise, the making of any other offer of the Bonds in any other circumstances.
Will a registered market-maker be appointed?	The Manager will be appointed as registered market-maker through the Order for Retail Bonds in respect of the Bonds from the date on which the Bonds are admitted to trading on the London Stock Exchange. Market-making means that a person will quote prices for buying and selling the Bonds during trading hours.

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TAXATION

TAXATION

If you are considering applying for the Bonds, it is important that you understand the taxation consequences of investing in the Bonds. You should read this Section and discuss the taxation consequences with your tax adviser, financial adviser or other professional adviser before deciding whether to invest.

The summary below is intended as a general guide only, is not exhaustive, and is not intended to be, nor should it be construed to be, legal or tax advice. If you may be subject to tax in a jurisdiction other than the U.K. or Guernsey or are unsure as to your tax position, you should seek your own professional advice.

U.K.

The summary set out below reflects the Issuer's understanding of current U.K. law and published HMRC practice (which may not be binding on HMRC) as of the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. It applies only to persons who are the absolute beneficial owners of Bonds, who hold their Bonds as investments and (save where it is explicitly stated otherwise) who are resident and (in the case of individuals) domiciled for tax purposes in the U.K.. Some aspects may not apply to certain classes of person (such as dealers, certain professional investors and persons connected with the Issuer) to whom special rules may apply. The U.K. tax treatment of prospective Bondholders depends on their individual circumstances and may therefore differ to that set out below and may be subject to change in the future.

This summary only deals with the matters expressly set out below. It does not purport to be a complete analysis of all U.K. tax considerations relating to the Bonds.

Interest on the Bonds

Withholding tax on the Bonds

Payments of interest by the Issuer on the Bonds may be made without deduction of or withholding on account of U.K. income tax provided that the Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**"). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 ("**FSMA**")) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds are and remain so listed, interest on the Bonds will be payable without withholding or deduction on account of U.K. tax.

Interest on the Bonds may also be paid without withholding or deduction on account of U.K. income tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person, by or through whom interest on the Bonds is paid, reasonably believes) that the beneficial owner is within the charge to U.K. corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of U.K. income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Further U.K. income tax issues

Interest on the Bonds constitutes U.K. source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a U.K. source properly received without deduction or withholding on account of U.K. tax will not be chargeable to U.K. tax in the hands of a Bondholder who is not resident for tax purposes in the U.K. unless that Bondholder carries on a trade, profession or vocation in the U.K. through a U.K. branch or agency or for holders who are companies through a U.K. permanent establishment, in connection with which the interest is received or to which the Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

U.K. Corporation Tax Payers

In general, Bondholders which are within the charge to U.K. corporation tax (including, for non-U.K. resident Bondholders, where Bonds are acquired or held for the purposes of a trade carried on in the U.K. through a permanent establishment in the U.K.) will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with UK GAAP or IFRS accounting treatment.

Other U.K. Tax Payers

Interest

Bondholders who are individuals and are resident for tax purposes in the U.K. or who carry on a trade, profession or vocation in the U.K. through a branch or agency to which the Bonds are attributable will generally be liable to U.K. income tax on the amount of any interest received in respect of the Bonds.

Taxation of Chargeable Gains

For Bondholders who are individuals, Bonds issued on the Issue Date will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of such a Bond (including on redemption) will not give rise to a chargeable gain or an allowable loss for the purposes of the U.K. taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Bonds by a Bondholder who is an individual, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007, if that Bondholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

Individual Savings Accounts

For Bondholders who are individuals, the Bonds will be qualifying investments for both the stocks and shares component of an Individual Savings Account (an "**ISA**") and a Lifetime Individual Savings Account (a "**LISA**") under the Individual Savings Account Regulations 1998 (the "**ISA Regulations**"), provided in each case that the Bonds are listed before they are first held in the ISA or LISA and continue to be listed on the official list of a recognised stock exchange within the meaning of section 1005 of the Act. The London Stock Exchange is a recognised stock exchange for these purposes. Individual Bondholders who acquire or hold their Bonds through an ISA or a LISA and who satisfy the requirements for tax exemption in the ISA Regulations will not be subject to UK tax on interest or other amounts received in respect of the Bonds, provided that the ISA or LISA otherwise satisfies the requirements for tax exemption in the ISA Regulations.

The opportunity to invest in Bonds through an ISA or a LISA is restricted to individuals. Individuals wishing to purchase the Bonds through an ISA or a LISA should contact their professional advisers regarding their eligibility.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on a transfer of the Bonds.

SIPP Eligibility

The Bonds should be eligible for inclusion within a SIPP (a self-invested personal pension) that is a registered pension scheme under the Finance Act 2004.

Guernsey

The summary set out below reflects the Issuer's understanding of current law and published practice in Guernsey as of the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. The Guernsey tax treatment of prospective Bondholders depends on their individual circumstances and may therefore differ to that set out below and may be subject to change in the future.

This summary only deals with the matters expressly set out below. It does not purport to be a complete analysis of all Guernsey tax considerations relating to the Bonds. If you may be subject to tax in a jurisdiction other than Guernsey or are unsure as to your tax position, you should seek your own professional advice.

The Issuer applies on an annual basis for tax exempt status in Guernsey pursuant to the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989, as amended (the "**Ordinance**"). Under the provisions of the Ordinance, exemption is renewed annually, and will be granted by the Director of Income Tax, provided the Issuer continues to comply with the requirements of the Ordinance, and upon payment of an annual fee, currently £1,200 per annum. As an exempt entity, the Issuer is treated as non-tax resident in Guernsey.

Any repayment of principal or payment of interest on the Bonds by the Issuer will not be subject to withholding tax in Guernsey.

Guernsey Bondholders

Guernsey resident Bondholders will generally be liable to Guernsey income tax on the amount of any interest received in respect of the Bonds, though the treatment will depend on the specific circumstances of the Bondholders.

Guernsey currently does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover, nor are there any estate duties, save for an ad valorem fee for the grant of probate or letters of administration, and no stamp duty is chargeable in Guernsey.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019 and Bonds issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including

by reason of a substitution of the Issuer). However, if additional bonds (as described under "*Terms and Conditions of the Bonds —Further Issues*") that are not distinguishable from previously issued Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Bonds, including the Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Bondholders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

6

DESCRIPTION OF THE ISSUER AND THE GROUP

DESCRIPTION OF THE ISSUER AND THE GROUP

This Section sets out information about the Issuer and the Group.

Incorporation and general

The Issuer was incorporated in Guernsey on 22 June 2015 under the name of Regional Commercial REIT Limited, and changed its name to UK Regional REIT Limited on 24 July 2015 and to Regional REIT Limited on 17 September 2015, with registered number 60527 as a non-cellular company limited by shares under the Companies Law.

The Issuer's registered office is at Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey, GY2 4LH (telephone number: +44 (0) 871 664 0300) and its principal place of business is at 7th Floor, 90 Long Acre, London WC2E 9RA (telephone number: +44 (0) 20 7845 6100).

The principal legislation under which the Issuer operates is the Companies Law and the regulations made thereunder.

The Issuer does not have any employees and does not own any premises.

The share capital of the Issuer consists of an unlimited number of shares of no par value which the Board of the Issuer may classify into such classes as they may determine.

The Issuer's issued and fully paid share capital as at the date of this Prospectus is expected to be as follows:

Class	**Number of issued shares**
Ordinary Shares	372,821,136

Save as disclosed in this Prospectus:

(a) no share or loan capital of the Issuer has, since its incorporation, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) there has been no change in the amount of the issued share or loan capital of the Issuer since its incorporation other than the 274,217,260 shares issued in November 2015, the 26,326,644 Ordinary Shares which were issued on 24 March 2017 and the 72,277,228 Ordinary Shares which were issued on 21 December 2017;

(c) no commissions, discounts, brokerages or other special terms have been granted by the Issuer in connection with the issue or sale of any share or loan capital of any such company; and

(d) no share or loan capital of the Issuer is under option or agreed conditionally or unconditionally to be put under option.

The Issuer is not an umbrella collective investment undertaking and as such there is no cross liability between classes or investment in another collective investment undertaking.

So far as the Issuer is aware by virtue of notifications to it pursuant to the Disclosure Guidance and Transparency Rules as at the Latest Practicable Date the following persons hold, directly or indirectly, voting rights in respect of five per cent or more of the Issuer's issued share capital:

Shareholder	*Number of Ordinary Shares*	*Percentage of voting share capital*
The Conygar Investment Company Plc	26,326,644	7.06
Toscafund Investments Limited	27,154,198	7.28
AXA	18,778,679	5.04

Save as set out above the Issuer is not aware of any person who, at the Latest Practicable Date holds voting rights, directly or indirectly, in respect of five per cent. or more of the issued share capital of the Issuer.

The Issuer is not aware of any person who, at the Latest Practicable Date, directly or indirectly, jointly or severally, exercises or could exercise control over the Issuer.

The Shareholders referred to above do not have different voting rights from any other holder of Ordinary Shares.

No Director of the Issuer has or has had any interest in any transactions which are or were unusual in their nature or conditions, or significant to the business of the Group, and which:

(a) were effected by the Issuer during the current or immediately preceding financial year; or

(b) were effected by the Issuer during an earlier financial year and remain in any respect outstanding or unperformed.

Pension and retirement benefits

Neither the Issuer nor the Group has accrued or set aside any amounts to provide pension, retirement or similar benefits because neither the Issuer nor the Group has any employees.

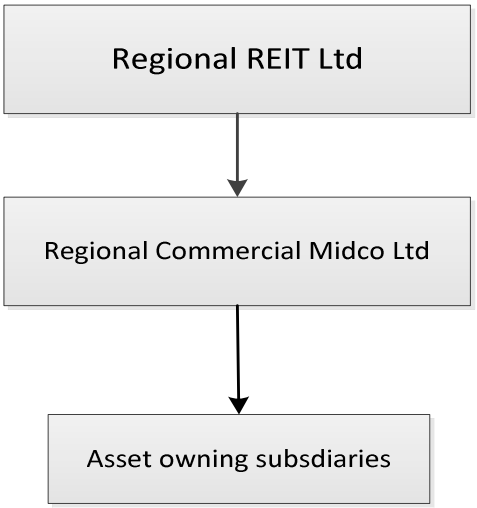
Net asset value of the Group

In the year to 31 December 2017, the Group's European Public Real Estate Association ("**EPRA**") net asset value rose from £293.25 million to £395.70 million.

The EPRA net asset value increase of £102.45 million since 31 December 2016 is predominantly from the issuance of two tranches of new equity by the Issuer and the revaluation of the Group's investment Property Portfolio.

Group ownership structure

The following diagram illustrates the ownership structure of the Group:



Subsidiary undertakings

As at Latest Practicable Date the Issuer has the following subsidiary undertakings that are significant in terms of the Issuer's assets and liabilities, financial position or profits and losses:

Name	***Business Activity***	***Ownership interest (Percentage of share capital and voting rights held)***	***Country of Incorporation***
Blythswood House LLP	Property Investment	100	Scotland
Regional REIT ZDP PLC	Finance company	100	England & Wales
Regional REIT Funding plc	Finance company	100	England & Wales
Regional Commercial Midco Limited	Intermediate parent company	100	Jersey, Channel Islands
RR Aspect Court Limited	Property Investment	100	Jersey, Channel Islands
RR Bristol Ltd	Property Investment	100	Jersey, Channel Islands
RR Eureka SARL	Property investment	100	Luxembourg
RR Hounds Gate Limited	Property Investment	100	Jersey, Channel Islands
RR Rainbow (Aylesbury) Limited	Property Investment	100	Jersey, Channel Islands
RR Rainbow (North) Limited	Property Investment	100	Jersey, Channel Islands
RR Rainbow (South)	Property Investment	100	Jersey, Channel Islands

Name	*Business Activity*	*Ownership interest (Percentage of share capital and voting rights held)*	*Country of Incorporation*
Limited			
RR Range Limited	Property investment	100	Jersey, Channel Islands
RR Sea Dundee Ltd	Property Investment	100	England & Wales
RR Sea Hanover Street Ltd	Property Investment	100	England & Wales
RR Sea Lamont I Ltd	Property Investment	100	Jersey, Channel Islands
RR Sea Lamont II Ltd	Property Investment	100	Jersey, Channel Islands
RR Sea Lamont III Ltd	Property Investment	100	Jersey, Channel Islands
RR Sea St. Helens Ltd	Property Investment	100	England & Wales
RR Sea Stafford Ltd	Property Investment	100	England & Wales
RR Sea Strand Ltd	Property Investment	100	England & Wales
RR Sea TAPP Ltd	Property Investment	100	Guernsey, Channel Islands
RR Sea TOPP Bletchley Ltd	Property investment	100	Guernsey, Channel Islands
RR Sea TOPP I Ltd	Property investment	100	Guernsey, Channel Islands
RR UK (Central) Limited	Property investment	100	Jersey, Channel Islands
RR UK (Cheshunt) Limited	Property investment	100	Jersey, Channel Islands
RR UK (South) Limited	Property investment	100	Jersey, Channel Islands
RR UK (Port Solent) Limited	Property Investment	100	Jersey, Channel Islands
RR Wing Portfolio Limited	Property investment	100	Jersey, Channel Islands
Tay Properties Ltd	Property investment	100	Jersey, Channel Islands
TCP Arbos Ltd	Finance company	100	Jersey, Channel Islands
TCP Channel Ltd	Finance company	100	Jersey, Channel Islands
Tosca Chandlers Ford Limited	Property Investment	100	Jersey, Channel Islands
Tosca Churchill Way Limited	Property Investment	100	Jersey, Channel Islands
Tosca Garnet Limited	Property Investment	100	Jersey, Channel Islands
Tosca Midlands Limited	Property Investment	100	Jersey, Channel Islands

Name	*Business Activity*	*Ownership interest (Percentage of share capital and voting rights held)*	*Country of Incorporation*
Tosca North East Limited	Property Investment	100	Jersey, Channel Islands
Tosca North West Limited	Property Investment	100	Jersey, Channel Islands
Tosca Rosalind Limited	Property Investment	100	Jersey, Channel Islands
Tosca Scotland Limited	Property Investment	100	Jersey, Channel Islands
Tosca South East Limited	Property Investment	100	Jersey, Channel Islands
Tosca South West Limited	Property Investment	100	Jersey, Channel Islands
Tosca Swansea Limited	Property Investment	100	Jersey, Channel Islands
Tosca Thorpe Park Limited	Property Investment	100	Jersey, Channel Islands
Tosca UK CP II Ltd	Intermediate parent company	100	Jersey, Channel Islands
Tosca UK CP Ltd	Intermediate parent company	100	Jersey, Channel Islands
Tosca Victory House Limited	Property Investment	100	Jersey, Channel Islands
Tosca Winsford Limited	Property Investment	100	Jersey, Channel Islands
Toscafund Bennett House Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Bishopgate Street Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Blythswood Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Brand Street Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Chancellor Court Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Crompton Way Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Espedair Limited	Property Investment	100	Jersey, Channel Islands
Toscafund Fairfax House Ltd	Property Investment	100	Jersey, Channel Islands
Toscafund Glasgow Ltd	Debt investment	100	Jersey, Channel Islands

Name	*Business Activity*	*Ownership interest (Percentage of share capital and voting rights held)*	*Country of Incorporation*
Tosca Glasgow II Ltd	Property investment	100	England & Wales
Toscafund Harvest Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Milburn House Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Minton Place Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Newstead Court Ltd	Property investment	100	Jersey, Channel Islands
Toscafund North Esplanade Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Portland Street Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Sheldon Court Ltd	Property investment	100	Jersey, Channel Islands
Toscafund South Gyle Ltd	Property investment	100	Jersey, Channel Islands
Toscafund St Georges House Ltd	Property investment	100	Jersey, Channel Islands
Toscafund St James Court Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Strathclyde BP Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Wallington Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Welton Road Ltd	Property investment	100	Jersey, Channel Islands
Toscafund Westminster House Ltd	Property investment	100	Jersey, Channel Islands

Introduction

The Issuer is a REIT externally managed by the Investment Manager and the Asset Manager. The Issuer is an established UK real estate investor which is listed on the premium listing segment of the Official List of the UK Listing Authority, has its Ordinary Shares admitted to trading on the Main Market of the London Stock Exchange and is a constituent member of the FTSE All-Share and FTSE EPRA NAREIT UK Indices. The Issuer's commercial Property Portfolio is wholly in the UK and comprises, predominantly, offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The Issuer is an active real estate investor and asset manager, producing a tailored business and asset development/management plan for each of the assets it acquires in order to be able to maximise returns.

The Issuer owns a portfolio of commercial property interests in the principal regional locations of the UK outside of the M25 motorway. These interests are comprised primarily of offices, with a smaller percentage of

multi-let light industrial properties. As of 31 December 2017, the Group's investment portfolio was spread across 164 properties consisting of 1,368 individual units with a total of 1,026 tenants, which were valued at 31 December 2017 at £737.3 million in aggregate, with a combined contracted rent roll of £61.9 million per annum reflecting a net initial yield of 6.5 per cent. on a weighted average unexpired lease term of 5.4 years (3.5 years to first break). Further information on the Property Portfolio is set out below.

The Issuer is managed by the Issuer's Managers and has an investment objective to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway. It intends to pursue this investment objective by following an investment strategy involving active property management and prudent use of debt finance, as detailed below. The Issuer is a limited company incorporated in Guernsey and tax resident in the United Kingdom.

The typical investors in the Issuer are expected to be institutional and sophisticated investors, and/or all types of private investors acting on the advice of their stockbroker or financial advisor, who are looking to allocate part of their investment portfolio to the UK regional commercial real estate market. An investment in the Issuer is suitable only for investors who are capable of evaluating the risks and merits of such investment, who understand the potential risk of capital loss and that there may be limited liquidity in the underlying investments of the Issuer and in the Ordinary Shares, for whom an investment in the Ordinary Shares constitutes part of a diversified investment portfolio, who fully understand and are willing to assume the risks involved in investing in the Issuer and who have sufficient resources to bear any loss (which may be equal to the whole amount invested) which might result from such investment. Investors may wish to consult their stockbroker, bank manager, solicitor, accountant or other independent financial advisor before making an investment in the Issuer.

Details of acquisitions since 31 December 2017

The Group acquired an office property in Port Solent for £4.9 million in March 2018.

The Group acquired five regional offices and one office/distribution property for £35.2 million in June 2018.

Debt financing

Debt financing has been sourced from a number of providers and is constituted and hedged in a variety of ways to suit each circumstance. Further details of the debt financing structure are set out in Section 9 (*Additional Information*) of this Prospectus.

Pipeline of Further Investment Opportunities

The Asset Manager has a strong pipeline of prospective investment opportunities that have been identified.

The market

An overview of the market, including investment activity in UK commercial property and rental growth in the Group's specific sectors can be found on pages 18 to 19 of the annual report and accounts for the year ended 31 December 2017 which are attached to this Prospectus at Appendix 4 (*Issuer's annual report and accounts (including consolidated financial statements) for the years ended 31 December 2016 and 31 December 2017*).

Management of the Group

The Board of the Issuer comprises six highly experienced non-executive directors who have considerable experience in the property and financing industries. The Directors of the Issuer are as follows:

Name	Position	Date appointed to the Board of the Issuer
Kevin McGrath	Chairman	16 October 2015

Name	Position	Date appointed to the Board of the Issuer
William Eason	Senior Independent Non-executive Director	16 October 2015
Stephen Inglis	Non-executive Director	22 June 2015
Tim Bee	Non-executive Director	7 July 2017
Daniel Taylor	Independent Non-executive Director	16 October 2015
Frances Daley	Independent Non-executive Director	1 February 2018

The business address of the Directors is 7th Floor, 90 Long Acre, London WC2E 9RA. The management expertise and experience of each of the Directors of the Issuer is set out below.

Kevin McGrath DL OBE

Kevin McGrath DL OBE is Chairman of M&M Property Asset Management having previously been Managing Director and Senior Adviser of F&C REIT Asset Management. He is also Chairman of INTCAS which is an independent technology and support service company that assists education institutions from across the world to attract, recruit and manage international students in a safe, compliant and cost efficient way. Prior to F&C REIT, Kevin was a founding equity partner in REIT Asset Management, a property investment, finance and asset management partnership, which managed a commercial Property Portfolio around the world and had offices in London, Munich, Tel Aviv, Stockholm and Mumbai.

Prior to REIT Asset Management, Kevin was a Senior Investment Surveyor with Hermes Investment Management, the fund manager for British Telecommunications and Post Office Pension Schemes. Before that he worked for various local authorities in a variety of property related positions and prior to that he worked in manufacturing and banking.

Kevin graduated from the Polytechnic of the South Bank with a BSc (Distinction) in Estate Management. He also obtained a post graduate diploma in Property Investment (Award Winner) from the College of Estate Management.

Kevin is a chartered surveyor who has worked in the property industry for 30 years, is a member of the Royal Institute of Chartered Surveyors, and the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a trustee of a number of charities.

William Eason

William ("Bill") Eason was previously Head of Charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a Member of the London Stock Exchange in 1976. Bill was Chief Investment Officer at Laing & Cruickshank Investment Management and is a former Chairman of Henderson High Income Trust plc. Bill is currently a Director of Henderson International Income Trust plc, The European Investment Trust plc and of Institutional Protection Services Ltd. He is an Associate of the Society of Investment Professionals and a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles Bill has acted as a Governor of Henley Management School and is currently a Trustee of Marshall's Charity, The Gordon Foundation, the John Hampden Fund and a Business Fellow of Gray's Inn.

Tim Bee

Please refer to Tim Bee's biography in the paragraph entitled "The Management Team" of this Section 6 (*Description of the Issuer and the Group*) of this Prospectus.

Stephen Inglis

Please refer to Stephen Inglis' biography in the paragraph entitled "The Management Team" of this Section 6 (*Description of the Issuer and the Group*) of this Prospectus.

Daniel Taylor

Daniel ("Dan") Taylor is the founder and CEO of Westchester Capital Limited, an investment and advisory firm specialising in real estate. He currently holds the role as Managing Partner of Bourne Financial Ltd., a privately held serviced office business based in London, in which Westchester Capital is a principal investor. From 2011 to 2015 Dan was Chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK's second largest serviced office provider until the sale of the business to Regus plc. From 2000 to 2010 he was Managing Director of media financier Grosvenor Park. In 2005 he raised and managed a US$400m investment joint venture with Fortress Investment Group LLC providing finance to the media industry. Prior to this he provided and raised seed capital financing for a number of private and AIM listed companies. From 1989 to 1999 Dan was President and founder of Victoria Asset Management Inc., a real estate investment company in Houston, Texas specialising in distressed assets. Before that he was a partner in Prana Investments, a New York based owner and manager of rent-controlled apartments. Between 1983 and 1989 Dan spent six years at First Boston Inc., as Vice President in charge of an institutional equity division based in London. Dan started his professional career as a financial analyst with Bank of America in San Francisco.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He currently holds active registered status with the FCA as an investment manager (CF30) and CF1-Director and has over the last 15 years held the following controlled functions at FCA (or its predecessors) authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; and CF27-Investment Management. Dan graduated from Stanford University in 1980 with a Bachelor of Arts degree in International Relations & Economics.

Frances Daley

Frances Daley is a Chartered Accountant who qualified with a predecessor firm to Ernst & Young LLP, spending nine years in corporate finance, followed by 18 years in various chief financial officer roles. From 2007 to 2012 she was group finance director of the private equity backed Lifeways Group, the UK's largest provider of specialist support to adults with learning disabilities and mental health needs. Frances is a non-executive director of Henderson Opportunities Trust PLC and chair of Baring Emerging Europe PLC. She is also chair of Haven House Children's Hospice and chair of James Allen's Girls' School.

The Directors of the Issuer are or have been directors or partners at any time in the five years immediately preceding the date of this Prospectus of the following companies and partnerships:

Name	***Current***	***Past***
Kevin McGrath	Sayers Court (Ealing) Management Company Limited INTCAS Limited The Old Vic Theatre Trust 2000 M&M Portfolio Limited The Clink Restaurant Company Limited Cool Investments Limited	Lyric Hammersmith Enterprises Limited (formerly called Luracourt Ltd) Lyric Theatre Hammersmith Limited New Education Trust Portfolio Reading UK Limited (formerly called M&M Portfolio (Reading) Limited)

Name	*Current*	*Past*
	E-Cargobikes.Com Ltd The Clink Cafe Charity	
William Eason	Henderson International Income Trust Plc The European Investment Trust Plc The Gordon Foundation Regional REIT ZDP Plc John Hampden Fund Marshall's Charity ABF The Soldiers' Charity Institutional Protection Services Limited Iowa Land Company Limited Teniwood Securities Limited Swan Walk Holdings Limited	None
Stephen Inglis	London & Scottish Student Housing Limited LSI West George Street Limited London & Scottish Property Asset Management Limited London & Scottish Investments Limited Shawglen Limited Squeeze Newco 2 Limited View Castle Limited (formerly known as Credential Investment Holdings Limited) Pharoahs Distribution (U.K.) Limited L&S REIT AM Limited L&S (Straiton) Limited Regional REIT ZDP Plc Regional REIT Funding plc	LSI SH Crown House LP Limited LSI REIT AM Limited LS Asset Management Limited Credential Asset Management Limited Credential Management Investments Limited London & Scottish Property Management Limited IH Property Asset Management Limited
Tim Bee	Toscafund GP Limited Toscafund Asset Management LLP	Marriott Harrison LLP Regus Avanta Vehicle Limited (formerly called Tosca Vehicle

Name	*Current*	*Past*
	Phoenix Film Partners LLP Regional REIT ZDP Plc	Limited) MH Secretaries Limited
Daniel Taylor	Westchester Capital Limited Scent by Design Limited Conway Capital Limited Bourne Office Space Limited QC Ground Limited QC Holdings Limited The Queen's Club Limited Grosvenor Park 2004 Film Partnership No.1 LLP European Film Partners I LLP Grosvenor Park (Harris & Trotter) 2002 Film LLP Grosvenor Park 2003 Film Partnership No.1 LLP	Avanta Serviced Office Group Limited (formerly called Avanta Serviced Office Group plc) Grosvenor Park Media Limited
Frances Daley	Henderson Opportunities Trust Plc Dr Morton's Limited Baring Emerging Europe Plc Haven House Foundation FD Financial Solutions Limited James Allen's Girls School	

The above table does not include any member of the Group.

At the date of this Prospectus none of the Directors of the Issuer has:

(a) any convictions in relation to fraudulent offences for the previous five years;

(b) been declared bankrupt or been subject to any individual voluntary arrangement or been associated with any bankruptcy, receivership or liquidation in his capacity as a director or senior manager for the previous five years;

(c) been a director or senior manager, within the previous five years, of any company which has been subject to a receivership or liquidation;

(d) been a partner or senior manager, within the previous five years, in any partnership which has been subject to a liquidation; and/or

(e) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional bodies) or been disqualified by a court from acting as

a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.

The table below sets out the voting rights (within the meaning of the Disclosure Guidance and Transparency Rules) held, directly or indirectly, by any of the Directors of the Issuer in respect of the share capital of the Issuer at the Latest Practicable Date:

Director	*Number of Ordinary Shares*	*Percentage of voting share capital*
Daniel Taylor	350,000	0.09
William Eason	200,000	0.05
Stephen Inglis	752,549	0.20
Kevin McGrath (shares are held by his minor children)	297,030	0.07
Frances Daley	0	0
Tim Bee (shares are held by his spouse)	150,000	0.04

Save as set above, no Director of the Issuer holds, at the Latest Practicable Date directly or indirectly, any voting rights in respect of the Issuer or any of its subsidiaries.

NED Appointment Letters

The Non-executive Directors (other than Tim Bee and Frances Daley) were appointed on 3 November 2015. Tim Bee was appointed on 7 July 2017 and Frances Daley was appointed on 1 February 2018. The Non-executive Directors each entered into the NED Appointment Letters (Stephen Inglis on 22 June 2015, William Eason and Kevin McGrath on 16 October 2015, Tim Bee on 7 July 2017 and Frances Daley on 1 February 2018).

There are no agreements with Directors of the Issuer which provide for benefits upon termination of their engagement.

There are no existing or proposed service agreements between any of the Directors of the Issuer and any member of the Group.

Directors' interests

The Issuer is not aware of the Directors of the Issuer having any potential conflicts of interest between their duties to the Issuer and their private interests and/or their duties to third parties other than that Stephen Inglis is also a director of the Asset Manager and Tim Bee is a partner of the Investment Manager (please see the paragraphs entitled "*Conflicts of interest – Asset Manager and its management team*" and "*Conflicts of interest – Investment Manager and its management team*" below for further information about potential conflicts involving the Asset Manager and the Investment Manager) and the potential conflicts noted in the paragraph immediately below.

The Directors of the Issuer may be involved in other financial, investment or professional activities that may, on occasion, give rise to conflicts of interest with the Issuer. In particular, the Directors of the Issuer may provide advice or other services to, or be otherwise involved in, a number of funds or companies that may have similar investment policies to that of the Issuer. It is, therefore, possible that a Director of the Issuer may have potential conflicts of interest with the Issuer.

In cases where an actual or potential conflict does arise, the Director of the Issuer concerned must ensure that he or she discloses the interest in the existing or proposed transaction to the Issuer at the first possible board meeting and subsequently receives the approval of the Issuer.

The Directors of the Issuer shall at all times have regard in such event to their obligations to the Issuer (under their NED Appointment Letter as a director or otherwise) to act in the best interests of the Issuer, having regard to their obligations to other clients, when undertaking any activity where conflicts of interest may arise and the Director of the Issuer concerned will endeavour to resolve such conflicts fairly.

Asset Manager

The Issuer has appointed London & Scottish Investments Limited as Asset Manager. The Asset Manager has procured and shall, with the Issuer, in future procure, that London & Scottish Property Asset Management Limited or such other suitably qualified property manager as the Asset Manager may determine is appointed to act as property manager in respect of each Portfolio Interest.

The Asset Manager's relationships have enabled it to access both off-market and more widely marketed real estate transactions and to access debt financing packages in the various phases of the economic cycle. The Issuer believes that the Asset Manager's relationships and experience will continue to provide the Issuer with the access and ability to cultivate appropriate investment opportunities to meet the Issuer's investment criteria. Furthermore, the Issuer believes that the Asset Manager's distinct knowledge of, and competence within, the UK commercial property market will keep the Issuer well placed to capitalise on the opportunities presented by current and expected market conditions.

The Issuer believes that the Asset Manager's close relationships with existing and future tenants and its detailed due diligence and depth of knowledge in its chosen markets will continue to be relied on for the acquisition of properties where the market has mispriced the strength of the covenant or which offer value enhancing property management opportunities relating to lease re-gearing or upcoming rent reviews.

Overview

The Asset Manager is a privately-owned property investment management company established in 2012 and currently employs 65 people. It is managed by a multi-disciplinary team of executive directors, with the management team detailed below having over 100 years' experience in the real estate sector between them. Its executive directors have day to day involvement in all current and future projects of the Asset Manager and have a proven track record of adding value to property portfolios through intensive property management, focusing on income generation.

In its capacity as asset manager, the Asset Manager is responsible for the property management of the Property Portfolio, including identifying and evaluating investment opportunities in property for the Group, the collection of rent, negotiating longer leases and the removal of tenant break options, instructing agents to re-let the premises at lease expiry and, where appropriate, managing refurbishments to increase rental income or capital values, in each case, subject to the overall control and supervision of the Issuer.

Quality of the Property Portfolio

The Asset Manager has developed excellent relationships with a number of key property agencies throughout the UK, together with close relationships with banks, insolvency practitioners and the major funds who are acquirers of distressed debt and property. This has led to the opportunity to identify and seek to acquire property against a generally more limited group of competitors.

The Property Portfolio has therefore been assembled through the various industry contacts developed by the Asset Manager, targeting the required returns and ensuring that the appropriate target sectors are covered both in property type and in geographic spread. In a number of instances, the acquisition cost has been significantly lower than the pricing sought by the vendors due to the Group's ability to acquire for cash and applying gearing at a later date, leading both to certainty for the vendor and speed of completion.

The Asset Manager has developed modelling to ensure that no increase in rental values is assumed, an improvement in void rates is assumed only where appropriate, no improvement in the macro economy is assumed and that properties are sold into the same market conditions as that in which they were acquired, thus taking no account of improvement in yields. This conservative modelling ensures that each property has the maximum potential upside if any, or all, of the ignored criteria arises. Each potential property acquisition must meet the modeling criteria, irrespective of any other considerations as to its suitability.

The Asset Manager has targeted, on behalf of the Group, real estate located in Birmingham, Edinburgh, Glasgow, Newcastle, Manchester, Leeds, Bristol and the South West, areas to the South and West of the M25 motorway and in the Midlands. In the opinion of the Asset Manager, this distribution, and the often multi-tenanted nature, of the assets, has the effect of minimising risk while offering greater opportunities for enhancing both income and capital value.

The Management Team

The key personnel of the Asset Manager who are responsible for managing the Property Portfolio are:

Barrie Clapham is the chairman and majority shareholder in the Asset Manager. After graduating with a degree in law, Mr Clapham began his career developing subsidiary businesses in property, finance and consultancy. After working as a sole trader, he established Credential Holdings Limited which he has developed into a substantial property group with interests across the UK. Mr. Clapham has also grown businesses in sectors other than property, as principal of the largest automotive waste group in the UK, Credential Environmental Limited, which he sold in 2005. He is presently non-executive chairman of Produce Investments plc, an AIM-listed company supplying some of the UK's major retailers.

Stephen Inglis is the chief executive officer of the Asset Manager. He has over 25 years' experience in the commercial property market, the majority of which has been working in the investment and development sector. His career to date has been split between London and Scotland giving him extensive knowledge of the UK property market. He is a chartered surveyor and became a member of RICS in 2001 and is also a member of the Investment Property Forum.

Mr Inglis has acted on behalf of a number of institutional, private property company and wealthy private investors and also works very closely with the banks in assisting them with restructuring and formulation of business plans of distressed loans and situations where covenants have been breached. As part of this role, he sat on the boards of several bank funded private property companies. In addition, he was also the representative of a foreign based major investor in a FTSE listed commercial property company providing advice in respect of the company and on maximising returns on the shareholding.

In his current role he has, since June 2013, acquired or sold approximately 278 assets in deals totalling in excess of approximately £840 million. He has responsibility for running all property functions within the Asset Manager's structure, from investment management, asset and property management, to residential and commercial development.

Derek McDonald is managing director of the Asset Manager, which he joined in June 2015 from REVCAP, which he joined as a partner in May 2014. Prior to that, Derek spent 27 years at Bank of Scotland/Lloyds Banking Group in a variety of senior roles in corporate banking, including time in the bank's corporate banking business in the US, the UK real estate joint ventures business, the European real estate business, the UK business support unit and the Irish business support unit, which both dealt with high value real estate lending. He has led a significant number of high value transactions at both REVCAP and Lloyds Banking Group and has also had line responsibility for large teams of professionals. He has significant experience in building and leading multi-jurisdictional businesses. Mr McDonald has been a Member of the Chartered Institute of Bankers in Scotland since 1990.

Andrew MacGilp is the director of commercial property at the Asset Manager. He has been involved in the field of commercial property and asset management since the early 1990s, having worked for British Rail,

Glasgow City Council and McNeil Properties. These roles provided experience in property markets throughout the UK. Mr MacGilp joined Credential Group in 2003. Prior to that, he had worked at CBRE since 1994 where he was responsible for the management of a large number of clients, including Credential Group. He is responsible for the pro-active management of the Property Portfolio, overseeing an in-house team undertaking all property, financial and asset management roles in connection with the Property Portfolio.

On 9 November 2017, the Asset Manager announced the appointment of **Simon Marriott** to the position of investment director. Simon has over 30 years' experience in the property industry, most recently at Cromwell Property Group where he was Head of Investments and UK Real Estate. Prior to Cromwell, Simon held a number of senior roles including Director Real Estate transactions at PricewaterhouseCoopers International Limited, Senior Vice President Managing Director Investments at Oxford Properties and Head of Separate Accounts at Invista REIM, managing funds with assets under management of over £2.5 billion.

Track record

The Asset Manager was established to manage existing assets and to launch a new investment and property management real estate business, including View Castle Limited (formerly known as Credential Investment Holdings Limited), one of Scotland's largest private property companies. Since it launched the first of its funds, in joint venture with the Investment Manager, the Asset Manager has undertaken approximately 35 deals comprising the purchase of approximately 200 properties. All management and property management is undertaken in-house by the Asset Manager, together with all financial management relating to the running of the properties and portfolios. With the exception of Derek McDonald, the senior management team at the Asset Manager has worked together closely for in excess of 10 years, which provides stability and an excellent understanding within the team.

Asset Management Agreement

Pursuant to the terms of the Asset Management Agreement, the Asset Manager is responsible for the property management of the Property Portfolio, undertaking tasks such as identifying and evaluating investment opportunities in property for the Group, the collection of rent, negotiating longer leases and the removal of tenant break options, instructing agents to re-let the premises at lease expiry and, where appropriate, managing refurbishments to increase rental income or capital values, in each case, subject to the overall control and supervision of the Board or the boards of directors of Midco or the SPVs (as relevant). The Asset Manager also advises the Issuer, Midco and the SPVs on the acquisition, management and disposal of the real estate assets in the Property Portfolio.

Conflicts of interest – Asset Manager and its management team

The Asset Manager may from time to time act as distributor, promoter, manager, asset manager, share registrar, transfer agent, administrator, external valuer, trustee, distributor or director, or be otherwise involved in, other collective investment schemes which have similar investment objectives to that of the Issuer or may otherwise provide property management or ancillary administration or property advisory, services to investors with similar investment objectives to that of the Issuer. It is, therefore, possible that it may, in the course of its business, have potential conflicts of interests with the Issuer. The Asset Manager will at all times have regard in such event to its obligations to act in the best interests of the Shareholders so far as practicable, having regard to its obligations to other clients, when undertaking any investments where conflicts of interests may arise and it will endeavour to resolve such conflicts fairly.

The Asset Manager is required to offer all opportunities available to it to acquire property assets, which in the Asset Manager's good faith judgement (having consulted with the Investment Manager) fall within the Investment Policy, first to the Issuer. If any such opportunity is refused by the Board, the Asset Manager may allocate such opportunities as it deems appropriate.

The Asset Manager may recommend the purchase and sale of Portfolio Interests by or from the Asset Manager or any of its associates from or to one or more SPVs provided that the transaction is carried out on normal

commercial terms, negotiated at arms' length, and is consistent with the best interests of the Issuer and the relevant SPV and provided the Asset Manager has disclosed to the Investment Manager, the Board and the relevant SPV the nature of its or its associates' interest and such recommendation has been approved in advance by the Investment Manager.

The Asset Manager has assisted the Investment Manager in establishing the Issuer. However, the Issuer believes that the fees, commissions and compensation payable to the Asset Manager are consistent with normal market rates for investment funds of a similar type to the Issuer.

The Directors will seek to ensure that any conflict of interest is resolved fairly and in the interests of the Issuer.

Other directorships and partnerships

Barrie Clapham, Derek McDonald, Stephen Inglis and Andrew MacGilp act as directors of other funds or entities managed by the Asset Manager.

The Investment Manager

The Issuer has appointed Toscafund Asset Management LLP as the Issuer's investment manager which, in addition to providing the extensive experience of its management team in creating value for shareholders, also procures access to significant property, finance and corporate experience.

Overview

The Investment Manager is part of a UK-based investment management group that was founded in 2000 by Martin Hughes, the Investment Manager's chief executive. The Investment Manager itself was incorporated in England and Wales on 13 June 2006 and was authorised by the Financial Services Authority, now the Financial Conduct Authority, to conduct investment business on 31 October 2006. The Investment Manager is currently authorised by the FCA for the purposes of the AIFM Directive and FCA rules as a "full-scope" UK AIFM with a Part 4A permission to manage AIFs such as the Issuer. The Investment Manager is also registered as an investment adviser with the U.S. Securities and Exchange Commission under the US Advisers Act.

The Investment Manager was incorporated in England and Wales on 13 June 2006 under the name of Toscafund Asset Management LLP, with registered number OC320318 as a limited liability partnership under the Limited Liability Partnerships Act 2000. The principal legislation under which the Investment Manager operates is the Limited Liability Partnerships Act 2000 and the regulations made thereunder. The Investment Manager's registered office and its principal place of business is at 7th Floor, 90 Long Acre, London WC2E 9RA (telephone number: +44 (0) 20 7845 6100). The Investment Manager is domiciled in the United Kingdom.

In its capacity as the AIFM, the Investment Manager is responsible for the provision of certain AIFM services to the Issuer and also provides certain other management services to the Issuer, Midco and the SPVs. In relation to the Issuer, the Investment Manager is responsible for discretionary portfolio management (including taking investment decisions on behalf of the Issuer, identifying and evaluating and negotiating investment opportunities and realisations and, where applicable, participating in the management and control of the businesses or assets acquired), risk management (as required to identify, manage, measure and monitor, as appropriate, all risks to the Issuer's investment strategy and to which the Issuer may be exposed) and valuation services relating to the Issuer's Property Portfolio, in each case pursuant to the AIFM Directive. In relation to Midco and the SPVs, the Investment Manager is responsible for, amongst other things, the provision of treasury services (in relation to hedging, borrowing and cash management) and ensuring regulatory compliance.

The Management Team

Tim Bee is Toscafund's chief legal counsel. He joined Toscafund in May 2014 having previously been a corporate partner at two leading London based law firms where he advised on a wide range of transactions for public and private companies, financial institutions and fund managers. He qualified as a solicitor in 1988 and has extensive experience in mergers and acquisitions, equity capital markets and financial services.

Adam Dickinson joined Toscafund in September 2008 and is an executive in the Operations Team. He previously held a number of senior finance positions at two leading European investment banks, and was the finance manager at Christie's Auction House, London. He qualified as an accountant in 1998.

Track record

The Investment Manager has an established track record in launching well timed, opportunistic products with high returns, including within various sectors of the UK property market. Core to the manager's investment ethos is the belief in deploying capital on fundamental principles of investment. Strong attention is paid to bottom-up research and capital is deployed on investment merit with little or no concern for fashion. The managers of the Investment Manager also believe strongly in the importance of alignment of interests and often invest alongside external investors across strategies. The result is a strong track record of risk-adjusted returns across a number of asset classes, including commercial property where the manager has been active since early 2013 in conjunction with its chosen partner, the Asset Manager.

Investment Management Agreement

Pursuant to the terms of the Investment Management Agreement, the Investment Manager provides such services to the Issuer as are required to be carried out by an AIFM under the AIFM Directive (subject to the investment objective of the Issuer, the Investment Policy and the overall supervision of the Board) and certain other services to Midco and the SPVs (subject to the overall supervision of the boards of the entity to which the particular services are provided).

Professional liability

The Investment Manager maintains an adequate level of capital to enable it to cover potential professional liability risks arising out of or resulting from the activities it may undertake in complying with its obligations as AIFM under the AIFM Directive.

Conflicts of interest – Investment Manager and its management team

The Investment Manager may from time to time act as distributor, promoter, manager, investment manager, investment advisor to, or be otherwise involved in, other collective investment schemes which have a similar investment objective to that of the Issuer or may otherwise provide discretionary fund management or ancillary administration or advisory services to investors with a similar investment objective to that of the Issuer. It is, therefore, possible that it may, in the course of its business, have potential conflicts of interests with the Issuer. The Investment Manager will at all times have regard in such event to its obligations to act in the best interests of the Shareholders so far as practicable, having regard to its obligations to other clients, when undertaking any investments where conflicts of interests may arise and it will endeavour to resolve such conflicts fairly.

The Investment Manager is required to offer all opportunities available to it to acquire property assets, which in the Investment Manager's good faith judgement fall within the Investment Policy, first to the Issuer. If any such opportunity is refused by the Board, the Investment Manager may allocate such opportunities as it deems appropriate.

The Issuer has been established and promoted by the Directors of the Issuer and the Investment Manager. However, the Directors of the Issuer believe that the fees, commissions and compensation payable to the Investment Manager are consistent with normal market rates for investment funds of a similar type to the Issuer.

The Directors of the Issuer will seek to ensure that any conflict of interest is resolved fairly and in the interests of the Issuer.

Administrator

The Administrator has been appointed as administrator to the Issuer pursuant to the terms of the Administration Agreement. In such capacity the Administrator is responsible for the day to day administration of the Issuer. For

the purposes of the RCIS Rules, the Administrator is the designated administrator of the Issuer. The Administrator is licensed by the GFSC under the POI Law to provide administration services.

The Administrator has delegated certain of its services under the Administration Agreement to Link Alternative Fund Administrators Limited (formerly Capita Sinclair Henderson Limited).

Secretary

The Company Secretary has been appointed as company secretary to the Issuer pursuant to the terms of the Company Secretary Agreement to provide general company secretarial services to the Issuer (including, but not limited to, maintenance of the Issuer's statutory records).

Share Registrar

The Share Registrar has been appointed to provide share registrar services to the Issuer pursuant to the terms of the Share Registrar Agreement. Under the Share Registrar Agreement the Share Registrar has responsibility for maintaining the register of Shareholders, receiving transfers of Ordinary Shares for certification and registration and receiving and registering Shareholders' dividend payments together with related services.

Depositary

The Depositary has been appointed as Depositary to the Issuer pursuant to the terms of the Depositary Agreement.

Corporate governance

General

The Listing Rules require that the Directors of the Issuer must "comply or explain" against the UK Corporate Governance Code. In addition the Disclosure Guidance and Transparency Rules require the Issuer to: (i) make a corporate governance statement in its annual report and accounts based on the corporate governance code to which it is subject or with which it voluntarily complies; and (ii) describe its internal control and risk management arrangements. The Board of the Issuer has agreed to comply with the AIC Code of Corporate Governance (the "**AIC Code**") produced by the Association of Investment Companies ("**AIC**"), except as set out below. The FRC has confirmed that compliance with the AIC Code would satisfy an investment company's obligations to comply with the UK Corporate Governance Code.

The GFSC's "Finance Sector Code of Corporate Governance" (the "**GFSC Code**") applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Issuer. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

The Directors of the Issuer recognise the value of the AIC Code and have taken appropriate measures to ensure that the Issuer complies, so far as is possible given the Issuer's size and nature of business, with the AIC Code. Save as set out below, the Issuer currently complies, and will continue to comply, with the AIC Code and associated disclosure requirements of the Listing Rules.

There is no chief executive. As an investment company, all the Directors of the Issuer are non-executive and the Issuer has no employees. The Chairman also chairs the Management Engagement and Remuneration Committee. There are no other instances of non-compliance with the AIC Code by the Issuer as at the date of this Prospectus.

The Board

The Board consists of six non-executive Directors. A majority, comprising Kevin McGrath, William Eason, Daniel Taylor and Frances Daley, are considered by the Board of the Issuer to be independent of the Asset Manager and the Investment Manager. The policy of the Board of the Issuer on tenure is that continuity and

experience are considered to add significantly to the strength of the Board of the Issuer and, as such, no limit on the overall length of service of any of the Directors of the Issuer, including the Chairman, has been imposed. New Directors of the Issuer will receive an induction from the Company Secretary on joining the Board of the Issuer and all Directors of the Issuer receive other relevant training as necessary.

No individual or group of individuals dominates the decision making process of the Board of the Issuer.

Committees

The Board of the Issuer has established the following committees:

The Audit Committee

The Audit Committee comprises the independent non-executive directors and is chaired by William Eason. The Audit Committee has responsibility for, amongst other things, the planning and review of the Group's annual report and accounts and half-yearly reports and the involvement of the Group's auditors in the process. The committee focuses in particular on compliance with legal requirements, accounting standards and the Listing Rules and on ensuring that an effective system of internal financial control is maintained. The Audit Committee also reviews the objectivity of the Group's auditors and the terms under which the Group's auditors are appointed to perform non-audit services.

The terms of reference of the Audit Committee cover such issues as committee membership, frequency of meetings (as mentioned below), quorum requirements and the right to attend meetings. The responsibilities of the Audit Committee covered in the terms of reference relate to the following: external audit, internal audit, financial reporting, internal controls and risk management. The terms of reference also set out reporting responsibilities and the authority of the committee to carry out its responsibilities.

The Audit Committee normally meets not less than twice a year and at the appropriate times in the reporting and audit cycle and at such other times as the Chairman shall require.

The Management Engagement and Remuneration Committee

The Management Engagement and Remuneration Committee comprises the independent non-executive directors. The Management Engagement and Remuneration Committee is chaired by Kevin McGrath who is responsible for reviewing the appropriateness of the continuing appointment of the Asset Manager and the Investment Manager together with the terms and conditions of the Investment Manager's and Asset Manager's continuing appointment on a regular basis. The Management Engagement and Remuneration Committee meets as necessary and otherwise at least once a year.

The terms of reference of the Management Engagement and Remuneration Committee cover such issues as committee membership, frequency of meetings (as mentioned above), quorum requirements and the right to attend meetings. The responsibilities of the Management Engagement and Remuneration Committee covered in its terms of reference relate to the following: monitoring the relationship with the Issuer's Managers, determining and monitoring policy on and setting levels of remuneration, early termination, performance-related pay, authorising claims for expenses, reporting and disclosure and remuneration consultants. The terms of reference also set out reporting responsibilities and the authority of the committee to carry out its responsibilities.

The recommendations of the AIC Code under principle 5 state that the Chairman may be a member of, but not chair, the Management Engagement and Remuneration Committee. Having taken account of the size of the Board of the Issuer and the remit of the Management Engagement and Remuneration Committee, the Board of the Issuer believes that the Chairman remains the most suitable Director of the Issuer to chair the Management Engagement and Remuneration Committee. The remuneration of the Chairman will be considered by the Management Engagement and Remuneration Committee in his absence.

Investment objective

The investment objective of the Issuer is to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway.

The Board of the Issuer believes that there is opportunity to build up a portfolio of commercial real estate assets with strong income and added value characteristics.

Investment policy

The Group will continue to pursue its investment objective by investing in, managing and disposing of a diversified portfolio of UK office and light industrial properties, which are located predominantly in the regional centres of the UK outside of the M25 motorway, in accordance with its investment strategy and financing strategy, as detailed below. The Issuer may and will typically make investments in property via a number of methods, which include (but are not limited to) (i) direct investment in or acquisition of the real estate asset or portfolio of assets; (ii) direct investment in or acquisition of the holding company of the real estate asset or portfolio of assets; and (iii) direct investment in or acquisition of a joint venture vehicle, which has a direct investment in or holds the real estate assets or the holding company of the real estate asset or portfolio of assets. In addition, the Issuer may, from time to time, acquire, manage and dispose of debt portfolios whose receivables are secured principally against real property that conform to the investment policy criteria and where each secured property complies with the investment restrictions below. For the avoidance of doubt, the Issuer may make an investment through any type of entity it considers appropriate, taking into account the requirement to have an appropriately diversified portfolio of assets, including, without limitation, any member of the Group, and references in the Investment Policy to the Issuer making investments, acquiring or holding assets should be construed accordingly.

The intention of the Issuer is that it will continue to invest predominantly in income producing investments, capable of delivering an attractive total return to Shareholders, with a strong focus on income. Investment decisions will continue to be based on analysis of, inter alia, prospects for future income and capital growth, sector and geographic prospects, tenant covenant strength, lease length, initial and equivalent yields and the potential for active asset management of the property.

The Issuer intends to continue to conduct its affairs at all times so as to enable the Issuer to remain qualified as a REIT.

Investment strategy

The Issuer intends to continue to be opportunistic in its approach and exploit what the Asset Manager and Investment Manager (working jointly and subject to oversight by the Issuer) believe to be pricing inefficiencies and mismatches in the available yields between those available on regional commercial prime properties and those available on regional commercial secondary properties in regional centres outside the M25 motorway. Some of these opportunities result from the distressed state of markets following the financial dislocations of 2008 and 2011, the upsizing of minimum lot sizes in institutional portfolios or by cash-constrained owners being unable to fulfil debt requirements or undertake any meaningful asset management of their properties.

The Issuer intends to supplement this core strategy with property management initiatives to be undertaken by the Asset Manager with a view to enhancing the quality and quantity of income streams. Such property management initiatives are likely to include:

(a) increasing rental income across the Property Portfolio by aggressive marketing of vacant space;

(b) increasing the level of lease renewals by tenants and managing rent review policies so as to increase rental income across the Property Portfolio;

(c) minimising void costs;

(d) selling assets where premium prices can be achieved and subsequently re-investing the proceeds of sale in new real estate acquisition opportunities;

(e) enhancing the tenant mix and improving overall covenant strength across the Property Portfolio;

(f) re-gearing leases and lengthening the weighted average unexpired lease term across the Property Portfolio;

(g) making physical improvements to the fabric of buildings by way of refurbishment, increasing the size of the properties and exploiting development potential as appropriate, and procuring changes of use in respect of the properties; and

(h) making judicious use of gearing.

The Issuer intends to make investments with a view to continue to hold the Portfolio Interests for the long term. However, the Asset Manager will keep opportunities for disposals of Portfolio Interests under review and, subject to oversight by the Issuer, may make recommendations to the special purpose vehicles in respect of any disposals.

Investment restrictions

The Group will continue to acquire Portfolio Interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and sectors across a number of assets and tenants, and through letting properties, where possible, to low risk tenants. The Group will only invest in office and light industrial properties that are situated in the United Kingdom and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50 per cent. of the properties (by market value) are situated inside the boundaries of the M25 motorway.

No single property, in the ordinary course, is expected to exceed 10 per cent. of Gross Investment Properties Value at the time of investment; however, the Board of the Issuer may, in exceptional circumstances, consider a property having a value of up to 20 per cent. of Gross Investment Properties Value at the time of investment. The minimum market value of any single asset at the time of acquisition shall be £5,000,000, except where such asset is acquired within a portfolio of properties, in which case there shall be no such minimum.

No more than 20 per cent. of the Gross Investment Properties Value shall be exposed to any single tenant or Group Undertaking of that tenant.

Speculative development (i.e. properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. Development, other than such speculative development, is restricted to an aggregate maximum of 15 per cent. of Gross Investment Properties Value at the time of investment or commencement of the development. The Issuer will invest in commercial properties or portfolios of commercial property assets in the office and industrial sectors but which, in addition, may include ancillary or secondary utilisations such as retail, leisure and residential elements.

The Issuer does not expect to acquire Portfolio Interests by way of joint ventures, nor does it expect to acquire less than 100 per cent. ownership in any single property. However, the Issuer is permitted to make investments through these types of investment structures provided (i) that the Issuer is able to exert a level of control over the underlying investment that the Board of the Issuer and the Investment Manager consider reasonable in the circumstances; and (ii) no more than 25 per cent. of Gross Investment Properties Value at the time of acquisition is attributable to investments where the Issuer (or its wholly-owned subsidiaries) does not have 100 per cent. ownership.

These investment restrictions shall not require the Group to dispose of Portfolio Interests and/or to rebalance its Property Portfolio as a result of a change in the respective valuations of the Portfolio Interests, except to the extent required by the Listing Rules or for the Group to continue to qualify as a REIT.

Financing strategy

The Group will continue to use gearing and make use of borrowed funds and other forms of leverage to execute its investment strategy and enhance equity returns, provided that the Issuer considers it to be in the best interests of Shareholders to do so. Such leverage will vary significantly depending on prevailing market conditions. The Board of the Issuer expects that the Group will continue to predominantly look to traditional lending sources such as banks for gearing, but is permitted to utilise leverage from other commercial providers and market counterparties. Based on current market conditions, the Board of the Issuer will target Group net borrowings of 40 per cent. of Gross Investment Properties Value at any time. However the Board of the Issuer may modify the Issuer's gearing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Issuer's assets, growth and acquisition opportunities or other factors the Board of the Issuer deems appropriate. The level of gearing will be monitored carefully by the Board of the Issuer in light of the cost of borrowing and the Issuer will seek to use hedging where considered appropriate to mitigate interest rate risk. The Group's net borrowings may not exceed 50 per cent. of the Gross Investment Properties Value at any time. The Group will be under no obligation to reduce borrowings to the extent that this target is exceeded for reasons outside of its control, for instance as a result in changes in property values. The Group's borrowings are expected to be secured on one or more Portfolio Interests.

The Group may borrow for any purpose, including, but not limited to, increasing investment capacity, paying operating expenses, paying repurchase or distribution proceeds or for clearance of transactions. Other than those described above, no restrictions have been imposed on the circumstances in which the Issuer may employ leverage. The Issuer has no intention to make use of collateral and asset reuse arrangements in connection with any leverage.

Amendments to and compliance with the Investment Policy and investment objective

No material change will be made to the Investment Policy or the investment objective without the approval of Shareholders by Ordinary Resolution and in accordance with the Listing Rules, which will also be notified to the market through an RIS. Minor changes to the Investment Policy or the investment objective must be approved by the Board of the Issuer and will be notified to the market through an RIS.

In the event of a breach of the Investment Policy (which for the avoidance of doubt excludes any restrictions which are described above as target limits only), the Asset Manager and the Investment Manager shall jointly inform the Directors of the Issuer upon becoming aware of the same and, if the Issuer considers the breach to be material, notification will be made to an RIS of details of the breach and of actions it may or may not have taken.

The Issuer is permitted to invest cash held for working capital purposes and awaiting investment in accordance with the following provisions.

The Issuer intends that cash not yet invested will be managed by the Investment Manager.

The Issuer has appointed the Investment Manager as discretionary investment manager of cash not yet invested by the Issuer in property assets or otherwise applied in respect of the Issuer's operating expenses entrusted from time to time by the Issuer for management by the Investment Manager pursuant to the terms and conditions of the Investment Management Agreement with the aim of preserving the capital value of such assets. Subject to the Issuer providing the Investment Manager reasonable notice when it requires the liquidation and/or transfer of a part of the entrusted assets in order to pursue the Investment Policy, the Issuer has given the Investment Manager full discretionary authority to invest in various types of financial instruments in Sterling including cash deposits, term deposits, depositary bonds, fixed rate depositary bonds, commercial paper, treasuries, bonds with short term to maturity and government securities as well as floating rate notes and other money market instruments.

The Issuer hedges its interest rate exposure through the use of forward contracts, options, swaps or other forms of derivative instruments.

The hedging policy of the Issuer is reviewed by the Board of the Issuer and the Investment Manager on a regular basis to ensure that the risks associated with the Group's investments are being appropriately managed. Any transactions carried out will only be undertaken for the purpose of efficient portfolio management and will not be carried out for speculative reasons.

Valuation policy

The Net Asset Value (and Net Asset Value per Share) will continue to be calculated half yearly by the Administrator on behalf of the Issuer. Calculations will be at fair value as determined by the Administrator on the basis of market value in accordance with the internationally accepted RICS Appraisal and Valuation Standards. Consistent with other listed European real estate investment companies, the Issuer expects to follow the guidance published by EPRA and to disclose adjusted measures of Net Asset Value (and Net Asset Value per Share) which are designed by EPRA to reflect better the core long term operations of the business. Details of each semi-annual valuation, and of any suspension in the making of such valuations, will be announced by the Issuer through an RIS as soon as practicable after the end of the relevant six month period. The semi-annual valuations of the Net Asset Value (and Net Asset Value per Share) will be calculated on the basis of the most recent annual independent valuation of the Group's properties and any other assets or most recent semi-annual desktop valuation. In addition, such valuations and calculations may also be carried out in case of an increase or decrease of the capital by the Issuer.

The calculation of the Net Asset Value (and Net Asset Value per Share) will only be suspended in circumstances where the underlying data necessary to value the investments of the Group cannot readily, or without undue expenditure, be obtained or in other circumstances (such as a systems failure of the Administrator) which prevents the Issuer from making such calculations. Details of any suspension in making such calculations will be announced through an RIS as soon as practicable after any such suspension occurs.

Dividend policy

The Issuer maintains a dividend policy which has due regard to sustainable levels of dividend cover and reflects their view on the outlook for sustainable recurring earnings, subject to compliance with REIT status requirements. The Issuer intends to reinvest proceeds from disposals of assets in accordance with the Investment Policy.

Currently, the Issuer pays dividends on a quarterly basis with dividends declared in February, May, August and November in each year and paid as soon as practicable thereafter. The Issuer is committed to a growing, progressive, fully covered dividend and its policy of paying quarterly dividends provides a source of regular income for Shareholders, thus improving their cashflow return profile.

At 2015 Admission, while not forming part of the Issuer's investment objective or the Investment Policy, the Issuer stated that it would target a dividend yield of between 7 and 8 per cent. per annum at 100 pence per Ordinary Share, being the pro forma EPRA NAV per Ordinary Share as at 30 June 2015 (before costs and expenses of 2015 Admission).

For the purposes of determining the profits available for a dividend distribution, the Issuer will choose to treat all of its net income from its qualifying property rental business as qualifying property income, notwithstanding that the Issuer accounts for both property income and interest income.

The payment and level of dividends will always remain subject to the Issuer's performance, its financial position, the business outlook and to market conditions.

It is the Issuer's intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The

fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution.

The Issuer has the ability, by ordinary resolution, to offer Shareholders the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or any part of any dividend (a scrip dividend).

The Issuer believes that the ability for Shareholders to elect to receive future dividends from the Issuer wholly or partly in the form of new Ordinary Shares rather than cash is likely to benefit both the Issuer and certain Shareholders. The Issuer will benefit from the ability to retain cash which would otherwise be paid as dividends. To the extent that a scrip dividend alternative is offered in respect of any future dividend, Shareholders will be able to increase their Shareholdings without incurring dealing costs. The decision whether to offer such a scrip dividend alternative in respect of any dividend will be made by the Issuer at the time the relevant dividend is declared and must be authorised by an Ordinary Resolution of the Issuer.

In order to maintain REIT status, the Issuer will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Issuer to distribute at least 90 per cent. of the income profits of the qualifying property rental business for each accounting period, as adjusted for tax purposes.

Regulatory status

The Issuer is registered with the GFSC as a closed-ended collective investment scheme under the POI Law and the RCIS Rules. The Issuer is subject to the Listing Rules, the Prospectus Rules, the Disclosure Guidance and Transparency Rules and MAR. As a REIT, the Group needs to comply with certain ongoing regulations and conditions (including minimum distribution requirements).

Listing

The entire issued share capital of the Issuer is admitted to trading on the London Stock Exchange's main market for listed securities.

Property Portfolio

Summary of the Property Portfolio

As at 31 March 2018, the Property Portfolio was spread across 160 properties consisting of 1,339 individual units with a total of 966 tenants with a combined contracted rent roll of £61.7 million per annum on a weighted average unexpired lease term of 5.3 years (3.5 years to first break).

Details of the Property Portfolio

As at 31 March 2018, the Property Portfolio comprised of the following assets:

Property portfolio by business sector

	Properties (no.)	***Investment Properties (£m)***	***Occupancy by value (per cent.)***	***Lettable area (million sq. ft.)***	***Annualised gross rental income (£m)***
Office	92	487.1	84.5	3.94	41.5
Industrial	37	169.8	87.5	4.23	14.2
Retail	29	60.0	90.0	0.58	5.3
Other	2	9.9	94.9	0.12	0.7

	Properties (no.)	*Investment Properties (£m)*	*Occupancy by value (per cent.)*	*Lettable area (million sq. ft.)*	*Annualised gross rental income (£m)*
Total	**160**	**726.9**	**85.7**	**8.87**	**61.7**

Property portfolio by geography

Regional segment	***Properties (no.)***	***Investment Properties (£m)***	***Occupancy by value (per cent.)***	***Lettable area (million sq. ft.)***	***Annualised gross rental income (£m)***
Scotland	45	165.0	85.7	2.73	16.0
South East	31	203.9	94.0	1.53	17.2
North East	22	84.6	82.5	1.36	6.8
Midlands	31	109.3	87.2	1.30	9.4
North West	17	80.3	79.5	1.13	6.0
South West	11	57.3	68.6	0.42	4.1
Wales	3	26.4	89.3	0.39	2.2
Total	**160**	**726.9**	**85.7**	**8.87**	**61.7**

* Net initial yield is stated after standard purchaser's costs of 6.8 per cent.

** Net rental income is gross rental income less voids and irrecoverable costs.

Gross rental income by business sector

Business sector	***Annualised gross rental income (£m)***	***Average rent per sq. ft.***	***WAULT (to break) (years)***	***Occupancy by lettable area (per cent.)***	***Estimated Rental Value (£m)***
Office	41.5	12.74	3.0	82.7	48.8
Industrial	14.2	3.91	4.1	85.9	16.1
Retail	5.3	10.45	4.6	87.7	5.7
Other	0.7	9.85	9.1	59.1	0.8
Total	**61.7**	**8.26**	**3.5**	**84.2**	**71.3**

Gross rental income by geography

Regional segment	***Annualised gross rental income (£m)***	***Average rent per sq. ft.***	***WAULT (to break) (years)***	***Occupancy by lettable area (per cent.)***	***ERV (£m)***	***Estimated Rental Value (£m)***
Scotland	16.0	7.19	3.4	81.5	18.2	18.2
South East	17.2	11.99	2.9	93.6	17.8	17.8

Regional segment	*Annualised gross rental income (£m)*	*Average rent per sq. ft.*	*WAULT (to break) (years)*	*Occupancy by lettable area (per cent.)*	*ERV (£m)*	*Estimated Rental Value (£m)*
North East	6.8	5.81	3.0	85.2	8.4	8.4
Midlands	9.4	8.36	3.5	86.2	10.1	10.1
North West	6.0	6.77	5.4	78.4	8.3	8.3
South West	4.1	13.21	3.1	74.0	6.1	6.1
Wales	2.2	6.91	5.7	83.1	2.4	2.4
Total	**61.7**	**8.26**	**3.5**	**84.2**	**71.3**	**71.3**

The financial information set out in this Section has not been audited.

There have been no material sales or purchases of the investments within the Property Portfolio and no material changes to the Property Portfolio composition since 31 March 2018 other than as set out in the paragraph entitled "Recent developments" below.

Recent developments

On 20 June 2018, the Issuer announced the unconditional exchange of contracts to sell The Point Trade & Retail Park, Glasgow, for £14.1 million. Completion of the sale occurred on 5 July 2018.

On 26 June 2018, the Issuer announced the completion of the acquisition of five regional offices and one office/distribution property for £35.2 million.

On 2 July 2018, the Issuer announced the completion of the sale of a regionally diverse industrial portfolio, comprising of 15 properties for £39.1 million.

Summary of the memorandum and articles of incorporation of the Issuer

Objects

The memorandum of incorporation of the Issuer provides that the objects and purposes of the Issuer are unrestricted.

Limited liability

The liability of the Issuer's members is limited to any unpaid amount on the shares in the Issuer held by them.

Change of name

The Issuer may change its name by special resolution of the shareholders.

Rights attaching to Ordinary Shares

As to voting

Subject to the rights of any Ordinary Shares which may be issued with special rights or privileges, holders of Ordinary Shares shall have the right to receive notice of and to attend and vote at general meetings of the Issuer.

Each Shareholder being present in person or by proxy or by a duly authorised representative (if a corporation) at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by a duly authorised representative (if a corporation) shall, in the case of a separate class meeting, have

one vote in respect of each share held by him and, in the case of a general meeting of all Shareholders, have one vote in respect of each Ordinary Share held by him.

As to return of capital

As to a winding-up of the Issuer or other return of capital (other than by way of a repurchase of Ordinary Shares in accordance with the provisions of the Articles and the Companies Law), the surplus assets of the Issuer attributable to the Ordinary Shares remaining after payment of all creditors shall be divided amongst the holders of Ordinary Shares pari passu among the holders of Ordinary Shares in proportion to the number of Ordinary Shares held by them.

The manner in which distributions of capital proceeds realised from investments (net of fees and expenses) and attributable to the Ordinary Shares ("**Capital Proceeds**") shall be effected shall, subject to compliance with the Companies Law, be determined by the Issuer in its absolute discretion and, once determined, shall be notified to Shareholders by way of an RIS announcement.

Without restricting the discretion of the Issuer described above, the Issuer may effect distributions of Capital Proceeds by (i) compulsorily redeeming a proportion of each Shareholder's holding of Ordinary Shares and paying the redemption proceeds to Shareholders on such terms and in such manner as the Issuer may determine; or (ii) in such other manner as may be lawful.

As to dividends and distributions

Subject to the rights of any Ordinary Shares which may be issued with special rights or privileges, the Ordinary Shares carry the right to receive all income of the Issuer attributable to the Ordinary Shares, and to participate in any distribution of such income made by the Issuer, such income shall be divided *pari passu* among the holders of Ordinary Shares in proportion to the number of Ordinary Shares held by them.

The Issuer may from time to time authorise dividends and distributions to be paid to Shareholders in accordance with the procedure set out in the Companies Law and subject to any Shareholder's rights attaching to their shares.

All unclaimed dividends and distributions may be invested or otherwise made use of by the Board of the Issuer for the benefit of the Issuer until claimed. All dividends unclaimed on the earlier of (i) a period of six years after the date when it first became due for payment and (ii) the date on which the Issuer is wound-up, shall be forfeited and shall revert to the Issuer without the necessity for any declaration or other action on the part of the Issuer.

Scrip Dividends

The Issuer may, if authorised by an Ordinary Resolution, offer any holders of any particular class of shares (excluding treasury shares) the right to elect to receive further shares (whether or not of that class), credited as fully paid, instead of cash in respect of all or part of any dividend. The value of the further shares will be calculated by reference to the average of the middle market quotations for a share listed on the London Stock Exchange, for the day on which such shares are first quoted "ex" the relevant dividend and the four subsequent dealing days or in such other manner as the Issuer may decide.

The Issuer will give notice to the Shareholders of their rights of election in respect of the scrip dividend and will specify the procedure to be followed in order to make an election.

The further shares so allotted will rank *pari passu* in all respects with the fully paid shares of the same class then in issue except as regards participation in the relevant dividend.

The Board of the Issuer may from time to time establish or vary a procedure for election mandates, under which a holder of shares may, in respect of any future dividends for which a right of election is offered, elect to receive shares in lieu of such dividend on the terms of such mandate.

Variation of share rights

Whenever the capital of the Issuer is divided into different classes of shares, the rights attached to any class of shares may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated:

(a) with the consent in writing of the holders of more than 75 per cent. in number of the issued shares of that class; or

(b) with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

The necessary quorum at any separate class meeting shall be two persons present holding or representing by proxy at least one-third of the voting rights of the issued shares of that class (provided that if any such meeting is adjourned for lack of a quorum, the quorum at the reconvened meeting shall be one person present holding shares of that class or his proxy) provided always that where the class has only one member, that member shall constitute the necessary quorum and any holder of shares of the class in question may demand a poll.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other rights shall (unless otherwise expressly provided by the conditions of issue of such shares) be deemed not to be varied by (a) the creation or issue of further shares ranking *pari passu* therewith or (b) the purchase or redemption by the Issuer of any of its shares (or the holding of such shares as treasury shares).

Transfer of rights

Subject to the Articles and the restrictions contained therein, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his Ordinary Shares in any manner which is permitted by the Companies Law or in any other manner which is from time to time approved by the Board of the Issuer.

A transfer of a certificated Share shall be in the usual common form or in any other form approved by the Board of the Issuer. An instrument of transfer of a certificated Share shall be signed by or on behalf of the transferor and, unless the Share is fully paid, by or on behalf of the transferee.

The Articles provide that the Board of the Issuer has power to implement such arrangements as it may, in its absolute discretion, think fit in order for the Ordinary Shares to be admitted to settlement by means of the CREST UK system. If the Board of the Issuer implements any such arrangements, provision of the Articles will apply or have effect to the extent that it is in any respect inconsistent with:

(a) the holding of shares of the relevant class in uncertificated form;

(b) the transfer of title to shares of the relevant class by means of the CREST UK system; or

(c) the Regulations or the RCIS Rules.

Where the Ordinary Shares are, for the time being, admitted to settlement by means of the CREST UK system such securities may be issued in uncertificated form in accordance with and subject to the Regulations. Unless the Board of the Issuer otherwise determines, shares held by the same holder or joint holders in certificated form and uncertificated form will be treated as separate holdings. Ordinary Shares may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject to the Regulations. Title to such of the shares as are recorded on the register as being held in uncertificated form may be transferred only by means of the CREST UK system.

The Board of the Issuer may, in its absolute discretion and without giving a reason, refuse to register a transfer of any share in certificated or uncertificated form subject to the Articles which is not fully paid or on which the Issuer has a lien provided that this would not prevent dealings in the shares from taking place on an open and proper basis on the London Stock Exchange.

In addition, the Board of the Issuer may decline to transfer, convert or register a transfer of any share in certificated form or (to the extent permitted by the Regulations and the RCIS Rules) uncertificated form: (a) if it is in respect of more than one class of shares, (b) if it is in favour of more than four joint transferees, (c) if applicable, if it is delivered for registration to the registered office of the Issuer or such other place as the Board of the Issuer may decide, not accompanied by the certificate for the shares to which it relates and such other evidence of title as the Board of the Issuer may reasonably require, (d) the transfer is in favour of any Non-Qualified Holder; or (e) in the transfer would make the Issuer a close company.

If any shares are owned directly, indirectly or beneficially by a person believed by the Board of the Issuer to be a Non-Qualified Holder, the Board of the Issuer may give notice to such person requiring him either: (i) to provide the Board of the Issuer within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board of the Issuer that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board of the Issuer with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board of the Issuer may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Issuer and any rights to receive dividends or other distributions with respect to such shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, the person will be deemed, upon the expiration of such 30 days, to have forfeited his shares. If the Board of the Issuer in its absolute discretion so determines, the Issuer may dispose of the shares at the best price reasonably obtainable and pay the net proceeds of such disposal to the former holder.

The Board of the Issuer may decline to register a transfer of an uncertificated share which is traded through the CREST system in accordance with the CREST Regulations where, in the case of a transfer to joint holders, the number of joint holders to whom uncertificated shares is to be transferred exceeds four.

Disclosure of interests in shares

The Issuer shall have power by notice in writing (a "**Disclosure Notice**") to require a Shareholder to disclose to the Issuer the identity of any person other than the Shareholder (an "**interested party**") who has any interest (whether direct or indirect) in the Ordinary Shares held by the Shareholder and the nature of such interest or has been so interested at any time during the three years immediately preceding the date on which the Disclosure Notice is issued. Any such Disclosure Notice shall require any information in response to such Disclosure Notice to be given in writing to the Issuer within 28 days of the date of service (or 14 days if the Ordinary Shares concerned represent 0.25 per cent. or more of the number of Ordinary Shares in issue).

If any member is in default in supplying to the Issuer the information required by the Issuer within the prescribed period (which is 28 days after service of the notice or 14 days if the Ordinary Shares concerned represent 0.25 per cent. or more in number of the issued Ordinary Shares of the relevant class), or such other reasonable period as the Issuer may determine, the Issuer in its absolute discretion may serve a direction notice on the member (a "**Direction Notice**"). The Direction Notice may direct that in respect of the Ordinary Shares in respect of which the default has occurred (the "**Default Shares**") and any other Ordinary Shares held by the member shall not be entitled to vote in general meetings or class meetings. Where the Default Shares represent at least 0.25 per cent. in number of the Ordinary Shares in issue, the Direction Notice may additionally direct that dividends on such Default Shares will be retained by the Issuer (without interest) and that no transfer of the Default Shares (other than a transfer authorised under the Articles) shall be registered until the default is rectified.

The Issuer may be required to exercise its power to require disclosure of interested parties on a requisition of Shareholders holding not less than 10 per cent. of the total voting rights attaching to the Ordinary Shares in issue at the relevant time.

In addition to the rights referred to above, the Board of the Issuer may serve notice on any Shareholder requiring that Shareholder to promptly provide the Issuer with any information, representations, certificates or forms relating to such Shareholder (or its direct or indirect owners or account holders) that the Board of the Issuer determines from time to time are necessary or appropriate for the Issuer to:

(a) satisfy any account or payee identification, documentation or other diligence requirements and any reporting requirements imposed under: (i) FATCA and any agreement relating thereto (including, any amendments, modification, consolidation, re-enactment or replacement thereof made from time to time); and (ii) the multilateral competent authority agreement signed on 29 October 2014 by fifty-one jurisdictions (including Guernsey) which provides for the automatic exchange of FATCA-like information in line with the Common Reporting Standard issued by the Organisation for Economic Co-operation and Development; and/or the requirements of any similar laws or regulations to which the Issuer may be subject enacted from time to time by any other jurisdiction ("**Similar Laws**");

(b) avoid or reduce any tax otherwise imposed by FATCA or Similar Laws (including any withholding upon any payments to such Shareholder by the Issuer); or

(c) permit the Issuer to enter into, comply with, or prevent a default under or termination of, an agreement of the type described in section 1471(b) of the US Internal Revenue Code of 1986 or under Similar Laws.

If any Shareholder (a "**Defaulting Shareholder**") is in default of supplying to the Issuer the information referred to above within the prescribed period (which shall not be less than 28 days after the service of the notice), the Defaulting Shareholder shall be deemed to be a Non-Qualified Holder.

Changes in share capital

The Issuer may by Ordinary Resolution:

(a) consolidate all or any of its shares into shares of larger amounts than its existing shares;

(b) subdivide all or any of its shares into shares of smaller amounts so that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived and so that the resolution whereby any share is subdivided may determine that as between the holders of the shares resulting from subdivision one or more of the shares may have such preferred, deferred or other rights over the others as the Issuer has power to attach to unissued or new shares;

(c) cancel any shares which at the date of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of shares so cancelled;

(d) redesignate or convert the whole, or any particular class, of its shares into shares of another class;

(e) convert all or any of its fully paid shares the nominal amount of which is expressed in a particular currency into fully paid shares of a nominal amount of a different currency, the conversion being effected at the rate of exchange (calculated to not less than 3 significant figures) current on the date of the resolution or on such other date as may be specified therein; and

(f) where its share capital is expressed in a particular currency or former currency, denominate or redenominate it, whether by expressing its amount in units or subdivisions of that currency or former currency or otherwise.

The Board of the Issuer on any consolidation of shares may deal with fractions of shares in any manner.

Restrictions on voting

Unless the Board of the Issuer otherwise decides, no member shall be entitled to vote at any general meeting or at any separate meeting of the holders of any class of shares in the Issuer, either in person or by proxy, in respect of any share held by him unless all calls and other sums presently payable by him in respect of that share have been paid. No member of the Issuer shall, if the Directors of the Issuer so determine, be entitled in respect of any share held by him to attend or vote (either personally or by representative or by proxy) at any general

meeting or separate class meeting of the Issuer or to exercise any other right conferred by membership in relation to any such meeting if he or any other person appearing to be interested in such shares has failed to comply with a Disclosure Notice (see the paragraph entitled "*Disclosure of interests in shares*" above) within 14 days, in a case where the shares in question represent at least 0.25 per cent. of their class, or within 28 days, in any other case, from the date of such Disclosure Notice. These restrictions will continue until the information required by the notice is supplied to the Issuer or until the shares in question are transferred or sold in circumstances specified for this purpose in the Articles.

Untraced Shareholders

The Issuer shall be entitled to sell at the best price reasonably obtainable the shares of a Shareholder or any shares to which a person is entitled by transmission on death or bankruptcy if and provided that (i) for a period of 12 years no cheque or warrant sent by the Issuer through the post in a pre-paid letter addressed to the Shareholder or to the person so entitled to the share at his address in the register of members of the Issuer or otherwise the last known address given by the Shareholder or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Issuer from the Shareholder or the person so entitled provided that in such period of 12 years, the Issuer has paid out at least three dividends whether interim or final; (ii) the Issuer has at the expiration of the said period of 12 years by advertisement in a newspaper circulating in the area in which the address referred to in (i) above is located given notice of its intention to sell such shares; (iii) the Issuer has not during the period of three months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the Shareholder or person so entitled; or (iv) if any part of the share capital of the Issuer is quoted on any stock exchange and the rules of such stock exchange so require, the Issuer has given notice in writing to the quotations department of such stock exchange of its intention to sell such shares.

General meetings

General meetings (which are annual general meetings) shall be held at least once in each calendar year and in any event, no more than 15 months since the last annual general meeting. All general meetings (other than annual general meetings) shall be called extraordinary general meetings. Extraordinary general meetings and annual general meetings shall be held in the United Kingdom or such other place as may be determined by the Board of the Issuer from time to time.

The notice must specify the date, time and place of any general meeting and the text of any proposed special and Ordinary Resolution. Any general meeting shall be called by at least ten clear days' notice. A general meeting may be deemed to have been duly called by shorter notice if it is so agreed by all the members entitled to attend and vote thereat. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive such notice shall not invalidate the proceedings at the meeting.

The Shareholders may require the Board of the Issuer to call an extraordinary general meeting in accordance with the Companies Law.

Directors of the Issuer

Number

Unless otherwise determined by the Shareholders by Ordinary Resolution, the number of Directors of the Issuer shall not be less than two and there shall be no maximum number.

Directors of the Issuer' shareholding qualification

A Director of the Issuer need not be a Shareholder. A Director of the Issuer who is not a Shareholder shall nevertheless be entitled to attend and speak at Shareholders' meetings.

Remuneration

The Directors of the Issuer shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year in aggregate (or such sum as the Issuer in general meeting shall from time to time determine). The Directors of the Issuer may be paid all reasonable travelling, hotel and other out of pocket expenses properly incurred by them in attending board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director of the Issuer.

The fees per annum of each Director of the Issuer pursuant to the NED Appointment Letters is as follows:

(a) Kevin McGrath – £70,000 per annum.

(b) William Eason – £50,000 per annum.

(c) Daniel Taylor – £50,000 per annum.

(d) Frances Daley - £50,000 per annum.

(e) Tim Bee and Stephen Inglis are not remunerated for their services as Directors of the Issuer.

Rotation and appointment of Directors of the Issuer

The Directors of the Issuer may be appointed by the Board of the Issuer (either to fill a vacancy or as an additional Director of the Issuer). No person other than a Director of the Issuer retiring at a general meeting shall, unless recommended by the Directors of the Issuer, be eligible for election by the Issuer to the office of Director of the Issuer unless not less than seven and not more than 42 clear days before the date appointed for the meeting there shall have been left at the Issuer's registered office (or, if an electronic address has been specified by the Issuer for such purposes, sent to the Issuer's electronic address) notice in writing signed by a Shareholder who is duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election together with notice in writing signed by that person of his willingness to be elected and containing a declaration that he is not ineligible to be a Director of the Issuer in accordance with the Companies Law.

No person shall be or become incapable of being appointed a Director of the Issuer, and no Director of the Issuer shall be required to vacate that office, by reason only of the fact that he has attained the age of 70 years or any other age.

Subject to the Articles, at each annual general meeting of the Issuer, all directors will retire from office and each Director of the Issuer may offer himself for election or re-election by the Shareholders.

A Director of the Issuer who retires at an annual general meeting may, if willing to continue to act, be elected or re-elected at that meeting. If he is elected or re-elected he is treated as continuing in office throughout. If he is not elected or re-elected, he shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to elect or re-elect the Director of the Issuer is put to the meeting and lost.

A Director of the Issuer may resign from office as a Director of the Issuer by giving notice in writing to that effect to the Issuer at its registered office, which notice shall be effective upon delivery to the registered office.

The office of a Director of the Issuer shall be vacated: (i) if he (not being a person holding for a fixed term an executive office subject to termination if he ceases from any cause to be a Director of the Issuer) resigns his office by one month's written notice signed by him sent to or deposited at the Issuer's registered office; (ii) if he dies; (iii) if he shall have absented himself (such absence not being absence with leave or by arrangement with the Board of the Issuer on the affairs of the Issuer) from meetings of the Board of the Issuer for a consecutive period of 12 months and the Board of the Issuer resolves that his office shall be vacated; (iv) if he becomes

bankrupt or makes any arrangements or composition with his creditors generally; (v) if he ceases to be a Director of the Issuer by virtue of, or becomes prohibited from being a Director of the Issuer by reason of, an order made under the provisions of any law or enactment; (vi) if he is requested to resign by written notice signed by a majority of his co-Directors of the Issuer (being not less than two in number); (vii) if the Issuer by Ordinary Resolution shall declare that he shall cease to be a Director of the Issuer; or (viii) if he becomes ineligible to be a Director of the Issuer in accordance with the Companies Law.

Alternate Directors of the Issuer

Any Director of the Issuer may, by notice in writing, appoint any other person (subject to the provisions in the paragraph below), who is willing to act as his alternate and may remove his alternate from that office.

Each alternate Director of the Issuer shall be eligible to be a Director of the Issuer under the Companies Law and signs a written consent to act. Every appointment or removal of an alternate Director of the Issuer shall be by notice in writing signed by the appointor and served upon the Issuer.

Proceedings of the Board of the Issuer

The Board of the Issuer may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of the business of the Board of the Issuer may be fixed by the Board of the Issuer and unless so fixed shall be two. A meeting of the Board of the Issuer at which a quorum is present shall be competent to exercise all the powers and discretion exercisable by the Board of the Issuer.

The Board of the Issuer may elect one of their number as chairman. If no chairman is elected or if at any meeting the chairman is not present within five minutes after the time appointed for holding the meeting, the Directors of the Issuer present may choose one of their number to be chairman of the meeting.

Questions arising at any meeting shall be determined by a majority of votes.

The Board of the Issuer may delegate any of its powers to committees consisting of one or more Directors of the Issuer as they think fit. Any committee so formed shall be governed by any regulations that may be imposed on it by the Board of the Issuer and (subject to such regulations) by the provisions of the Articles that apply to meetings of the Board of the Issuer.

Borrowing powers

The Directors of the Issuer may exercise all the powers of the Issuer to borrow money and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking, property (present or future) or assets or uncalled capital and to issue other securities whether outright, or as collateral security for any debt, liability or obligation of the Issuer or of any third party.

Interests of the Directors of the Issuer

Subject to and in accordance with the Companies Law, a Director of the Issuer must, immediately after becoming aware of the fact that he is interested in a transaction or proposed transaction with the Issuer, disclose that fact to the Directors of the Issuer (including, if the monetary value of the Director of the Issuer's interest is quantifiable, the nature and monetary value of that interest, or if the monetary value of the Director of the Issuer's interest is not quantifiable, the nature and extent of that interest).

Subject to the provisions of the Companies Law, and provided that he has disclosed to the Directors of the Issuer the nature and extent of any interests of his, a Director of the Issuer notwithstanding his office:

(a) may hold any other office or place of profit under the Issuer (other than the office of auditor) in conjunction with his office of Director of the Issuer on such terms as to the tenure of office and otherwise as the Directors of the Issuer may determine;

(b) may be a party to, or otherwise interested in, any transaction or arrangement with the Issuer or in which the Issuer is otherwise interested;

(c) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, a shareholder of or otherwise interested in, any body corporate promoted by the Issuer or in which the Issuer is otherwise interested;

(d) shall not, by reason of his office, be accountable to the Issuer for any remuneration or benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit;

(e) may act by himself or his firm in a professional capacity for the Issuer, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as though he were not a Director of the Issuer; and

(f) may be counted in the quorum present at any meeting in relation to any resolution in respect of which he has declared an interest (but he may not vote thereon).

Suspension of the determination of the Net Asset Value

The Board of the Issuer shall have the power to determine that the Issuer shall suspend the determination of the Net Asset Value in any circumstances in which the Board of the Issuer in its absolute discretion deems necessary or desirable.

Communication of documents and information

A notice, document or other information may be given by the Issuer to any Shareholder either (i) personally; or (ii) by sending it by prepaid post addresses to such Shareholder at his registered address; or (iii) where appropriate, by sending or supplying it in electronic form to an address notified by the Shareholder for that purpose; (iv) by publishing it in La Gazette Officielle; or (v) where appropriate, by publication on a website in accordance with the Articles.

Subject to any longer periods required by the Companies Law, a notice will, unless the contrary is shown, be deemed to have been received:

- in the case of a notice sent by post to an address in the UK, Channel Islands or the Isle of Man, on the second day after the day of posting;
- in the case of a notice sent by post elsewhere by airmail, on the third day after posting; or
- in the case of a notice sent by electronic means, immediately after it was transmitted in accordance with the Articles,

excluding, in the first two cases, any day which is a Saturday, Sunday, Good Friday, Christmas Day, a bank holiday in Guernsey or a day appointed as a day of public thanksgiving or public mourning in Guernsey. A notice given by advertisement will be published in at least one UK national newspaper and one daily newspaper circulated widely in Guernsey and will be deemed to have been served before noon on the day on which the advertisement appears. A notice given by publication in La Gazette Officielle will also be deemed to have been served before noon on the day on which the notice appears in La Gazette Officielle.

Any notice, document or other information made available on a website will be deemed to have been received on the day on which the notice, document or other information was first made available on the website or, if later, when a notice of availability is received or deemed to have been received pursuant to the Articles.

Indemnities

Subject to applicable law, the Issuer shall indemnify any Director of the Issuer against any liability except such (if any) as they shall incur by or through their own default, breach of trust, breach of duty or negligence and may purchase and maintain for any Director of the Issuer or any subsidiary of the Issuer insurance against any liability.

The Issuer may exercise all the powers of the Issuer to purchase and maintain insurance for or for the benefit of any persons who are or were at any time Directors of the Issuer, officers, employees or auditors of the Issuer or otherwise associated with the Issuer or in which the Issuer has or had any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liabilities suffered or incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and discretion and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Issuer or any such other body.

Winding up

If the Issuer shall be wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Companies Law, divide the whole or any part of the assets of the Issuer among the members entitled to the same in specie and the liquidator may for that purpose value any assets as he or they deem fair and determine how the division shall be carried out as between the members or different classes of members and, with the like sanction, may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he or they may determine, but no member shall be compelled to accept any assets upon which there is a liability.

Where the Issuer is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred or sold to another company, the liquidator may, with the sanction of an Ordinary Resolution, receive in compensation shares, policies or other like interests for distribution or may enter into any other arrangements whereby the members may, in lieu of receiving cash, shares, policies or other like interests, participate in the profits of or receive any other benefit from the transferee.

Substantial Shareholders

The Articles contain provisions relating to Substantial Shareholders. The Issuer is a REIT. Under Part 12 CTA 2010 a tax charge may be levied on the Issuer if it makes a distribution to a company beneficially entitled (directly or indirectly) to 10 per cent. or more of the Ordinary Shares or dividends of the Issuer or which controls (directly or indirectly) 10 per cent. or more of the voting rights of the Issuer. If, however, the Issuer has taken "reasonable steps" to prevent the possibility of such a distribution being made, then this tax charge may not arise. The Articles:

(a) provide the Issuer with powers to identify Substantial Shareholders (including giving notice to a Shareholder requiring him to provide such information as the Issuer may require to establish whether or not he is a Substantial Shareholder);

(b) provide the Issuer with powers to prohibit the payment of dividends on Ordinary Shares that form part of a Substantial Shareholding, if certain conditions are met;

(c) allow dividends to be paid on Ordinary Shares that form part of a Substantial Shareholding where the Shareholder has disposed of its rights to dividends on its Ordinary Shares;

(d) seek to ensure that if a dividend is paid on Ordinary Shares that form part of a Substantial Shareholding and arrangements of the kind referred to above are not met, the Substantial Shareholder concerned does not become beneficially entitled to that dividend; and

(e) provide the Issuer with powers if certain conditions are met, to require (1) a Substantial Shareholder; or (2) a Shareholder who has not complied with a notice served in accordance with the power referred to in the first bullet point above; or (3) a Shareholder who has provided materially inaccurate or misleading information in relation to the Substantial Shareholder provisions of the Articles, to dispose of such number of their shares as the Issuer may specify, or to take such other steps as will cause the Issuer to believe the Shareholder is no longer a Substantial Shareholder.

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SELECTED FINANCIAL INFORMATION

SELECTED FINANCIAL INFORMATION

Historical financial information relating to the Group.

This Section sets out important historical financial information relating to the Group.

The tables below set out the Group's summary financial information for the periods indicated. The consolidated financial information for the Group for the financial period ended 31 December 2016 has been extracted without material adjustment from the 2016 Financial Statements. The consolidated financial information for the Group for the year ended 31 December 2017 has been extracted without material adjustment from the 2017 Financial Statements.

Statement of summarised consolidated financial position		
	Year ended 31 December 2017	**Year ended 31 Dec 2016**
	£'000s	**£'000s**
Assets		
Non - current assets	740,928	506,401
Current assets	66,587	27,574
Total Assets	**807,515**	**533,975**
Liabilities		
Current liabilities	(42,644)	(23,285)
Non - current liabilities	(371,972)	(218,955)
Total Liabilities	**(414,616)**	**(242,240)**
Net Assets	**392,899**	**291,735**
Equity		
Stated capital	370,318	274,217
Retained earnings	22,581	17,518
Total equity attributable to owners of the parent	**392,899**	**291,735**

Summarised Consolidated Income Statement		
	Year ended 31 December 2017	**Year ended 31 Dec 2016**
	£'000s	**£'000s**
Net rental income	45,847	38,128
Administration costs	(9,429)	(8,217)
Operating profit	36,418	29,911
Gain on the disposal of properties	1,234	518
Change in the fair value of properties	5,893	(6,751)
Operating profit	**43,545**	**23,678**
Finance income	215	193
Finance expense	(14,728)	(8,822)
Impairment of goodwill	(557)	(557)
Revaluation of derivatives	217	(1,097)
Profit before tax	**28,692**	**13,395**
Taxation	(1,632)	23
Total comprehensive income	**27,060**	**13,418**

8

SUBSCRIPTION AND SALE

SUBSCRIPTION AND SALE

This Section contains a description of the material provisions of the Subscription Agreement.

Under a subscription agreement expected to be dated on or about 2 August 2018 (the "**Subscription Agreement**"), Peel Hunt LLP (the "**Manager**") is expected to agree to procure subscribers for the 4.5 per cent. bonds due 2024 (the "**Bonds**") at the issue price of 100 per cent. of the principal amount of the Bonds, less arrangement, management and applicable distribution fees. The Manager will receive fees of 1.25 per cent. of the principal amount of the Bonds. "**Authorised Offerors**" (being any financial intermediary which satisfies the conditions as set out in Section 10 (*Important Legal Information*)) may also be eligible to receive a distribution fee as follows:

(i) each initial Authorised Offeror will be eligible to receive a distribution fee of 0.375 per cent. of the principal amount of the Bonds allotted to them; and

(ii) each additional Authorised Offeror may be eligible to receive a distribution fee of up to per cent. 0.375 of the principal amount of the Bonds allotted to them.

Regional REIT Limited (the "**Issuer**") will also reimburse the Manager in respect of certain of its expenses, and the Issuer is expected to agree to indemnify the Manager against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer. The issue of the Bonds will not be underwritten by the Manager, the Authorised Offerors or any other person.

Selling restrictions

Under the terms of the Subscription Agreement, the Issuer and the Manager have agreed to comply with the selling restrictions set out below. The Authorised Offerors are also required to comply with these restrictions under the Authorised Offeror Terms (see Section 10 (*Important Legal Information - Consent*)).

U.S.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state or other jurisdiction of the U.S. and the Bonds are subject to U.S. tax law requirements. The Bonds may not be offered, sold or delivered within the U.S. or to, or for the account or benefit of, U.S. persons or in a manner which would require the Issuer to register under the U.S. Investment Company Act of 1940, as amended. The Manager has agreed that they will not offer, sell or deliver any Bonds within the U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

U.K.

The Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**") received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of FSMA) would not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the U.K.

Jersey

The Manager has represented and agreed that it has not circulated, and will not circulate, in Jersey any offer for subscription, sale or exchange of Bonds unless such offer is circulated in Jersey by a person or persons authorised to conduct investment business under the Financial Services (Jersey) Law 1998, as amended and (a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or (b) an identical offer is for the time being circulated in the United Kingdom without contravening the Financial Services and Markets Act 2000 and is, mutatis mutandis, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

Guernsey

The Manager has represented and agreed that:

(a) the Bonds cannot be promoted, marketed, offered or sold in or from within the Bailiwick of Guernsey other than in compliance with the licensing requirements of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, and the regulations enacted thereunder, or any exemption therefrom;

(b) this Prospectus may not be distributed or circulated, directly or indirectly, to any persons in the Bailiwick of Guernsey other than:

  (i) by a person licensed to do so under the terms of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended; or

  (ii) to those persons regulated by the Guernsey Financial Services Commission as licensees under the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, the Banking Supervision (Bailiwick of Guernsey) Law 1994, as amended, the Insurance Business (Bailiwick of Guernsey) Law 2002, as amended, the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002, as amended or the Regulation of Fiduciaries, Administration Business and Company Directors etc (Bailiwick of Guernsey) Law 2000, as amended and provided that the requirements set out in section 29(1)(cc) of the Protection of Investors (Bailiwick of Guernsey) Law 1987 have been complied with.

Isle of Man

The Manager has represented and agreed that the Bonds cannot be marketed, offered or sold in, or to persons resident in, the Isle of Man, other than in compliance with the licensing requirements of the Isle of Man Financial Services Act 2008 or in accordance with any relevant exclusion contained in the Isle of Man Regulated Activities Order 2011 or in accordance with any relevant exemption contained in the Isle of Man Financial Services (Exemptions) Regulations 2011.

No offers in the European Economic Area other than the U.K.

The Manager has represented and agreed that it has not made and will not make an offer of Bonds to the public in any Member State of the European Economic Area other than the U.K.

In this provision, the expression an "**offer of Bonds to the public**" in relation to any Bonds in any Member State of the European Economic Area means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

General

Save for the offers to be made in the U.K., no action has been taken by the Issuer or the Manager that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus or any amendment or supplement thereto or any other offering material, in all cases at its own expense.

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ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

You should be aware of a number of other matters that may not have been addressed in detail elsewhere in this Prospectus.

These include the availability of certain relevant documents for inspection, confirmations from the Issuer and details of the listing of the Bonds.

Listing and admission to trading of the Bonds

It is expected that the admission of the 4.5 per cent. bonds due 2024 (the "**Bonds**"), to be issued by Regional REIT Limited (the "**Issuer**"), to the Official List will be granted on or about 7 August 2018. Application will be made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the Regulated Market and through its electronic Order book for Retail Bonds. Admission of the Bonds to trading is expected to occur on or about 7 August 2018.

The amount of expenses related to the issue of the Bonds (i.e. being the fees payable to the Manager and excluding other expenses) will be specified in the Sizing Announcement published by the Issuer on a Regulatory Information Service.

The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments ("**MiFID**"). MiFID governs the organisation and conduct of the business of investment firms and the operation of regulated markets across the European Economic Area in order to seek to promote cross-border business, market transparency and the protection of investors.

Issuer's authorisation

The issue of the Bonds was duly authorised by a resolution of the Directors of the Issuer passed on 13 July 2018.

The Issuer has obtained all necessary consents, approvals and authorisations in the Bailiwick of Guernsey in connection with the issue and performance of the Bonds.

Significant or material change statement

There has been no significant change in the financial or trading position of the Issuer or the Group and no material adverse change in the prospects of the Issuer or the Group since 31 December 2017.

Litigation statements

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months period preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Issuer's or the Group's financial position or profitability.

Clearing systems information and Bond security codes

The Bonds will initially be represented by a global certificate (the "**Global Certificate**"), which will be deposited with a common depository for Clearstream Banking S.A., ("**Clearstream, Luxembourg**") and Euroclear Bank SA/NV ("**Euroclear**") on or about the Issue Date. The Global Certificate will be exchangeable for definitive certificates ("**Definitive Certificates**") in the limited circumstances set out in it (see Appendix 3 (*Summary of Provisions Relating to the Bonds while in global form in the Clearing Systems*).

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In addition, the Bonds will be accepted for settlement in CREST via the CDI mechanism. Interests in the Bonds may also be

held through CREST through the issuance of CDIs representing the Underlying Bonds. You should note that the CDIs are the result of the CREST settlement mechanics and are not the subject of this Prospectus. For more information on the CDI mechanism, refer to Section 2 (*Risk Factors –Holding CREST depository interests*). The ISIN for the Bonds is XS1849479602, the Common Code is 184947960, the CFI is DBFXFR and the FISN is REGIONAL REIT L/BD 22001231 RESTN. The Issuer's LEI number is 549300D8G4NKLRIKBX73.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London EC4M 5SB.

Consents

The Asset Manager has given and not withdrawn its written consent to the issue of this Prospectus and the inclusion herein of its name and the references to it in the form and context in which they appear.

The Investment Manager has given and not withdrawn its written consent to the issue of this Prospectus and the inclusion herein of its name and the references to it in the form and context in which they appear.

Documents available for inspection

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer:

(a) the constitutional documents of the Issuer;

(b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 31 December 2017, in each case together with the audit reports prepared in connection therewith;

(c) the Trust Deed dated 6 August 2018 pursuant to which the Bonds are constituted

(d) the Agency Agreement dated 6 August 2018 pursuant to which Elavon Financial Services DAC, acting through its U.K. Branch is appointed as Principal Paying Agent and Registrar in respect of the Bonds;

(e) a copy of this Prospectus; and

(f) any future prospectuses and supplements to this Prospectus.

Auditors

The consolidated financial statements of the Issuer for the financial years ended 31 December 2016 and 31 December 2017 have been audited without qualification by RSM UK Audit LLP of 25 Farringdon Street, London EC4A 4AB, as its auditors. RSM UK Audit LLP is a member of the Institute of Chartered Accountants in Scotland.

Material Contracts

Below is a summary of (i) each material contract (other than a contract entered into in the ordinary course of business) to which the Issuer or any member of the Group is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (ii) any other contract (other than a contract entered into in the ordinary course of business) entered into by the Issuer or any member of the Group which contains obligations or entitlements which are or may be material to the Group as at the date of this Prospectus.

Asset Management Agreement

The Issuer, Midco, the Asset Manager and the Investment Manager entered into the Asset Management Agreement on 3 November 2015, pursuant to which the Asset Manager provides property management services

and advice to the Issuer, Midco and SPVs, subject to the investment objective of the Issuer and the Investment Policy and the overall supervision of the boards of the entity to which the particular property management services are provided. The Asset Manager and the Issuer are required to procure that, in respect of each Portfolio Interest which is acquired by an SPV, a Property Manager is appointed pursuant to a Property Management Agreement.

The Asset Management Agreement is terminable by either party on 12 months' written notice and such notice may only be served after the fifth anniversary of the Asset Management Agreement. The Asset Management Agreement may be terminated with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager (by notice from the Issuer or Midco) or by the Investment Manager, Issuer, Midco or any SPV (by notice from the Asset Manager). The Issuer or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the Asset Manager's liquidation or insolvency (or certain analogous events).

The Asset Management Agreement shall continue in full force and effect for an initial period of five years from 6 November 2015 (the "**Initial Period**"). The Issuer or Midco or the Asset Manager may terminate the Asset Management Agreement by giving notice at any time on or before the expiry of the Initial Period, in which case it shall terminate one year after the expiry of the Initial Period. If no notice is given on or before the expiry of the Initial Period, the Asset Management Agreement shall continue for recurring three year periods ("**Subsequent Periods**"). The Issuer, Midco or the Asset Manager may terminate the Asset Management Agreement by giving notice no later than one year prior to the end of that Subsequent Period, in which case it shall terminate at the end of that Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated with immediate effect earlier in certain circumstances, including a material unremedied breach by the Asset Manager (by notice from the Issuer or Midco) or by the Investment Manager, the Issuer, Midco or any SPV (by notice from the Asset Manager). The Issuer or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board of the Issuer, the Asset Manager and the Investment Manager may decide, with the approval of an Ordinary Resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Issuer in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

The Asset Manager shall only be liable (on an indemnity basis) to the Issuer, Investment Manager, Midco and any SPV in respect of liabilities, costs and expenses resulting from the fraud, negligence, bad faith or wilful default of or breach of the agreement by the Asset Manager. The Asset Manager and its associates and their respective officers, directors and employees shall be entitled to be indemnified by the Issuer, Midco and the SPVs against any liabilities, costs and expenses incurred or threatened against them, except for losses resulting from the fraud, negligence, bad faith or wilful default of or breach of the agreement by the relevant person.

The Asset Manager shall be entitled in each financial year (or part thereof) to 50 per cent. the following fees:

(a) An annual management fee on a scaled rate of 1.1 per cent. of EPRA NAV, reducing to 0.9 per cent. on assets over £500,000,000 or higher (the "**Management Fee**"). The Management Fee shall be calculated by reference to the most recent of the half-yearly calculated EPRA NAV.

(b) A performance fee at a rate equal to the product of (i) 15 per cent. of Shareholder Returns in excess of the Hurdle for each Performance Period and (ii) the number of Ordinary Shares in issue as at the last day of such Performance Period (the "**Performance Fee**"). A Performance Fee is only payable in respect of a performance period where the year-end EPRA NAV per Share for such Performance Period exceeds the High Water Mark.

"**Shareholder Returns**" for any financial year means the sum of (i) any increase or decrease in EPRA NAV per Ordinary Share and (ii) the total dividends per Ordinary Share that are declared, in each case during such financial year (each such financial year, a "**Performance Period**"), save that the first Performance Period shall commence on the date of 2015 Admission and end on 31 December 2018.

"**Hurdle**", in any given Performance Period, means 8 per cent. of the year-end EPRA NAV per Ordinary Share in the previous Performance Period provided that the Hurdle for the first Performance Period is 8 per cent. per annum (pro-rated for periods of less than a year) of the EPRA NAV per Ordinary Share on 2015 Admission before costs and expenses of the Transaction (being 100p) from the date of 2015 Admission to 31 December 2018.

The "**High Water Mark**" is equal to the greater of the highest year-end EPRA NAV per Ordinary Share in any previous Performance Period and the Issue Price.

The Asset Management Agreement contains a provision whereby the Performance Fee can be adjusted by the Administrator upon the instruction of the Issuer, if necessary, to take into account the effect on it of corporate actions entailing changes to the Issuer's issued share capital, including, without limitation, new issues, share buy-backs, consolidations, sub-divisions or bonus issues or other restructurings or reorganisations affecting the Issuer's issued share capital.

The Performance Fee will be payable as follows:

(a) the first Performance Fee is to be calculated on 31 December 2018 and paid as to (i) 50 per cent. in cash; and (ii) 50 per cent. in Ordinary Shares; and

(b) the second and all subsequent Performance Fees are to be calculated and paid annually (commencing 1 January 2019) and paid as to (i) 34 per cent. in cash; and (ii) 66 per cent. in Ordinary Shares (33 per cent. of which are subject to a one year lock-in period, and 33 per cent. are subject to a two year lock-in period), provided that any such Ordinary Shares shall be issued at the prevailing price per Ordinary Share on the date of issue.

Investment Management Agreement

The Issuer, Midco and the Investment Manager entered into the Investment Management Agreement on 3 November 2015, pursuant to which the Investment Manager provides such services to the Issuer that are required to be carried out by an AIFM under the AIFM Directive (subject to the investment objective of the Issuer, the Investment Policy and the overall supervision of the Directors of the Issuer) and certain other services to Midco and the SPVs (subject to the overall supervision of the boards of the entity to which the particular services are provided).The Investment Management Agreement shall continue in full force and effect for an initial period of five years from 6 November 2015 (the "**Investment Management Initial Period**"). The Issuer or the Investment Manager may terminate the Investment Management Agreement by giving notice at any time on or before the expiry of the Investment Management Initial Period, in which case it shall terminate one year after the expiry of the Investment Management Initial Period. If no notice is given on or before the expiry of the Investment Management Initial Period, the Investment Management Agreement shall continue for recurring three year periods ("**Investment Management Subsequent Periods**"). The Issuer or the Investment Manager may terminate the Investment Management Agreement by giving notice no later than one year prior to the end of that Investment Management Subsequent Period, in which case it shall terminate at the end of that Investment Management Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect earlier in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Issuer has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Issuer requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Directors of the Issuer and the Investment Manager may decide, with the approval of an Ordinary Resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Issuer in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

None of the Investment Manager, its associates or its associates' members, managers, directors, officers, partners, controlling persons, shareholders, employees or agents (the "**Indemnified Persons**") will be liable for any losses, and they will be entitled to be indemnified by the Issuer, save in respect of an Indemnified Party's fraud, gross negligence or wilful misconduct. The Issuer, Midco and the SPVs shall indemnify the Indemnified Parties in respect of any liability they incur in connection with the Investment Manager's services under the Investment Management Agreement, except in respect of the Indemnified Party's fraud, gross negligence or wilful misconduct.

The Investment Manager shall be entitled in each financial year (or part thereof) to 50 per cent. the following fees:

(a) An annual management fee on a scaled rate of 1.1 per cent. of EPRA NAV, reducing to 0.9 per cent. on assets over £500,000,000 or higher (the "**Investment Management Fee**"). Such fee shall be payable in cash quarterly in arrears. The Investment Management Fee shall be calculated by reference to the most recent half-yearly calculated EPRA NAV.

(b) A performance fee at a rate equal to the product of (i) 15 per cent. of Shareholder Returns in excess of the Hurdle for each Performance Period and (ii) the number of Ordinary Shares in issue as at the last day of such Performance Period (the "**Investment Management Performance Fee**"). An Investment Management Performance Fee is only payable in respect of a performance period where the year-end EPRA NAV per Share for such Performance Period exceeds the Investment Management High Water Mark.

"**Investment Management Shareholder Returns**" for any financial year means the sum of (i) any increase or decrease in EPRA NAV per Ordinary Share and (ii) the total dividends per Ordinary Share that are declared, in each case during such financial year (each such financial year, an "**Investment Management Performance Period**"), save that the first Investment Management Performance Period shall commence on the date of 2015 Admission and end on 31 December 2018.

"**Investment Management Hurdle**", in any given Investment Management Performance Period, means 8 per cent. of the year-end EPRA NAV per Ordinary Share in the previous Investment Management Performance Period provided that the Investment Management Hurdle for the first Investment Management Performance Period is 8 per cent. per annum (pro-rated for periods of less than a year) of the EPRA NAV per Ordinary Share on 2015 Admission before costs and expenses of the Transaction (being 100p) from the date of 2015 Admission to 31 December 2018.

The "**Investment Management High Water Mark**" is equal to the greater of the highest year-end EPRA NAV per Ordinary Share in any previous Investment Management Performance Period and the issue price.

The Investment Management Agreement contains a provision whereby the Investment Management Performance Fee can be adjusted by the Administrator upon the instruction of the Issuer, if necessary, to take into account the effect on it of corporate actions entailing changes to the Issuer's issued share capital, including, without limitation, new issues, share buy-backs, consolidations, sub-divisions or bonus issues or other restructurings or reorganisations affecting the Issuer's issued share capital.

The Investment Management Performance Fee will be payable as follows:

(a) the first Investment Management Performance Fee is to be calculated on 31 December 2018 and paid as to (i) 50 per cent. in cash; and (ii) 50 per cent. in Ordinary Shares; and

(b) the second and all subsequent Investment Management Performance Fees are to be calculated and paid annually (commencing 1 January 2019) and paid as to (i) 34 per cent. in cash; and (ii) 66 per cent. in Ordinary Shares (33 per cent. of which are subject to a one year lock-in period, and 33 per cent. are subject to a two year lock-in period), provided that any such Ordinary Shares shall be issued at the prevailing price per Ordinary Share on the date of issue.

Property Management Agreements

In respect of each Portfolio Interest, the Asset Manager has procured and shall, with the Issuer, in future procure, that London & Scottish Property Asset Management Limited or such other suitably qualified property manager as the Asset Manager may determine is appointed to act as property manager (the "**Property Manager**"). Any future appointment shall be effected under a Property Management Agreement, the form of which has been agreed pursuant to the Asset Management Agreement (which form is substantially the same as all Property Management Agreements entered into prior to the date of the Asset Management Agreement). The counterparty to each Property Management Agreement is, and shall be, an SPV.

Under the Property Management Agreement, the Property Manager has duties in relation to the collection of income, settlement of outgoings, maintenance of accounts, inspections, property and maintenance contracts, rent reviews, lease renewals, break options and re-lettings, repairs, employment of staff, marketing and promotion.

The Property Manager is entitled to a fee equal to 4 per cent. per annum of the gross rental yield from the Portfolio Interest for each quarter. "Gross rental yield" shall mean for this purpose the rents due under the Portfolio Interest's lease for the peaceful enjoyment of the Portfolio Interest, including any value paid in respect of rental renunciations but excluding any sums paid in connection with service charges or insurance costs.

Except in cases arising out of the negligent or wrongful acts or default of the Property Manager or any person, firm or company employed by the Property Manager, the SPV will indemnify the Property Manager against claims arising in connection with the Portfolio Interest. The SPV will also indemnify the Property Manager in respect of certain claims made by employees engaged pursuant to the Property Management Agreement including certain claims arising in connection with the termination of the appointment of the Property Manager or following the disposal of a Portfolio Interest. The Property Manager shall not be liable to the SPV for any loss incurred in relation to injury to persons or property arising out of the condition of a Portfolio Interest unless such condition has been previously advised and not acted upon or unless arising from the failure of the Property Manager to perform its duties.

Administration Agreement

The Issuer and the Administrator entered into the Administration Agreement on 23 October 2015 pursuant to which the Administrator was appointed as administrator of the Issuer. Under the terms of the Administration Agreement, the Administrator is be responsible for certain of the Issuer's general administrative functions such as maintaining the Issuer's records and statutory registers, and acting as the Issuer's designated Administrator.

An annual fee of £35,880 is payable by the Issuer to the Administrator.

The Administration Agreement shall be for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Company Secretary Agreement

The Issuer and the Company Secretary entered into the Company Secretary Agreement on 2 November 2015, pursuant to which the Company Secretary was appointed as company secretary of the Issuer. Under the terms of the Company Secretary Agreement, the Company Secretary is responsible for providing secretarial functions to the Issuer such as board and committee support, providing corporate governance advice, providing regulatory and compliance advice and overseeing the production of accounts.

A fee of £5,000 in respect of support at each quarterly board meeting, and £7,500 in respect of support at each annual general meeting, will be payable by the Issuer to the Company Secretary. Advice in respect of AIC Code of Corporate Governance, the Listing Rules and the Disclosure Guidance and Transparency Rules compliance is charged at £25,000 per annum.

The Company Secretary Agreement shall be for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least six months prior to the end of each period.

Share Registrar Agreement

The Issuer and the Share Registrar entered into the Share Registrar Agreement on 3 November 2015, pursuant to which the Share Registrar was appointed as share registrar of the Issuer. Under the terms of the Share Registrar Agreement, the Share Registrar is responsible for functions such as maintaining and updating the register of members of the Issuer on a daily basis, daily reconciliation of CREST account movements with Euroclear, and preparing, sealing and issuing new share certificates of the Issuer in accordance with the Articles.

An annual fee of £2.05 per holder of Ordinary Shares appearing on the Issuer's register during the fee year (subject to a minimum charge per annum of £7,000 shall be payable by the Issuer to the Share Registrar. In addition, the Share Registrar will charge the Issuer (i) a £0.26 fee for each CREST transfer; (ii) a £5.13 fee for each non-CREST transfer; and (iii) £1,500 fee for each dividend declared and paid.

The Share Registrar Agreement shall be for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served at least 90 days prior to the end of each period.

Depositary Agreement

The Issuer, the Investment Manager and the Depositary entered into the Depositary Agreement on 2 November 2015, pursuant to which the Depositary was appointed as the depositary of the Issuer. Under the terms of the Depositary Agreement, the Depositary is responsible for ensuring that the Issuer's cash flows are properly monitored, the safekeeping of certain property entrusted to it by the Issuer and the oversight and supervision of the Issuer and the Investment Manager.

The Depositary is entitled to a fee of £46,500 per annum. If additional SPVs are added to the Group, there will be a one-off fee of £500 and the annual fee will also increase by £250 per annum.

The Depositary Agreement may be terminated by any party by giving at least 90 days' notice of termination.

Lock-up agreement

The Issuer entered into a lock-up arrangement with The Conygar Investment Company Plc on 24 March 2017 in respect of 26,326,644 Ordinary Shares. The Conygar Investment Company Plc has agreed that, subject to certain exceptions, it will not without the consent of the Issuer dispose of such shares for 6 months for the first one-third, 12 months for the second third and 18 months for the final third, in each case commencing on 24 March 2017.

Facility Agreements

Certain Group companies have obtained external debt finance in relation to certain of the properties within the Property Portfolio. A summary of the borrowings of the Group in relation to the Property Portfolio is set out in the table below.

Provider	***Borrower***	***Amount outstanding as at 31 December 2017, £'000s***	***Maturity Date***
Aviva / Scottish Widows	RR Range Limited	165,000	December 2027
Santander UK	Toscafund Glasgow Limited / Toscafund Glasgow II Limited / RR Bristol Limited / RR Eureka S.á.r.l	70,700	November 2022
ICG Longbow Ltd	Tosca UK CP Ltd	65,000	August 2019
Royal Bank of Scotland	RR UK (Central) Limited / RR UK (Cheshunt) Limited / RR UK (South) Limited	17,376	December 2020
HSBC	Sea Portfolio	20,998	December 2021
Regional REIT ZDP PLC	Midco	37,389	January 2019
Total borrowings		**376,463**	

Source: Investment Manager

The table below sets out (i) loan to value ratios in respect of the facility in each relevant special purpose vehicle in relation to the aggregate value of the secured assets of that facility; and (ii) the aggregate loan to value ratio of all facilities of the Group in relation to the aggregate value of the secured and unsecured assets of the Group.

Borrower	***Gross LTV Ratio*** (based upon valuations made by the Valuers)
RR Range Limited	48.9 per cent.
Toscafund Glasgow Ltd and others	43.4 per cent.
Tosca UKCP Ltd	44.6 per cent.
RR UK (Central) Limited and others	40.0 per cent.
Sea Portfolio	53.2 per cent.
Midco	N/A

Borrower	***Gross LTV Ratio*** (based upon valuations made by the Valuers)
Aggregate Net LTV	45.0 per cent.

Source: Investment Manager

The proceeds of these external financings were on-loaned by the relevant borrowing companies to certain of their subsidiaries and, in the case of Toscafund Glasgow Limited, to partially refinance the shareholder debt used to fund the purchase of the VCL Receivables and secured over the assets of the VCL Group, with such loans (and as regard Toscafund Glasgow Limited, security over the VCL Group) being subordinated to the liabilities owed to the relevant lender of the external financings (and, in the case of the VCL Group, security).

The arrangements pursuant to each facility agreement are as follows.

(a) *RR Range Limited*

RR Range Limited has borrowed £165.0 million from Scottish Widows Limited, Aviva Commercial Finance Limited and Aviva Investors Multi Asset Alternative Income SA and on-lent such monies to 28 property-holding special purpose vehicles. These property-holding special purpose vehicles have each guaranteed the obligations of RR Range Limited to the lenders.

The facility has a fixed rate of 3.28 per cent.. The facility agreement contains customary undertakings and events of default.

The facility agreement contains certain financial covenants. Historic interest cover must not be less than 250 per cent. until 31 December 2019 and 300 per cent. thereafter. Projected interest cover must be not less than 250 per cent. until 31 December 2019 and 300 per cent. thereafter. Loan to value must be not more than 60 per cent. at all times.

(b) *Toscafund Glasgow Limited and others*

Toscafund Glasgow Limited, has borrowed monies from Santander UK to refinance the prior acquisition by Toscafund Glasgow Limited of a portfolio of loan receivables owed by View Castle Limited (formerly known as Credential Investment Holdings Limited) (the "**TGL Facility**"). This facility is secured against the assets of a number of subsidiaries of View Castle Limited.

In addition, RR Bristol Limited and RR Eureka S.á.r.l. has borrowed monies from Santander UK to finance the acquisition of 19 investment properties and the facility is secured against these assets.

The applicable rate of interest is LIBOR plus 2.15 per cent. per annum plus mandatory costs. The facility agreement contains customary undertakings and events of default. The agreement relating to the TGL Facility contains certain financial covenants. Historic interest cover must not be less than 350 per cent. at all times. Projected interest cover must be not less than 350 per cent. at all times. Loan to value must be not more than 57.5 per cent. at all times.

(c) *Tosca UK CP Limited*

Tosca UK CP Limited has borrowed £65 million from ICG Longbow and on-lent such monies to nine property-holding special purpose vehicles, which are wholly-owned by Tosca UK CP Limited. These property-holding special purpose vehicles have each guaranteed the obligations of Tosca UK CP Limited to ICG Longbow and granted security over their assets in favour of ICG Longbow.

The facility has a fixed rate of 5.00 per cent. The facility agreement contains customary undertakings and events of default.

The facility agreement contains certain financial covenants. Actual interest cover must be at least 240 per cent. Loan to value must not exceed 68.8 per cent. at any time.

(d) Sea Portfolio

RR Sea St. Helens Ltd., RR Sea Dundee Ltd., RR Sea Hanover Street Ltd., and RR Sea Strand Ltd., borrowed £21.0 million from HSBC Bank PLC which is secured against the property assets held by the companies.

The applicable rate of interest is LIBOR plus 2.15 per cent. per annum. The facility agreement contains customary undertakings and events of default.

The facility agreement contains certain financial covenants. Historic and projected interest cover must not be less than 200 per cent. at all times. Historic and projected debt service cover must not be less than 120 per cent. at all times. Loan to value must not be greater than 65 per cent. at all times.

(e) *Midco*

Regional REIT ZDP PLC ("**ZDP**").") is a wholly owned subsidiary of Midco, itself a wholly owned subsidiary of the Issuer. ZDP was acquired on 24 March 2017 as part of a transaction for a portfolio of commercial property assets. Midco has assumed the obligations to fund the repayment of the zero dividend preference shares issued by ZDP. Those obligations are guaranteed by the Issuer.

On the scheduled repayment date, 9 January 2019, shareholders in ZDP ("**ZDP Shareholders**") are entitled to receive a final capital entitlement of 132.9 pence per ordinary share in ZDP (a "**ZDP Share**"). The total amount repayable at maturity will be £39.9 million. This is an amount equal to 100 pence per ZDP Share increased daily at an equivalent annual rate of 5.5 per cent. for the period 10 January 2014 to 23 March 2017; for the period 24 March 2017 until 9 January 2019, the ZDP Share equivalent annual rate is 6.5 per cent. per annum.

ZDP's articles of association and associated documentation prohibit certain corporate actions by the Issuer and its Group (including issuing prior ranking shares or shares ranking pari passu with the ZDP Shares, redeeming shares, reducing capital or paying dividends) unless certain covenants are met.

The definitions and conditions of issue of the zero dividend preference shares are set out in the listing prospectus, a copy of which is available on the Group's website at www.regionalreit.com.

Additional facility

In March 2018, NW UK (Port Solent) Limited was added as a borrower to the facility provided by Royal Bank of Scotland. At this point the facility was increased by £1.96m to facilitate the acquisition of an office property in Port Solent for £4.9m. All the facility terms and covenants have remained as reported in this Section 9 and the Gross LTV of the facility remained at 40 per cent.

Hedging arrangements

Hedging is considered in each case as debt is procured, and independent advice obtained on the appropriateness and structure taking into account the type of assets acquired, lease lengths and anticipated hold period. Hedging is, where appropriate, profiled to accommodate the timescales for which the assets in aggregate are likely to be held. The hedging strategy of the Group also takes into account are anticipated debt costs and the volatility in the market against which the structure is developed.

The hedging instruments entered into are therefore different and the table below sets out summary details of each hedging instrument.

Debt provider	***Borrower***	***Hedging***	***Amount***	***Rate***

		instrument		
Santander UK	Toscafund Glasgow Ltd	Cap Swap	£35.35 million £35.35 million	1.6050 per cent. 1.6050 per cent.

The facilities being made available to RR Range Limited and Tosca UK CP Limited have a fixed rate and do not require hedging.

Call Option Agreement

Toscafund Glasgow Limited has the benefit of a call option pursuant to an agreement dated 28 November 2013 (as amended). Under this agreement, Toscafund Glasgow Limited has the option to acquire properties of the VCL Group (after repayment of the debt owed to Toscafund Glasgow Limited by the VCL Group) at a price of £1.00 per property by giving one month's notice in writing.

Loan Agreements

Each Loan Agreement will be made between the Issuer and one other member of the Group (each such member of the Group being a "**Borrower**") under which the Issuer agrees to make advances to that Borrower. Under each Loan Agreement, the Issuer will advance a portion of the proceeds from the issue of the Bonds (after the deduction of expenses incurred in connection with the issue) to the relevant Borrower which will be used to repay certain of the Group's external debt facilities which are set out above in this Section 9 (*Additional Information*). Under each Loan Agreement, the relevant Borrower agrees (i) to pay to the Issuer interest on the loan calculated at a rate of interest that is no less than the rate of interest used to calculate the interest payable in respect of the Bonds; (ii) to pay to the Issuer interest on the loan on the date on which interest is payable in respect of the Bonds; and (iii) to repay the principal of the loan on the date on which the Bonds are to be redeemed. Each Borrower's obligations to make payments to the Issuer are unsecured.

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IMPORTANT LEGAL INFORMATION

IMPORTANT LEGAL INFORMATION

Important information relating to the Public Offer of the Bonds

If, in the context of the Public Offer (as defined below) you are offered Bonds by any entity, you should check that such entity is authorised to use this Prospectus for the purposes of making such offer before agreeing to purchase any Bonds. To be authorised to use this Prospectus in connection with the Public Offer (referred to below as an "Authorised Offeror"), an entity must be:

- Peel Hunt LLP (the "**Manager**"); or
- any financial intermediary which (a) satisfies the "Authorised Offer Terms" as defined and set out below; and (b) accepts such offer by publishing on its website that it is using this Prospectus for such Public Offer in accordance with the consent of the Issuer.

Other than as set out above, neither the Issuer nor the Manager has authorised the making of any Public Offer by any person in any circumstances and such person is not permitted to use the Prospectus in connection with any offer of Bonds.

This Section contains some important legal information regarding the basis on which this Prospectus may be used and other matters.

This Prospectus has been prepared on a basis that permits a "**Public Offer**" (being an offer of the 4.5 per cent. bonds due 2024 (the "**Bonds**") that is not within an exemption from the requirement to publish a prospectus under Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**")) in the U.K. Any person making or intending to make a Public Offer of Bonds in the U.K. on the basis of this Prospectus must do so only with the consent of Regional REIT Limited (the "**Issuer**") – see "*Consent given in accordance with Article 3.2 of the Prospectus Directive*" below.

Consent given in accordance with Article 3.2 of the Prospectus Directive

In the context of any Public Offer of Bonds in the U.K., the Issuer accepts responsibility, in the U.K., for the content of this Prospectus under section 90 of FSMA in relation to any person in the U.K. to whom an offer of any Bonds is made by a financial intermediary (including Peel Hunt LLP) to whom the Issuer has given its consent to use the Prospectus, where the offer is made in compliance with all conditions attached to the giving of such consent. Such consent and the attached conditions are described under "*Consent*" below.

Except in the circumstances described below, neither the Manager nor the Issuer has authorised the making of any Public Offer and the Issuer has not consented to the use of this Prospectus by any other person in connection with any offer of the Bonds. Any offer made without the consent of the Issuer is unauthorised and neither the Issuer nor the Manager accepts any responsibility in relation to such offer.

If, in the context of a Public Offer, you are offered Bonds by a person which is not an Authorised Offeror (as defined below), you should check with such person whether anyone is responsible for this Prospectus for the purpose of section 90 of FSMA in the context of the Public Offer and, if so, who that person is. If you are in any doubt about whether you can rely on this Prospectus and/or who is responsible for its contents, you should take legal advice.

Consent

The Issuer consents to the use of this Prospectus in connection with any Public Offer of Bonds in the U.K. during the Offer Period by:

(i) the Manager; and

(ii) any financial intermediary (an "**Authorised Offeror**") which satisfies the Authorised Offer Terms and other conditions as set out below.

The "**Authorised Offeror Terms**" are that the relevant financial intermediary represents and agrees that it:

(a) is authorised to make such offers under Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments ("**MiFID**") (in which regard, you should consult the register of authorised entities maintained by the FCA at www.fca.org.uk/firms/systems-reporting/register). MiFID governs the organisation and conduct of the business of investment firms and the operation of regulated markets across the European Economic Area in order to seek to promote cross-border business, market transparency and the protection of investors;

(b) acts in accordance with all applicable laws, rules, regulations and guidance of any applicable regulatory bodies (the "**Rules**"), including the Rules published by the Financial Conduct Authority ("**FCA**") (including its guidance for distributors in "The Responsibilities of Providers and Distributors for the Fair Treatment of Customers") from time to time including, without limitation and in each case, Rules relating to both the appropriateness or suitability of any investment in the Bonds by any person and disclosure to any potential investor;

(c) complies with the restrictions set out under "*Subscription and Sale*" in this Prospectus which would apply as if it were a Manager and considers the relevant manufacturer's target market assessment and distribution channels identified under the "*MiFID II product governance*" legend set out in this Prospectus;

(d) ensures that any fee (and any commissions, rebate or benefits of any kind) received or paid by that financial intermediary in relation to the offer or sale of the Bonds does not violate the Rules and is fully and clearly disclosed to investors or potential investors;

(e) holds all licences, consents, approvals and permissions required in connection with solicitation of interest in, or offers or sales of, the Bonds under the Rules, including authorisation under the Financial Services and Markets Act 2000 ("**FSMA**") and/or the Financial Services Act 2012;

(f) complies with and takes appropriate steps in relation to applicable anti-money laundering, anti-bribery and "know your client" Rules, and does not permit any application for Bonds in circumstances where the financial intermediary has any suspicions as to the source of the application monies;

(g) retains investor identification records for at least the minimum period required under applicable Rules, and shall, if so requested and to the extent permitted by the Rules, make such records available to the Manager and the Issuer or directly to the appropriate authorities with jurisdiction over the Issuer and/or the Manager in order to enable the Issuer and/or the Manager to comply with anti-money laundering, anti-bribery and "know your client" Rules applying to the Issuer and/or the Manager;

(h) does not, directly or indirectly, cause the Issuer or the Manager to breach any Rule or subject the Issuer or the Manager to any requirement to obtain or make any filing, authorisation or consent in any jurisdiction;

(i) agrees and undertakes to indemnify each of the Issuer and the Manager (in each case on behalf of such entity and its respective directors, officers, employees, agents, affiliates and controlling persons) against any losses, liabilities, costs, claims, charges, expenses, actions or demands (including reasonable costs of investigation and any defence raised thereto and counsel's fees and disbursements associated with any such investigation or defence) which any of them may incur or which may be made against any of them arising out of or in relation to, or in connection with, any breach of any of the foregoing agreements, representations or undertakings by such financial intermediary, including (without limitation) any unauthorised action by such financial intermediary or failure by such financial intermediary to observe any of the above restrictions or requirements or the making by such financial

intermediary of any unauthorised representation or the giving or use by it of any information which has not been authorised for such purposes by the Issuer or the Manager;

(j) will immediately give notice to the Issuer and the Manager if at any time such Authorised Offeror becomes aware or suspects that they are or may be in violation of any Rules or the Authorised Offeror Terms, and will take all appropriate steps to remedy such violation and comply with such Rules and the Authorised Offeror Terms in all respects;

(k) will not give any information other than that contained in this Prospectus (as may be amended or supplemented by the Issuer from time to time) or the information booklet prepared by the Issuer and the Manager or make any representation in connection with the offering or sale of, or the solicitation of interest in, the Bonds;

(l) agrees that any communication in which it attaches or otherwise includes the Prospectus or any announcement published by the Issuer via a Regulatory Information Service at the end of the Offer Period will be consistent with the Prospectus, and (in any case) must be fair, clear and not misleading and in compliance with the Rules and must state that such Authorised Offeror has provided it independently from the Issuer and must expressly confirm that the Issuer does not accept any responsibility for the content of any such communication;

(m) will not use the legal or publicity names of the Manager, the Issuer (other than to describe such entity as a Manager or the Issuer of the Bonds (as applicable)) or any other name, brand or logo registered by the Issuer or any of its subsidiaries or any material over which any member of the Group retains a proprietary interest or in any statements (oral or written), marketing material or documentation in relation to the Bonds; and

(n) agrees and accepts that:

(i) the contract between the Issuer and the financial intermediary formed upon acceptance by the financial intermediary of the Issuer's offer to use the Prospectus with its consent in connection with the relevant Public Offer (the "**Authorised Offeror Agreement**"), and any non-contractual obligations arising out of or in connection with the Authorised Offeror Agreement, shall be governed by, and construed in accordance with, English law;

(ii) the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Authorised Offeror Agreement (including a dispute relating to any non-contractual obligations arising out of or in connection with the Authorised Offeror Agreement) and accordingly submits to the exclusive jurisdiction of the English courts; and

(iii) the Manager will, pursuant to the Contracts (Rights of Third Parties) Act 1999, be entitled to enforce those provisions of the Authorised Offeror Agreement which are, or are expressed to be, for its benefit, including the agreements, representations, undertakings and indemnity given by the financial intermediary pursuant to the Authorised Offeror Terms.

Any financial intermediary who wishes to use this Prospectus in connection with a Public Offer as set out above is required, for the duration of the Offer Period, to publish on its website that it is using this Prospectus for such Public Offer in accordance with the consent of the Issuer and the conditions attached thereto in the following form (with the information in square brackets completed with the relevant information):

"*We, [insert legal name of financial intermediary], refer to the 4.5 per cent. sterling denominated Bonds due 2024 of Regional REIT Limited. In consideration of Regional REIT Limited offering to grant its consent to our use of the Prospectus dated 18 July 2018 relating to the Bonds in connection with the offer of the Bonds in the U.K. (the "**Public Offer**") during the Offer Period and subject to the other conditions to such consent, each as specified in the Prospectus, we hereby accept the offer by the Issuer*

in accordance with the Authorised Offeror Terms (as specified in the Prospectus) and we are using the Prospectus in connection with the Public Offer accordingly".

A Public Offer may be made subject to the conditions set out above, during the Offer Period by any of the Issuer, the Manager or the other Authorised Offerors.

Other than as set out above, neither the Issuer nor the Manager has authorised the making of any Public Offer by any person in any circumstances and such person is not permitted to use this Prospectus in connection with any offer of Bonds. Any such offers are not made on behalf of the Issuer, the Manager or the other Authorised Offerors and none of the Issuer, the Manager or the other Authorised Offerors has any responsibility or liability for the actions of any person making such offers.

Arrangements between you and the financial intermediaries who will distribute the Bonds

Neither the Issuer nor the Manager has any responsibility for any of the actions of any Authorised Offeror (except for the Manager, where they are acting in the capacity of an Authorised Offeror), including compliance by an Authorised Offeror with applicable conduct of business rules or other local regulatory requirements or other securities law requirements in relation to such offer.

It is expected that any new information with respect to a financial intermediary that is unknown as at the date of this Prospectus will be published in the investor relations section of the website of such financial intermediary.

If you intend to acquire or do acquire any Bonds from an Authorised Offeror, you will do so, and offers and sales of the Bonds to you by such an Authorised Offeror will be made, in accordance with any terms and other arrangements in place between such Authorised Offeror and you, including as to price, allocations and settlement arrangements (see Section 4 (*How to apply for the Bonds*)) at the time the offer and sale is made.

The Issuer will not be a party to any such arrangements with you in connection with the offer or sale of the Bonds and, accordingly, this Prospectus does not contain such information. The information relating to the procedure for making applications will be provided by the relevant Authorised Offeror to you at the relevant time. None of the Issuer, the Manager or the other Authorised Offerors has any responsibility or liability for such information.

Notice to investors

The 2016 Financial Statements and the 2017 Financial Statements are contained in the Issuer's annual report and accounts for the years ended 31 December 2016 and 31 December 2017 which are included in this Prospectus at Appendix 4 (*Issuer's annual report and accounts (including consolidated financial statements) for the years ended 31 December 2016 and 31 December 2017*). This Prospectus should be read and construed on the basis that such documents form part of the Prospectus.

Market, economic and industry data

This Prospectus contains information regarding the Group's business and the markets in which it operates and competes, which the Issuer has obtained from various third party sources. Where information contained in this Prospectus has been sourced from a third party, the Issuer confirms that such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

Certain information on market sizes, projected growth rates and market positions set out in this Prospectus is not based on published statistical data or information obtained from independent third parties. Rather, it represents estimates by the Issuer based on information available to it at the date of this Prospectus, including information obtained from trade and business organisations and other contacts within the Group's industry, as well as

information published by its competitors and which, in each case, has not been independently verified. The reliance by the Issuer on estimates reflects the fact that there is no single, recognised definition of the scope of the industry, the absence of publicly available information for certain participants in the industry and the absence of detailed breakdowns of information for certain participants. Trends described as industry trends may not apply across the industry due to the diversity of participants and, as such, may have a greater or lesser impact on the Group than on other participants.

Forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, 'forward-looking' statements. These forward-looking statements can be identified by the use of forward-looking expressions, including the terms 'believes', 'estimates', 'expects', 'intends', 'may', 'will' or 'should', or in each case, their negative or other variations or similar expressions, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, the following: statements regarding the intentions, beliefs or current expectations of the Issuer or the Group concerning, amongst other things, the Group's operations, strategies and the industries in which the Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, strategies or industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the results of operations, strategies and the development of industries in which the Group operates, are consistent with the forward-looking statements obtained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. These and other issues are described in more detail in Section 2 (*Risk Factors*). Should one or more of these risks or uncertainties materialise, or should underlying assumptions on which forward-looking statements are based prove incorrect, actual results and development may vary materially from those described in this Prospectus as believed, estimated or expected. Except to the extent required by laws and regulations, the Issuer does not intend, and does not assume any obligation, to update any forward-looking statements set out in this Prospectus.

Update of Prospectus

This Prospectus is based on English law in effect as of the date of this Prospectus. Except to the extent required by laws and regulations, the Issuer does not intend, and does not assume any obligation, to update the Prospectus in light of the impact of any judicial decision or change to English law or administrative practice after the date of this Prospectus.

Suitability of investment

The Bonds may not be a suitable investment for all investors. You must determine the suitability of any investment in light of your own circumstances. In particular, you may wish to consider, either on your own or with the help of your financial and other professional advisers, whether you:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus (and any applicable supplement to this Prospectus);

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Bonds and the impact the Bonds will have on your overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments (sterling) is different from the currency which you usually use;

(d) understand thoroughly the terms of the Bonds and are familiar with the behaviour of the financial markets; and

(e) are able to evaluate possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

No person is or has been authorised by the Issuer, the Manager or U.S. Bank Trustees Limited (the "**Trustee**") to give any information or to make any representation not contained in or not consistent with this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Manager or the Trustee.

Neither the publication of this Prospectus nor the offering, sale or delivery of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date of this Prospectus or that there has been no adverse change in the financial position of the Issuer since the date of this Prospectus or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Manager nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds should be considered as a recommendation by the Issuer, the Manager or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Prospectus and any purchase of Bonds should be based upon such investigation as it deems necessary.

The Manager and the Trustee

Neither the Manager nor the Trustee has independently confirmed the information contained in this Prospectus. No representation, warranty or undertaking, express or implied, is made by the Manager or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds. Neither the Manager nor the Trustee accepts liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds or their distribution.

The Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and the Issuer's affiliates in the ordinary course of business.

No incorporation of websites

The contents of the websites of the Group do not form part of this Prospectus, and you should not rely on them.

CREST depository interests

In certain circumstances, investors may also hold interests in the Bonds through CREST through the issue of CDIs representing interests in Underlying Bonds. CDIs are independent securities constituted under English law and transferred through CREST and will be issued by CREST Depository Limited pursuant to the global deed poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated). Neither the Bonds nor any rights attached to the Bonds will be issued, settled, held or transferred within the CREST system other than through the issue, settlement, holding or transfer of CDIs. CDI Holders will not be entitled to deal directly in the Bonds and, accordingly, all dealings in the Bonds will be effected through CREST in relation to the holding of CDIs. You should note that the CDIs are the result of the CREST settlement mechanics and are not the subject of this Prospectus.

Selling restrictions

This Prospectus does not constitute or form part of an offer to sell, or the solicitation of an offer to buy, Bonds to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful. This Prospectus is not for distribution in the U.S., Australia, Canada or Japan. The Bonds have not been and will not be registered under the Securities Act or qualified for sale under the laws of the U.S. or under any applicable securities laws of Australia, Canada or Japan. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the U.S. or to, or for the account or benefit of U.S. persons.

The distribution of this Prospectus and the offer or sale of the Bonds in certain jurisdictions may be restricted by law. No action has been or will be taken by the Issuer, the Manager or the Trustee anywhere which is intended to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction, other than in the U.K., the Bailiwick of Guernsey, Jersey and/or the Isle of Man. You must inform yourself about, and observe, any such restrictions.

APPENDIX 1

GLOSSARY OF DEFINED TERMS AND DEFINED TERMS INDEX

GLOSSARY OF DEFINED TERMS AND DEFINED TERMS INDEX

The following terms apply throughout this Prospectus unless the context otherwise requires:

"**2015 Admission**"	the admission of Ordinary Shares to the Official List and trading on the London Stock Exchange's main market for listed securities which occurred on 6 November 2015;
"**2016 Financial Statements**"	the audited consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2016;
"**2017 Financial Statements**"	the audited consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2017;
"**Administration Agreement**"	the agreement entered into between the Issuer and the Administrator on 23 October 2015 in respect of administration services;
"**Administrator**"	Jupiter Fund Services Limited;
"**AIF**"	an alternative investment fund within the meaning of the AIFM Directive;
"**AIFM**"	when used in a general context, an alternative investment fund manager within the meaning of the AIFM Directive; or when used in respect of the Issuer, its alternative investment fund manager, the Investment Manager;
"**AIFM Directive**"	the Alternative Investment Fund Managers Directive, 2011/61/EU, as amended;
"**Articles**"	the articles of incorporation of the Issuer;
"**Asset Management Agreement**"	the agreement entered into between the Issuer, Midco and the Asset Manager dated 3 November 2015;
"**Asset Manager**"	London & Scottish Investments Limited, a private limited company incorporated in Scotland with registered number SC407794 and whose registered office is at Venlaw, 349 Bath Street, Glasgow, Scotland G2 4AA;
"**Audit Committee**"	the Issuer's audit committee;
"**Bondholders**"	holders of the Bonds;
"**Brexit**"	the UK's proposed exit from the European Union;
"**certificated**" or "**in certificated form**"	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);

"**Chairman**"	the chairman of the Issuer;
"**Code**"	US Internal Revenue Code of 1986, as amended;
"**Companies Law**"	The Companies (Guernsey) Law 2008, as amended;
"**Company Secretary**"	Link Company Matters Limited;
"**Company Secretary Agreement**"	the agreement entered into between the Company Secretary and the Issuer on 2 November 2015 in respect of company secretarial services;
"**CREST**"	the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;
"**CREST Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
"**CTA 2010**"	the Corporation Tax Act 2010, as amended;
"**Depositary**"	Estera Depositary (UK) Limited;
"**Depositary Agreement**"	the agreement entered into between the Issuer, the Investment Manager and the Depositary on 2 November 2015 in respect of depositary services;
"**Directors of the Issuer**"	the Directors of the Issuer whose names are set out in Section 6 (*Description of the Issuer and the Group*) of this Prospectus;
"**Disclosure Guidance and Transparency Rules**"	the disclosure guidance and transparency rules made by the FCA pursuant to Part 6 FSMA, as amended from time to time;
"**EPRA**"	the European Public Real Estate Association;
"**EPRA NAV**"	a measure of net asset value designed by EPRA to present net asset value excluding the value of instruments that are held for long term benefit, net of tax;
"**ERV**"	estimated recovery value;
"**Euroclear**"	Euroclear UK & Ireland Limited, a company registered in England and Wales under registered number 02878738;
"**FATCA**"	(i) sections 1471 to 1474 of the Code or any associated regulations, (ii) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either

	case) facilitates the implementation of any law or regulation referred to in (i) above; or (iii) any agreement pursuant to the implementation of any treaty, law or regulation referred to in (i) or (ii) above with the Internal Revenue Service of the US, the US government or any governmental or taxation authority in any other jurisdiction;
"**FRC**"	UK Financial Reporting Council;
"GDP"	gross domestic product;
"GFSC"	Guernsey Financial Services Commission;
"**Gross Asset Value**"	the aggregate value of the total assets of the Issuer as determined in accordance with the accounting principles adopted by the Issuer from time to time;
"Gross Investment Properties Value"	the aggregate value of the investment properties of the Group, as determined in accordance with the accounting principles adopted by the Issuer from time to time;
"**Group**"	the Issuer and its subsidiary undertakings from time to time and "Group Company" shall mean any one of them;
"**Group Undertaking**"	has the meaning given to it in section 1161(5) of the Companies Act 2006;
"**IAS**"	an international accounting standard established by the International Accounting Standards Board;
"**IFRS**"	International Financial Reporting Standards as adopted by the European Commission for use in the European Union;
"**Investment Management Agreement**"	the agreement entered into between the Issuer, Midco and the Investment Manager dated 3 November 2015;
"**Investment Manager**"	Toscafund Asset Management LLP, registered in England and Wales with registered number OC320318;
"**Investment Policy**"	the investment policy of the Issuer as detailed in Section 6 (*Description of the Issuer and the Group*) of this Prospectus;
"**Issue Price**"	101 pence per new Ordinary Share;
"**Issuer's Managers**"	the Asset Manager and the Investment Manager;
"**Latest Practicable Date**"	17 July 2018;
"**Link Asset Services**"	a trading name of Link Market Services Limited;

"**Lisbon Treaty**"	the Treaty on European Union, as amended by the Treaty of Lisbon in its EU Official Journal version dated 17 December 2007;
"**Listing Rules**"	the rules and regulations made by the FCA under section 73A of FSMA;
"**LTV**"	net loan-to-value;
"**Management Engagement and Remuneration Committee**"	the Issuer's management engagement and remuneration committee;
"**MAR**"	Market Abuse Regulation (Regulation 596/2014);
"**Midco**"	Regional Commercial Midco Limited, a private limited company incorporated in Jersey, Channel Islands with registered number 118888 and whose registered office is at First Floor, Le Masurier House, La Rue Le Masurier, St Helier, Jersey JE2 4YE;
"**NED Appointment Letters**"	the letters of appointment pursuant to which William Eason, Stephen Inglis, Daniel Taylor and Frances Daley were appointed as non-executive directors of the Issuer;
"**Net Asset Value" or "NAV**"	the aggregate value of the assets of the Issuer after deduction of all liabilities, determined in accordance with the accounting policies adopted by the Issuer from time to time;
"**Net Asset Value per Share**" or "**NAV per Share**"	at any time the Net Asset Value attributable to the Ordinary Shares divided by the number of Ordinary Shares in issue (other than Ordinary Shares held in treasury) at the date of calculation;
"**Non-Qualified Holder**"	any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may: • cause the Issuer's assets to be deemed "plan assets" for the purposes of the Code or ERISA; • cause the Issuer to be required to register as an "investment company" under the US Investment Company Act; • cause the Issuer or any of its securities to be required to register under the US Exchange Act, the US Securities Act or any similar legislation; • cause the Issuer not being considered a "Foreign Private Issuer" as such term is defined in rule 3b-4(c) under the US Exchange Act;

- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Issuer being disqualified from issuing securities pursuant to Rule 506 of Regulation D;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under Code Section 708;
- result in a person holding Ordinary Shares in violation of the transfer restrictions put forth in any prospectus published by the Issuer from time to time; or
- cause the Issuer to be a "controlled foreign corporation" for the purposes of Section 957 of the Code, or may cause the Issuer to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Issuer with information that it requires in order to comply with its obligations under exchange of information agreements (including, but not limited to, FATCA);

"**Official List**"	the Official List of the UKLA;
"**Ordinary Resolution**"	a resolution passed by more than a 50 per cent. majority in accordance with the Companies Law;
"**Ordinary Shares**"	ordinary shares of no par value in the capital of the Issuer;
"**POI Law**"	the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended;
"**Portfolio Interest**"	any real estate asset, debt or other security or other interest acquired by the Group;
"**Property Manager**"	the manager of the relevant property in the Property Portfolio appointed pursuant to a Property Management Agreement;
"**Property Portfolio**"	the portfolio of properties and debt receivables that the Group will acquire from time to time;
"**Prospectus Rules**"	the prospectus rules made by the FCA pursuant to Part 6 FSMA, as amended from time to time;
"**RCIS Rules**"	the Registered Collective Investment Schemes Rules 2015;

"**Regulations**"	the Uncertificated Securities (Guernsey) Regulations 2001 (SI 2001/3755);
"**Regulatory Information Service**" or "**RIS**"	any channel recognised as a channel for the dissemination of regulatory information by listed companies as defined in the Listing Rules;
"**REIT**"	a company or group to which Part 12 CTA 2010 applies;
"**RICS**"	Royal Institution of Chartered Surveyors;
"**Share Registrar**"	Link Market Services (Guernsey) Limited;
"**Share Registrar Agreement**"	the agreement entered into between the Issuer and the Share Registrar on 3 November 2015 in respect of share registrar services;
"**Shareholder**"	a holder of an Ordinary Share (together "**Shareholders**");
"**SPV**"	a special purpose vehicle controlled by the Issuer;
"**Sterling** or **£**"	pounds sterling, the lawful currency of the United Kingdom;
"**Substantial Shareholder**"	means a company or body corporate that is beneficially entitled, directly or indirectly, to 10 per cent. or more of the distributions paid by the Issuer and/or share capital of the Issuer, or which controls, directly or indirectly, 10 per cent. or more of the voting rights of the Issuer (referred to in section 553 CTA 2010 as a "**holder of excessive rights**");
"**Substantial Shareholding**"	means the holding of Ordinary Shares by a Substantial Shareholder;
"**UK Corporate Governance Code**"	the corporate governance code dated September 2014 and issued by the FRC;
"**uncertificated**" or "**in uncertificated form**"	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland;
"**US Advisers Act**"	the United States Investment Advisers Act of 1940, as amended;
"**Valuers**"	Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield) and Jones Lang LaSalle Limited;

"**VCL Group**"	View Castle Limited (formerly known as Credential Investment Holdings Limited) and its subsidiaries;
"**VCL Receivables**"	a portfolio of loan receivables owed by certain members of the VCL Group; and
"**WAULT**"	weighted average unexpired lease term.

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References to the singular in this Prospectus shall include the plural and vice versa, where the context so requires.

The term "**subsidiary** means a subsidiary within the meaning of Section 1159 of the Companies Act 2006, as amended.

All references to time in this Prospectus are to London time.

"**U.K.**" means the United Kingdom; and

"**U.S.**" means the United States of America (including the States and the District of Columbia and its possessions).

APPENDIX 2

TERMS AND CONDITIONS OF THE BONDS

TERMS AND CONDITIONS OF THE BONDS

The following (disregarding any footnotes in italics) is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on the Certificates issued in respect of the Bonds:

The sterling denominated 4.5 per cent. Bonds due 2024 (the "**Bonds**") which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds (the "**Issue**") are constituted by a Trust Deed dated the Issue Date (the "**Trust Deed**") made between Regional REIT Limited (the "**Issuer**") and U.S. Bank Trustees Limited (the "**Trustee**", which expression shall include its successor(s) as trustee for the Bondholders).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated the Issue Date (the "**Agency Agreement**") made between the Issuer, the Registrar, the initial Transfer Agent, the initial Paying Agent and the Trustee are available for inspection during normal business hours by the Bondholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at 125 Old Broad Street, London EC2N 1AR and at the specified office of each of the Paying Agents. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Form, Denomination and Title

1.1 Form and Denomination

The Bonds are issued in registered form in amounts of £100 (referred to as the "**principal amount**" of a Bond). A certificate (each a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the "**Register**") which the Issuer will procure to be kept by the Registrar.

1.2 Title

Title to the Bonds passes only by registration in the Register. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Bondholder**" and (in relation to a Bond) "**holder**" means the person in whose name a Bond is registered in the Register.

2. Transfers of Bonds and Issue of Certificates

2.1 Transfers

A Bond may be transferred by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed, at the specified office of any Transfer Agent.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Bonds will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Bond to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Bonds in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Bonds not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred to the address of such holder appearing in the Register or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Bondholder may require the transfer of a Bond to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Bond.

2.5 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Transfer Agents and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder who requests one.

3. Status of the Bonds

The Bonds are direct, unconditional and (subject to the provisions of Condition 4(a)) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. Covenants

For so long as any of the Bonds remain outstanding (as defined in the Trust Deed):

(a) **Negative Pledge**: (i) the Issuer will not; and (ii) the Issuer will ensure that Midco will not, create, assume or permit to subsist any Security (other than a Permitted Security Interest) upon, or with respect to, the whole or any part of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Financial Indebtedness unless the Issuer or Midco (as the case may be), before or at the same time as the creation of such Security, takes any and all action necessary to ensure that:

(i) all amounts payable by it under the Bonds and the Trust Deed are secured by the relevant Security equally and rateably with the Financial Indebtedness to the satisfaction of the Trustee; or

(ii) such other Security or guarantee or other arrangement (whether or not it includes the giving of Security) is provided either (A) as the Trustee in its absolute discretion deems not materially less beneficial to the interest of the Bondholders or (B) is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **Limitations on Incurrence of Financial Indebtedness by the Consolidated Group**: The Issuer undertakes that it will not, and will procure that none of its Subsidiaries will, incur any Financial Indebtedness if, immediately after the incurrence of such additional Financial Indebtedness:

(i) the Consolidated Net Financial Indebtedness as at the Last Reporting Date would exceed 75 per cent. of the Investment Properties as at the Last Reporting Date; and

(ii) the Consolidated Secured Financial Indebtedness as at the Last Reporting Date would exceed 60 per cent. of the Investment Properties as at the Last Reporting Date,

in each case having taken into account the following adjustments (in each case where relevant and determined by the Issuer acting in good faith and a commercially reasonable manner):

(x) any reduction in Financial Indebtedness or increase in Financial Indebtedness (including, as described above, the proposed incurrence of such additional Financial Indebtedness) since the Last Reporting Date; and

(y) any purchases or sales of properties since the Last Reporting Date which would be included or cease to be included in Investment Properties were accounts of the Consolidated Group to be drawn up as at the date of the proposed incurrence of such additional Financial Indebtedness.

(c) **Maintenance of Interest Coverage Ratio**: the Issuer undertakes that, on each Reporting Date, the Interest Coverage Ratio will be at least 2.00.

(d) **REIT status**: the Issuer shall take no action prior to the Maturity Date which would directly result in it losing its status as a U.K. REIT pursuant to the regime applicable to U.K. real estate investment trusts from time to time (being, as at the Issue Date, the regime as set out in Part 12 of the U.K. Corporation Tax Act 2010).

(e) **Reports**: the Issuer shall post on its website and deliver to the Trustee:

(i) as soon as they become available but in any event within four months after the end of each of the Issuer's fiscal years, annual reports containing the following information:

(x) audited consolidated financial statements prepared in accordance with IFRS; and

(y) the audit report of the independent auditors on the consolidated financial statements; and

(ii) as soon as they become available but in any event within three months after the end of each half of each fiscal year of the Issuer, consolidated unaudited interim financial statements prepared in accordance with IFRS.

(f) **Certificates**: the Issuer shall deliver to the Trustee:

(i) promptly following the incurrence of any Financial Indebtedness by the Issuer or any of its Subsidiaries, a certificate addressed to the Trustee and signed by two authorised signatories of the Issuer as to the compliance by the Issuer with the covenants set out in Condition 4(b); and

(ii) concurrently with the delivery to the Trustee of the annual or interim financial statements pursuant to Condition 4(e) above, a certificate addressed to the Trustee and signed by two authorised signatories of the Issuer as to the compliance by the Issuer with the covenant set out in Condition 4(c); and

(iii) if any Financial Statements are not prepared in accordance with IFRS as it applied on the Issue Date, upon the delivery to the Trustee of the certificate referred to in Condition 4(f)(ii) above a certificate (which may be the same certificate as the certificate referred to in Condition 4(f)(ii) above) addressed to the Trustee and signed by two authorised signatories of the Issuer (in consultation with the auditors of the Issuer) as to the amounts which would have been the amounts identified as "Consolidated Operating Profit", "Investment Properties" and "Investment Properties Held for Sale" in such Financial Statements had such Financial Statements been prepared in accordance with IFRS as it applied on the Issue Date.

Such certificates may be relied upon by the Trustee (without enquiry or liability to any person for so relying) and, if so relied upon, shall be conclusive and binding on the Issuer and the Noteholders.

Any certificate addressed to the Trustee by two authorised signatories of the Issuer as to the amounts of any defined term or figure in Conditions 4(c) and 4(d) (unless expressly stated otherwise) may be relied upon by the Trustee (without enquiry or liability to any person for so relying) and, if so relied upon, shall be conclusive and binding on the Issuer and the Noteholders.

(g) **No requirement to monitor**: The Trustee shall not be obliged to review any Financial Statements provided to it pursuant to this Condition 4, nor to monitor the Interest Coverage Ratio on any Reporting Date for the purpose of this Condition 4.

5. Interest

5.1 Interest Rate and Interest Payment Dates

The Bonds bear interest from (and including) the Issue Date at the rate of 4.5 per cent. per annum, payable semi-annually in arrear on 6 February and 6 August (each an "**Interest Payment Date**") in each year until (and including) the Maturity Date.

Accordingly, the amount of interest payable on each Interest Payment Date shall be £2.25 per £100 in principal amount of the Bonds.

5.2 Interest Accrual

Each Bond will cease to bear interest from (and including) its due date for redemption unless upon due presentation payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a Bond for a period of less than a full half-year, it shall be calculated by applying the rate of interest on the Bonds to the denomination of the Bonds and multiplying the product by the Day Count Fraction, and rounding the resultant figure to the nearest pence wherein the "**Day Count Fraction**" is calculated on the basis of (a) the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (b) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Interest Payment Date multiplied by two.

6. Payments

6.1 Payments in respect of Bonds

Payments of principal and interest in respect of each Bond will be made by transfer to the registered account of the Bondholder or by a cheque in Sterling drawn on a bank that processes payments in Sterling mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. Interest on Bonds due on an Interest Payment Date will be paid to the holder shown in the Register at the close of business on the date (the "**record date**") being the fifteenth day before the relevant Interest Payment Date.

For the purposes of this Condition, a Bondholder's "**registered account**" means the Sterling account maintained by or on behalf of it with a bank that processes payments in Sterling, details of which appear in the Register at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Payment Business Day before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Bondholder's registered address means its address appearing in the Register at that time.

6.2 Payments subject to Applicable Laws

All payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (as amended, the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto (any such withholding or deduction being a "**FATCA Withholding**").

6.3 No commissions

No commissions or expenses shall be charged to the Bondholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Payment Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

6.5 Partial Payments

If the amount of principal or interest which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

6.6 Initial Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent, a Transfer Agent and a Registrar; and

(b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 13.

7. Redemption and Purchase

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on the Maturity Date.

7.2 Redemption for Taxation Reasons

If the Issuer certifies to the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the Issue Date, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 8.1; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be required to pay such additional amounts, were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Authorised Signatories' Certificate stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders.

7.3 Purchases

The Issuer or any other member of the Group may at any time purchase Bonds in any manner and at any price. Such Bonds may be held, reissued or resold, or at the option of the Issuer, surrendered to any Paying Agent for cancellation.

7.4 Cancellations

All Bonds which are redeemed or purchased by the Issuer or any member of the Group and surrendered for cancellation in accordance with Condition 7.3 above will forthwith be cancelled, and accordingly may not be held, reissued or resold.

7.5 Notices Final

Upon the expiry of any notice as is referred to in Condition 7.2 the Issuer shall be bound to redeem the Bonds to which the notice refers in accordance with the terms of such Condition.

8. Taxation

8.1 Payment without Withholding

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond:

(a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Bond by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Bond;

(b) held by a Bondholder who would have been able to avoid such withholding or deduction by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption, but fails to do so, provided that the Issuer notified such Bondholder of such statutory requirement or the requirement to present such declaration or similar claim;

(c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

(d) for or on account of any FATCA Withholding.

8.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. Prescription

Claims in respect of principal and interest will become prescribed unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds subject to the provisions of Condition 6.

10. Events of Default

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) (but, in the case of the happening of any of the events described in subparagraphs (b) to (d) inclusive (other than the winding up or dissolution of the Issuer or any of the Material Subsidiaries), (e) to (g) inclusive and (i) and (j) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give written notice to the Issuer that the Bonds are, and they shall accordingly forthwith become, immediately due

and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events ("**Events of Default**"):

(a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any Financial Indebtedness of the Issuer or any of the Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); or (ii) the Issuer or any of the Material Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; provided that the amount of Financial Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred and are continuing, individually or in aggregate exceeds £5,000,000 (or its equivalent in any other currency); or

(d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of the Material Subsidiaries, save (x) for the purposes of and followed by reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (y) in the case of a Material Subsidiary, for the purposes of and followed by a Permitted Reorganisation; or

(e) if the Issuer or any of the Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business or operations, save (x) for the purposes of and followed by reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (y) in the case of a Material Subsidiary, for the purposes of and followed by a Permitted Reorganisation or Permitted Disposal, or the Issuer or any of the Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay a material part of its debt (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent;

(f) if:

(i) proceedings are initiated against the Issuer or any of the Material Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of the Material Subsidiaries or, as the case may be, in relation to all or substantially all of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them; and

(ii) in any such case (other than the appointment of an administrator) is not discharged or stayed within 14 days,

save (x) for the purposes of and followed by reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (y)

in the case of a Material Subsidiary, for the purposes of and followed by a Permitted Reorganisation; or

(g) if the Issuer or any of the Material Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors) save (x) for the purposes of and followed by reorganisation, restructuring on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (y) in the case of a Material Subsidiary, for the purposes of and followed by a Permitted Reorganisation; or

(h) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Conditions or the Trust Deed; or

(i) if Midco ceases to be a Subsidiary of the Issuer; or

(j) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the Trustee's opinion, an analogous effect to any of the events referred to in subparagraphs (d) to (g) above.

10.2 Reports

An Authorised Signatories' Certificate whether or not addressed to the Trustee certifying that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

11. Enforcement

11.1 Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Bonds or otherwise, but it shall not be bound to take any such proceedings or other steps or action unless (a) it has been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-fifth in principal amount of the Bonds then outstanding and (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

11.2 Limitation on Trustee actions

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

11.3 Enforcement by the Bondholders

No Bondholder shall be entitled to (i) take any steps or action against the Issuer to enforce the performance of any of the provisions of the Trust Deed or the Bonds or (ii) take any other proceedings

(including lodging an appeal in any proceedings) in respect of or concerning the Issuer unless the Trustee, having become bound so to take any such action, steps or proceedings, fails so to do within a reasonable period and the failure shall be continuing.

12. Replacement of Certificates

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of first publication.

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Certificate, with the Registrar or, if the Certificates are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

14. Substitution

The Trustee may, without the consent of the Bondholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds and the Trust Deed, of any Subsidiary of the Issuer subject to:

(a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer;

(b) the Trustee being satisfied that the substitution is not materially prejudicial to the interests of the Bondholders; and

(c) certain other conditions set out in the Trust Deed being complied with.

15. Meetings of Bondholders, Modification, Waiver, Authorisation and Determination

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes any matter defined in the Trust Deed as a Basic Terms Modification, including the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of

the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. An Extraordinary Resolution passed by the Bondholders will be binding on all Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution.

15.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.

15.3 Trustee to have Regard to Interests of Bondholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

15.4 Notification to the Bondholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 13.

16. Indemnification and Protection of the Trustee and its Contracting with the Issuer

16.1 Indemnification and protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Bondholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion

as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

16.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any other member of the Group and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any other member of the Group, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

18. Governing Law and Submission to Jurisdiction

18.1 Governing Law

The Trust Deed, the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

18.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Bondholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Bonds) and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. To the extent permitted by law, the Trustee and the Bondholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Bonds respectively (including any suit, action or proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Bonds) (together referred to as "**Proceedings**") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

The Issuer has in the Trust Deed irrevocably and unconditionally appointed Toscafund Asset Management LLP at the latter's registered office for the time being as its agent for service or process in

England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

19. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Bond, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. Definitions

In these Conditions:

"**Acceptable Bank**" means a U.K. clearing bank which has a rating of BBB- or higher by S&P or Fitch, or Baa3 or higher by Moody's (or a comparable rating from a nationally recognised credit rating agency) or any other commercial bank or trust company which has a rating of A- or higher by S&P or Fitch, or A3 by Moody's (or a comparable rating from a nationally recognised credit rating agency), in each case for its long-term unsecured and non-credit enhanced debt obligations, or which has otherwise been approved by Extraordinary Resolution;

"**Authorised Signatories' Certificate**" means a certificate addressed to the Trustee, signed on behalf of the Issuer (but without personal liability) by two authorised signatories of the Issuer;

"**Business Day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place;

"**Consolidated Cash and Cash Equivalents**" means at any time:

(a) cash in hand or on deposit with any Acceptable Bank;

(b) certificates of deposit maturing within one year after the relevant date of calculation issued by an Acceptable Bank;

(c) any investment in marketable debt obligations issued or guaranteed by the government of the United States of America, the U.K., any member state of the European Economic Area or any Participating Member State or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation, not convertible or exchangeable to any other security and which contains terms which do not provide for a negative interest rate;

(d) commercial paper not convertible or exchangeable to any other security:

(i) for which a recognised trading market exists;

(ii) issued by an issuer incorporated in the United States of America, the U.K., any member state of the European Economic Area or any Participating Member State;

(iii) which matures within one year after the relevant date of calculation;

(iv) which does not provide for a negative interest rate; and

(v) which has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(e) sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);

(f) any investment in money market funds accessible within 60 days which (i) have a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, and (ii) invest substantially all their assets in securities of the types described in paragraphs (b) to (e) above; or

(g) any other debt security or investment approved by Extraordinary Resolution,

in each case, to which any member of the Consolidated Group is alone (or together with other members of the Consolidated Group) beneficially entitled at that time;

"**Consolidated Group**" means the Issuer and its consolidated Subsidiaries, as consolidated in the most recent Financial Statements of the Consolidated Group;

"**Consolidated Net Financial Indebtedness**" means Consolidated Total Financial Indebtedness less Consolidated Cash and Cash Equivalents;

"**Consolidated Operating Profit**" is the amount identified with the heading "Operating profit before gains and losses on property assets and other investments" in the most recent Financial Statements of the Consolidated Group (provided that such Financial Statements are prepared in accordance with IFRS as it applied on the Issue Date) or otherwise shall be an amount which the Issuer shall (in consultation with the auditors of the Issuer) certify to the Trustee in an Authorised Signatories' Certificate would have been the amount identified with that heading in the most recent Financial Statements of the Consolidated Group had such Financial Statements been prepared in accordance with IFRS as it applied on the Issue Date;

"**Consolidated Secured Financial Indebtedness**" means, at any time, Consolidated Total Financial Indebtedness that is Secured Financial Indebtedness;

"**Consolidated Total Financial Indebtedness**" means, as of any date of determination, the then aggregate outstanding amount of all Financial Indebtedness of the Consolidated Group but excluding any amounts owing by one member of the Consolidated Group to another member of the Consolidated Group;

"**Equity Interests**" means, with respect to any person, all of the shares of capital stock of (or other ownership or profit interests in) such person, all of the warrants, options or other rights for the purchase or acquisition from such person of shares of capital stock of (or other ownership or profit interests in) such person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such person or warrants, rights or options for the purchase or acquisition from such person of such shares (or such other interests), and all of the other ownership or profit interests in such person (including partnership, member or trust interests therein), whether voting or non-voting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination;

"**Financial Indebtedness**" means any indebtedness (without double counting) for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit or bill discounting facility (or dematerialised equivalent);

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the IFRS, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);

(h) any counter indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

(i) any amount raised by the issue of shares which are redeemable (other than at the option of the issuer) before the Maturity Date or are otherwise classified as borrowings under IFRS; and

(j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above;

"**Financial Statements**" means the audited consolidated financial statements (including the management report) of the Issuer or, as the case may be, the unaudited consolidated interim financial statements (including the management report) of the Issuer, in each case as (i) published by the Issuer as at a Reporting Date and (ii) prepared in accordance with IFRS;

"**Fitch**" means Fitch Ratings Limited and includes any successor to its ratings business and any of its affiliates;

"**Group**" means the Issuer and its Subsidiaries taken as a whole (including, for the avoidance of doubt, Midco);

"**IFRS**" means International Financial Reporting Standards as adopted by the European Union from time to time;

"**Interest Coverage Ratio**" means, in respect of a Reporting Date, the ratio of (A) the aggregate amount of Consolidated Operating Profit in the Relevant Period to (B) the aggregate amount of Total Consolidated Net Interest in the Relevant Period;

"**Investment Properties**" is the aggregate of the amount identified with that heading and the amount identified as "Investment Properties Held for Sale" in the most recent Financial Statements of the Consolidated Group (provided that such Financial Statements are prepared in accordance with IFRS as it applied on the Issue Date) or otherwise shall be an amount which the Issuer shall (in consultation with the auditors of the Issuer) certify to the Trustee in an Authorised Signatories' Certificate would have been the amount identified with that heading and the amount identified as "Investment Properties Held for Sale" in the most recent Financial Statements of the Consolidated Group had such Financial Statements been prepared in accordance with IFRS as it applied on the Issue Date;

"**Issue Date**" means 6 August 2018;

"**Last Reporting Date**" means the most recent Reporting Date;

"**Material Subsidiary**" means at any time a Subsidiary of the Issuer:

(a) whose Net Rental Income (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose Investment Properties (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Consolidated Group relate, are equal to) not less than 5 per cent. of the consolidated Net Rental Income or, as the case may be, Investment Properties of the Consolidated Group, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited Financial Statements, *provided that*:

(i) if the then latest audited Financial Statements show a net loss in respect of Net Rental Income for the relevant financial period then there shall be substituted for the words "Net Rental Income" the words "Rental Income" for the purpose of this definition; and

(ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited Financial Statements relate, the reference to the then latest audited Financial Statements for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the auditors of the Issuer; or

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate Net Rental Income equal to) not less than 5 per cent. of the consolidated Net Rental Income, or represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated Investment Properties, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate Net Rental Income equal to) not less than 5 per cent. of the consolidated Net Rental Income, or its assets represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated Investment Properties, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such

transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Trust Deed;

An Authorised Signatories' Certificate of the Issuer certifying that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if so relied upon by the Trustee, shall (in the absence of manifest error) be conclusive and binding on all parties;

"**Maturity Date**" means 6 August 2024;

"**Midco**" means Regional Commercial Midco Limited;

"**Moody's**" means Moody's Investors Service Limited and includes any successor to its rating business and any of its affiliates;

"**Net Rental Income**" means the amount identified with that heading in the most recent Financial Statements of the Consolidated Group;

"**Participating Member State**" means any member state of the European Union that has the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union;

"**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and, in the case of presentation of a Certificate, in the place in which the Certificate is presented;

"**Permitted Disposal**" means a *bona fide* disposal for full value on an arm's length basis of the whole or a substantial part of the business or operations (including the disposal of shares in a Subsidiary) of a Material Subsidiary;

"**Permitted Reorganisation**" means, in the case of a Material Subsidiary, any reorganisation the result of which will be that all or substantially all of the assets and undertaking of such Material Subsidiary will be transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer;

"**Permitted Security Interest**" means:

(a) any Security granted over the ordinary shares of any Subsidiary of Midco where such Security is granted:

(i) solely for the purpose of raising Financial Indebtedness for any member of the Group; and

(ii) as a condition of the agreement or deed pursuant to which such Financial Indebtedness is evidenced;

(b) any Security arising by operation of law (or by agreement evidencing the same) in the ordinary course of trading of the relevant member of the Group;

(c) any Security over or affecting any asset acquired by any member of the Group after the Issue Date and subject to which such asset is acquired if:

(i) the Security was not created in contemplation of the acquisition of that asset by the relevant member of the Group; and

(ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the relevant member of the Group;

(d) any Security over or affecting any asset of any company which becomes a member of the Group after the Issue Date, where the Security is created prior to the date on which that company becomes a member of the Group if:

(i) the Security was not created in contemplation of the acquisition of that company; and

(ii) the principal amount secured has not increased in contemplation of or since the acquisition of that company; or

(e) any Security granted by any member of the Group prior to the Issue Date;

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 13;

"**Relevant Jurisdiction**" means the U.K. or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer is or becomes subject in respect of payments made by it of principal and interest on the Bonds;

"**Relevant Period**" means, in respect of a Reporting Date falling on 30 June (or such other accounts date to which the Issuer's half-year unaudited consolidated interim financial statements are prepared), the six-month period prior to such Reporting Date and, in respect of a Reporting Date falling on 31 December (or such other accounts date to which the Issuer's annual audited consolidated financial statements are prepared), the 12-month period prior to such Reporting Date;

"**Rental Income**" means the amount identified with that heading in the most recent Financial Statements of the Consolidated Group;

"**Reporting Date**" means a date as at which annual audited consolidated financial statements of the Issuer have been published by the Issuer or unaudited consolidated interim financial statements of the Issuer have been published by the Issuer, in each case prepared in accordance with IFRS, being on the date of issue hereof 30 June and 31 December in each year;

"**S&P**" means Standard & Poor's Ratings Services, a division of Standard & Poor's Credit Market Services Europe Limited and includes any successor to its rating business and any of its affiliates;

"**Secured Financial Indebtedness**" means Financial Indebtedness of any person that has the benefit of Security over any asset (including, without limitation, any Equity Interest) owned or leased by the Issuer, any Subsidiary of the Issuer or any Unconsolidated Affiliate, as applicable;

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect;

"**Subsidiary**" means a subsidiary within the meaning of Section 1159 of the Companies Act 2006 as amended;

"**Total Consolidated Net Interest**" means, on each Reporting Date, all interest accrued to persons who are not members of the Consolidated Group less the amount of any interest accrued to be received from persons who are not members of the Consolidated Group, in each case excluding any one-off financing

charges (including, without limitation, any one-off fees and/or break costs and/or early redemption costs and/or issuance costs) and in each case for the Relevant Period;

"**U.K.**" means the United Kingdom;

"**U.S.**" means the United States of America; and

"**Unconsolidated Affiliate**" means any person:

(a) in which any member of the Consolidated Group, directly or indirectly, holds an Equity Interest, which investment is accounted for in the consolidated financial statements of the Consolidated Group on an equity basis of accounting; and

(b) whose financial results are not consolidated with the financial results of the Consolidated Group in accordance with IFRS.

APPENDIX 3

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM IN THE CLEARING SYSTEMS

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM IN THE CLEARING SYSTEMS

*The Global Certificate contains provisions which apply to the 4.5 per cent. bonds due 2024 to be issued by Regional REIT Limited (the "**Bonds**") while they are represented by the Global Certificate, some of which include minor and/or technical modifications to the terms and conditions of the Bonds set out in this Prospectus. The following is a summary of certain parts of those provisions.*

1. Payments of principal and interest

Payments of principal and interest in respect of Bonds represented by the Global Certificate will, subject as set out below, be made upon presentation and, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the holders of the Global Certificate (the "**Bondholders**") for such purposes.

Distributions of amounts with respect to book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar, which endorsement shall be prima facie evidence that such payment has been made in respect of the Bonds.

In the case of Bonds which are represented by the Global Certificate, interest shall be calculated in respect of any period by applying the rate of interest to the aggregate outstanding principal amount of the Bonds represented by the Global Certificate and multiplying such sum by the Day Count Fraction, and rounding the resultant figure to the nearest penny, with half a penny being rounded upwards or otherwise in accordance with applicable market convention.

2. Notices to Bondholders

For so long as all of the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders. The relevant notice will be delivered electronically by Euroclear and/or Clearstream, Luxembourg to CREST which will arrange for electronic delivery of such notice to CDI Holders who hold interests in the underlying bonds through CREST (in accordance with the rules and procedures of CREST at the time that such notice is given), rather than by publication as required by Condition 13 (*Notices*) provided that, so long as the Bonds are admitted to the official list maintained by the Financial Conduct Authority (the "**FCA**") and admitted to trading on the London Stock Exchange plc's market for listed securities, all requirements of the FCA have been complied with. Any such notice shall be deemed to have been given to the Bondholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

3. Accountholders

For so long as all of the Bonds are represented by the Global Certificate and the Global Certificate is registered in the name of a nominee (the "**Relevant Nominee**") of the common depositary for Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the

principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the Relevant Nominee in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

4. Cancellation

Cancellation of any Bond represented by the Global Certificate and required by the Terms and Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by reduction in the principal amount of the Bonds in the register of Bondholders and by the annotation of the appropriate schedule to the Global Certificate.

5. Registration of Title

Registration of title to Bonds in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and a successor clearing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Bond may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Terms and Conditions of the Bonds, except that Certificates in respect of Bonds so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Bonds in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, or interest in respect of the Bonds.

Whilst the Bonds are represented by the Global Certificate payments will be made to the holder appearing on the Register at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) preceding such due date.

6. Transfers

Transfers of book-entry interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

7. Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg the Trustee may have regard to any information provided to it by Euroclear or Clearstream, Luxembourg or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to the Global Certificate.

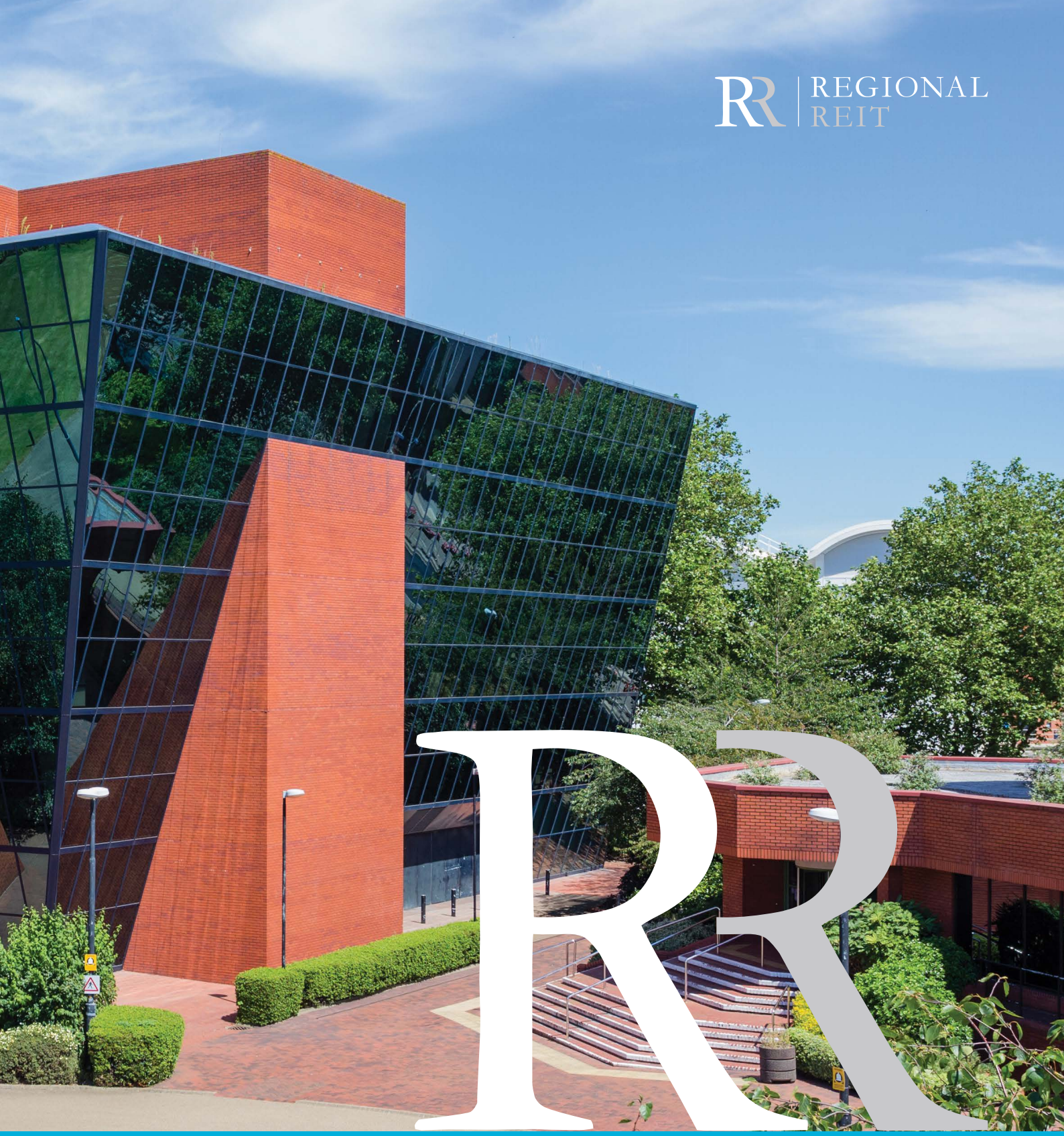
8. Euroclear and Clearstream, Luxembourg

References in the Global Certificate and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

APPENDIX 4

ISSUER'S ANNUAL REPORT AND ACCOUNTS (INCLUDING CONSOLIDATED FINANCIAL STATEMENTS) FOR THE YEARS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2017

REGIONAL REIT



Annual Report and Accounts

for the year ended 31 December 2016

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Cover photo: Buildings 2 & 3, HBOS Campus, Aylesbury

Who we are

Regional REIT Limited ("Regional REIT", or the "Company") and its subsidiaries[1] (the "Group), is a United Kingdom based real estate investment trust. Regional REIT is managed by London & Scottish Investments, the Asset Manager, and Toscafund Asset Management, the Investment Manager, and was formed from the combination of property funds previously created by the Managers.

Regional REIT's commercial property portfolio is wholly in the UK and comprises, predominantly, quality offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The portfolio is highly diversified, with 123 properties, 941 units and 717 tenants as at 31 December 2016, with a valuation of £502.4m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional property assets. The Group offers investors a differentiated play on the recovery prospects of UK regional property. Regional REIT aims to deliver an attractive total return to its Shareholders, targeting 10-15% per annum, with a strong focus on income and good capital growth prospects.

Office

Tay House, Glasgow

Industrial

Wardpark Industrial Estate, Cumbernauld

Retail/Other

1-4 Llansamlet Retail Park, Swansea

For more information visit the Group's website at www.regionalreit.com

[1] Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of 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 Annual Report does not distinguish between the activities of the Company and those of its subsidiaries.

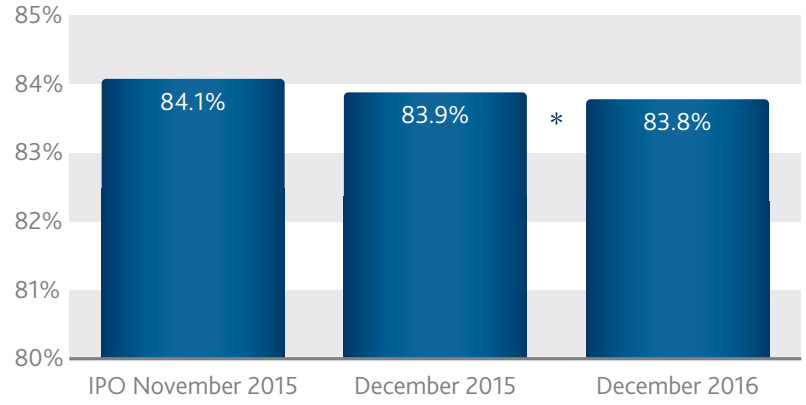
Hampshire Corporate Park, Chandler's Ford

Operational Highlights *(1 January 2016 to 31 December 2016)*

Continued Build of Attractive Regional Commercial Property Portfolio

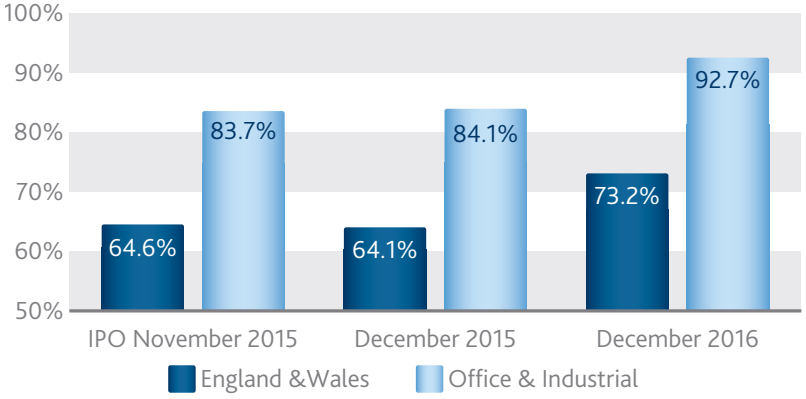
Property acquisitions	£133.6m, c. 8.6% net initial yield; including two major portfolios of £117.5m
Profitable property disposals	£44.9m net; c. 6.8% net initial yield
Active management building occupancy	83.8% as at 31 December 2016; from 80.9% (31 March 2016) after Wing/Rainbow acquisitions
Diversified portfolio	Office and industrial up to 92.7% (by value); England & Wales up to 73.2%
Share price outperformance	+2.9% vs. -11.6% FTSE EPRA NAREIT UK Index
Entry to the FTSE All Share Index	March 2016
Entry to the FTSE EPRA NAREIT Developed Europe Index	June 2016

Portfolio Occupancy (by area)



* Occupancy of 80.9% (31 March 2016) post the acquisition of the Wing and Rainbow portfolios.

Share of Gross Property Portfolio (by value)



The Genesis Centre, Warrington

Financial Highlights *(1 January 2016 to 31 December 2016)*

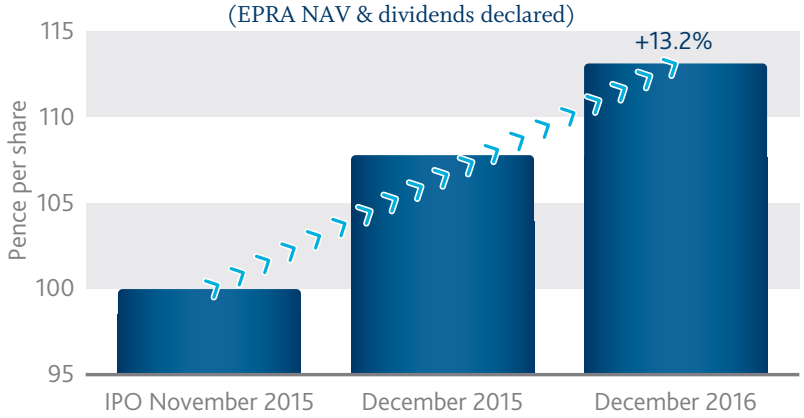
Financial Position Secures Income

Dividends per share declared for 2016	7.65p
Dividends per share since Admission*	8.65p
EPRA Net Asset Value since Admission* (Admission*: 100p)	+6.9%
EPRA Total Return attributable to Shareholders since Admission*	+13.2%
Operating profit before gains and losses on property assets & other investments	£29.9m
Profit before tax	£13.4m
EPRA Cost Ratio for the year ended 31 December 2016	30.4%
Investment Properties Valuation as at 31 December 2016	£502.4m
Net Loan To Value	40.6%

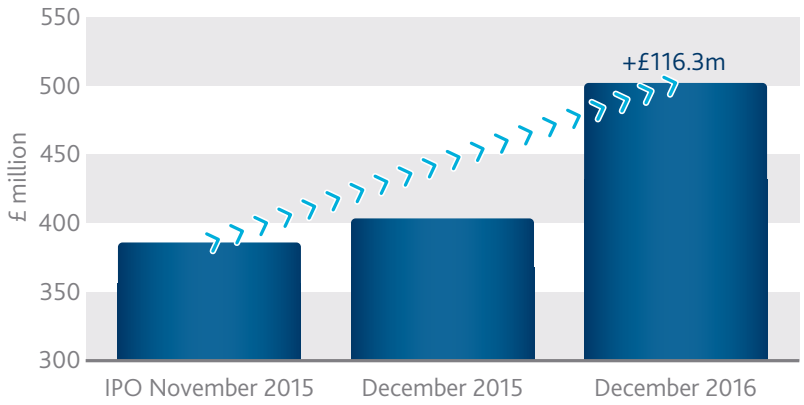
* Admission: 6 November 2015.

Total Shareholder Return (from IPO)

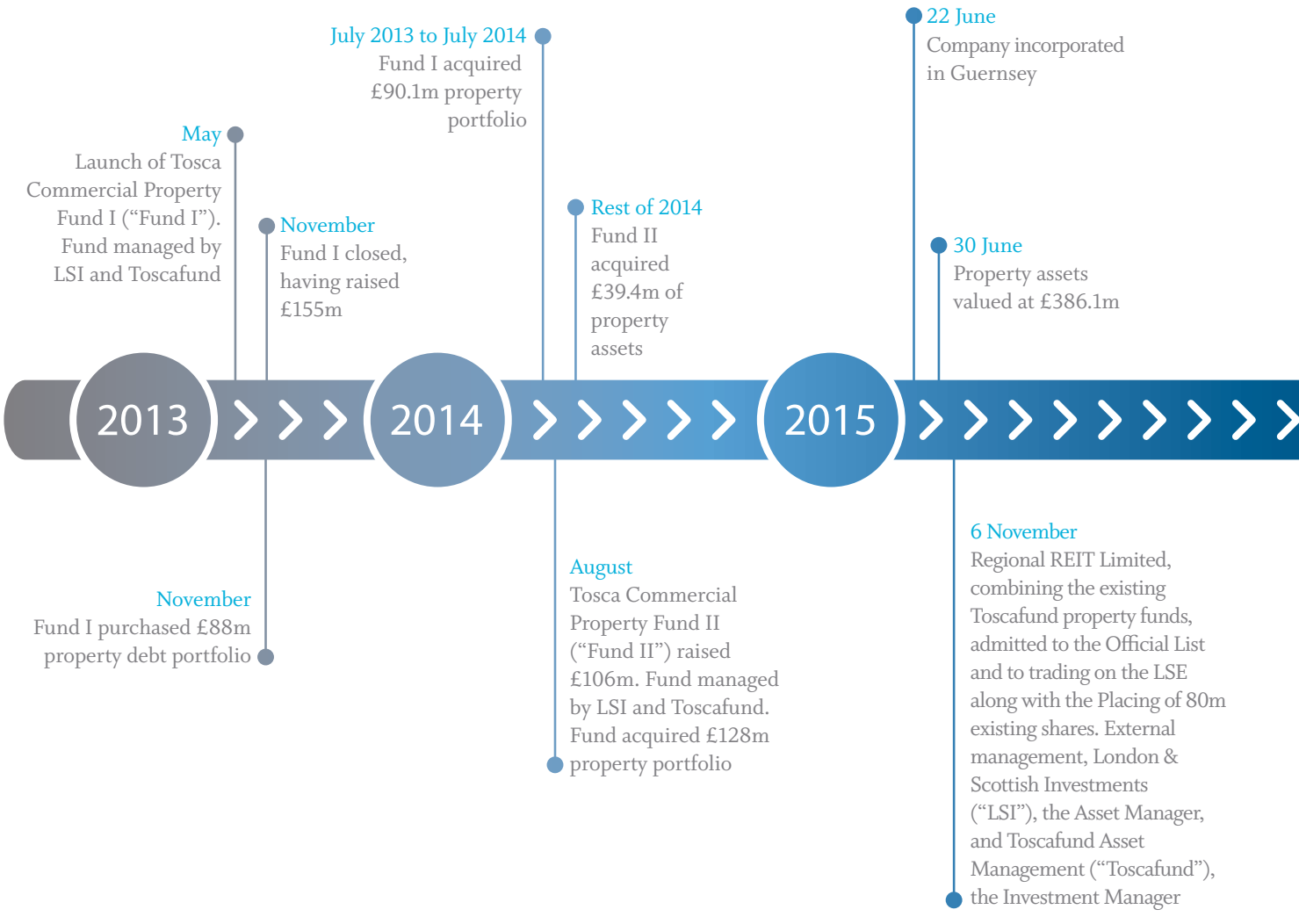
(EPRA NAV & dividends declared)



Investment Properties Valuation



Group Milestones and History



December
Announced acquisition of a £37.5m regional office & industrial unit property portfolio (completed March 2016)

31 December
Regional REIT market capitalisation of £287.2m. Gross investment properties valued at £403.7m

End December
123 properties, 712 units & 531 tenants

February
Announced acquisition of a £80m regional office & industrial unit property portfolio (completed March)

21 March
Entry to FTSE All Share Index

End March
Post acquisition, 130 properties, around 970 units & approx. 700 tenants. Gross investment properties of £507m

20 June
Entry to FTSE EPRA NAREIT Developed Europe Index

30 June
Gross property assets valued at £501.3m, 128 properties, 974 units & 719 tenants

20 September
Acquisition of £5.5m office portfolio ("Wallace")

End December
123 properties, 941 units & 717 tenants

31 December
Market capitalisation of £295.5m. Gross investment properties valued at £502.4m

23 February
Announced conditional acquisition of c. £129m regional offices, industrial, retail & leisure property portfolio

2016 2017

Tay House, Glasgow

Chairman's Statement

The Chairman's Statement forms part of the Strategic Report.

"We have delivered to our Shareholders, since our IPO just over a year ago, an attractive total return including a significant dividend income. We have continued to build our investment in, predominantly, regional offices and industrial properties to provide a sustainable and consistent business base. The business environment remains positive for regional commercial property and our strategy remains consistent for the year ahead."

Kevin McGrath,
Chairman and Independent Non-Executive Director

At the end of the Group's first full year of operations as a listed company it gives me great pleasure to report on our progress in delivering on our strategy and the commitments made at the time of our listing in November 2015. I am confident of the progress made in building our record of delivery: first, of significant acquisitions, asset management initiatives including disposals and reducing the cost of debt financing; and, secondly, in establishing the strength of our regional commercial property proposition and of the recurring income base. By the end of 2016, despite the turbulence in the sector during the year, the gross value of our Investment Properties had increased to £502.4m including like-for-like valuation growth of 2.25%.

In the course of 2016 the Group successfully acquired properties totalling £133.6m, on an average net initial yield of c. 8.6%, disposed of £44.9m (net of costs) at c. 6.8% yield and undertook £9.1m of net capital expenditure in accordance with our commitment to recycle and invest capital. The Asset Manager was particularly focused on further building the portfolio in the first-half of 2016, along with an extensive programme of refinancings and new borrowings. In the second-half the emphasis was to successfully navigate the post EU referendum environment and on active management bedding-in the new property portfolios as well as maintaining progress with the existing assets. In addition, the Managers were heavily engaged in our bid for the multi-asset portfolio of c. £129m that was announced in February 2017 (see below).

It is our belief that Regional REIT offers a distinctive portfolio of UK regional offices and light industrial sites, focusing on acquiring undermanaged or unloved assets. The uniqueness of its asset management is that by doing so much more in-house we ensure the thoroughness of our due diligence, consistently high standards for our assets and tenants and prioritise our own Shareholders' interests. It is the scale and diversity of the portfolio and its tenant base, as well as the experienced active asset management, which secure attractive portfolio fundamentals and mitigate risk. At the same time we avoid the cyclical pressures of speculative development as it detracts from what we believe should be the income focus of the REIT. Both the net initial yield on the portfolio and the dividend yield on the shares are significantly ahead of other asset classes and should underpin the confidence of our Shareholders.

Business Environment

Occupational demand for offices and industrial sites in the UK's regions remained robust over the year. For us this has been evidenced by the steady volume of new lettings and regears, notably since the Brexit vote, and in the progress we achieved with the active asset management of the Wing and Rainbow portfolios, in line with our business plans, since their acquisitions in the first-quarter of 2016.

With the present limited new supply of regional offices and industrial sites, and the prospects for continued economic growth and trends in 'north-shoring', the regions appear well set to continue to grow rentals and narrow the yield differential versus London and of secondary property versus prime. This is further underpinned by property valuations remaining well below replacement cost. Market optimism remains strongest for industrial sites and positive but more nuanced for regional offices, being more focused on specific locations and tempered by some improvements to come in the supply outlook. In our view, both of these sectors continue to offer later-in-cycle benefits, underpinning our enduring strategy and income growth prospects.

Chairman's Statement *(continued)*

In the second-half of 2016 a challenge for us was the comparative quietness of investment property markets, where we had expected more assets to become available. We saw that there were deals to be done in the regional markets and in small to medium-sized lots, but asset prices did not weaken as much as we expected. Consequently transaction volumes are down, as sellers and buyers wait to reconcile to the new equilibrium. The Group's preference remains for off-market transactions where its consistent track record of delivering on deals provides it with an advantage.

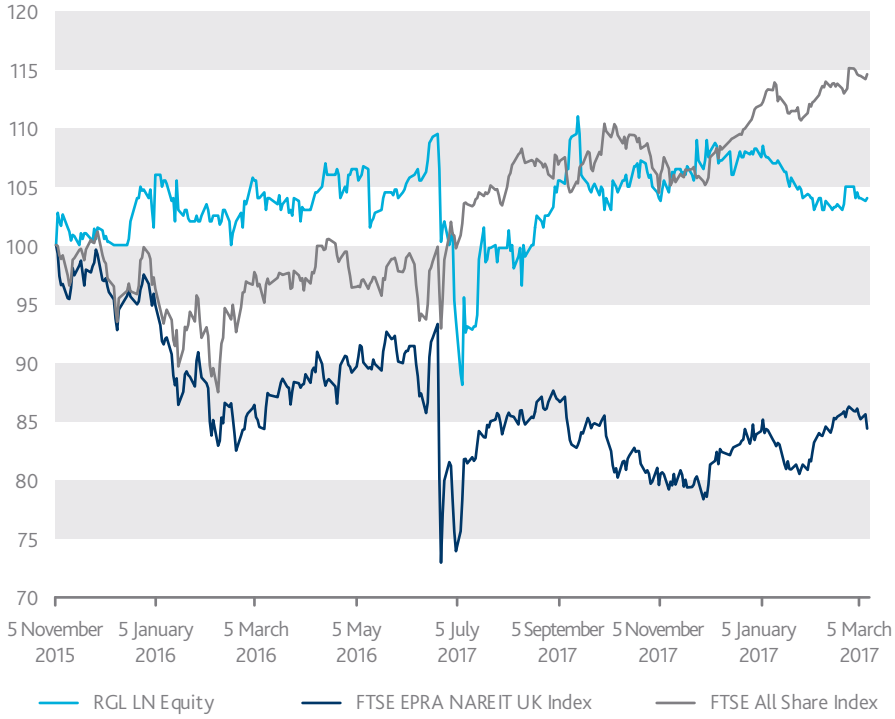
We continue to appraise substantive acquisition opportunities and are confident that there are a number of accretive deals to be done. The Board will consider the Company's options to maintain an appropriate growth strategy.

Shareholders

A major part of the total return to our Shareholders is the dividend. The Company declared total dividends of 7.65pps for 2016, comprising three quarterly dividends of 1.75pps and a fourth quarter dividend of 2.40pps. This distribution is fully covered by earnings per share.

Notwithstanding the Market's volatility, and the pressures on many listed property companies that arose around the EU referendum, we believe that the comparative strengths of our own business have proved attractive to investors. These strengths reflect the fundamentals of our strategy, delivering a sustainable and strong income base with the potential to grow through active asset management as the basis for our dividend. That we have declared dividends for the full year 2016, in line with our stated commitment of 7-8% on the 100p listing price, was important in building the credibility of the Group.

Relative Share Price Performance
(indexed to Opening Price on 6 November 2015 to 22 March 2017)



Source: Bloomberg data

In the course of 2016 the Group's shares were included in the FTSE All Share Index (March) and the FTSE EPRA NAREIT Developed Europe Index (June).

Board and the Asset and Investment Managers

The Board made great progress in the last year to establish its effective working and I am grateful to all of my fellow Directors who have contributed to the rigorous discussions on the development of the business. We have undertaken an internal review of Board effectiveness to gauge our progress and to ensure that the Board evolves appropriately with the development of the Group. I am delighted to confirm that no significant issues were raised and the view of the Board is that the governance structure, together with the Board and its Committees, all continue to operate effectively, with a positive and open culture. Corporate governance has been a key focus of the Board and I am extremely satisfied that we continue to enhance our compliance with the The Association of Investment Companies ("AIC") Code of Corporate Governance. As part of our planned development I am pleased that Bill Eason was willing to assume the role of Senior Independent Non-Executive Director, an additional point of contact for Shareholders.

The Board are also pleased with the work of the external Asset and Investment Managers, whose competencies and experience, along with a proven ability to get the most from our properties, are critical to our success.

The Board determined that given the total returns performance to date, amounting to 13.2% since listing to 31 December 2016, it is now appropriate for the Group to commence accruing the Managers' Performance Fee for the initial Performance Period ending December 2018.

The Point, Glasgow

Chairman's Statement *(continued)*

Subsequent Events

The Group is committed to an opportunistic acquisitive growth strategy and management has continued to explore a number of asset opportunities. I am pleased that we were able to announce in late February 2017 that we had reached agreement with The Conygar Investment Company PLC as to the conditional acquisition of a portfolio of 31 regional office, industrial, retail and leisure properties with a gross investment value of c. £129m.

This is a quality investment portfolio secured 'off market', offering substantial asset management opportunities and income growth potential. The transaction is expected to be earnings accretive to Regional REIT, with significant upside potential. The deal is complementary to the existing asset base of our Company and aligns well with the expertise and experience of the Asset Manager, whilst the spread of properties and tenants further underpins the strength of the Group's income base. Subject to securing all necessary approvals we anticipate the deal closing in late March.

Outlook

For 2017 the Group expects a continuation of the positive occupancy trends in the regional office and light industrial markets in the UK with the potential for rental income to grow. In the UK's regions outside of the M25 motorway the fundamentals of supply and, as yet, occupier demand, have changed little, but we remain alert to the uncertainties that persist. However, we are confident that across our portfolio we can maintain the pace of new lettings and regears to improve occupancy and yield. The performance for the year ahead is expected to combine improved rental income – with occupancy expected to rise to around 90% – and a reduction in the costs ratio from increased scale and lower voids.

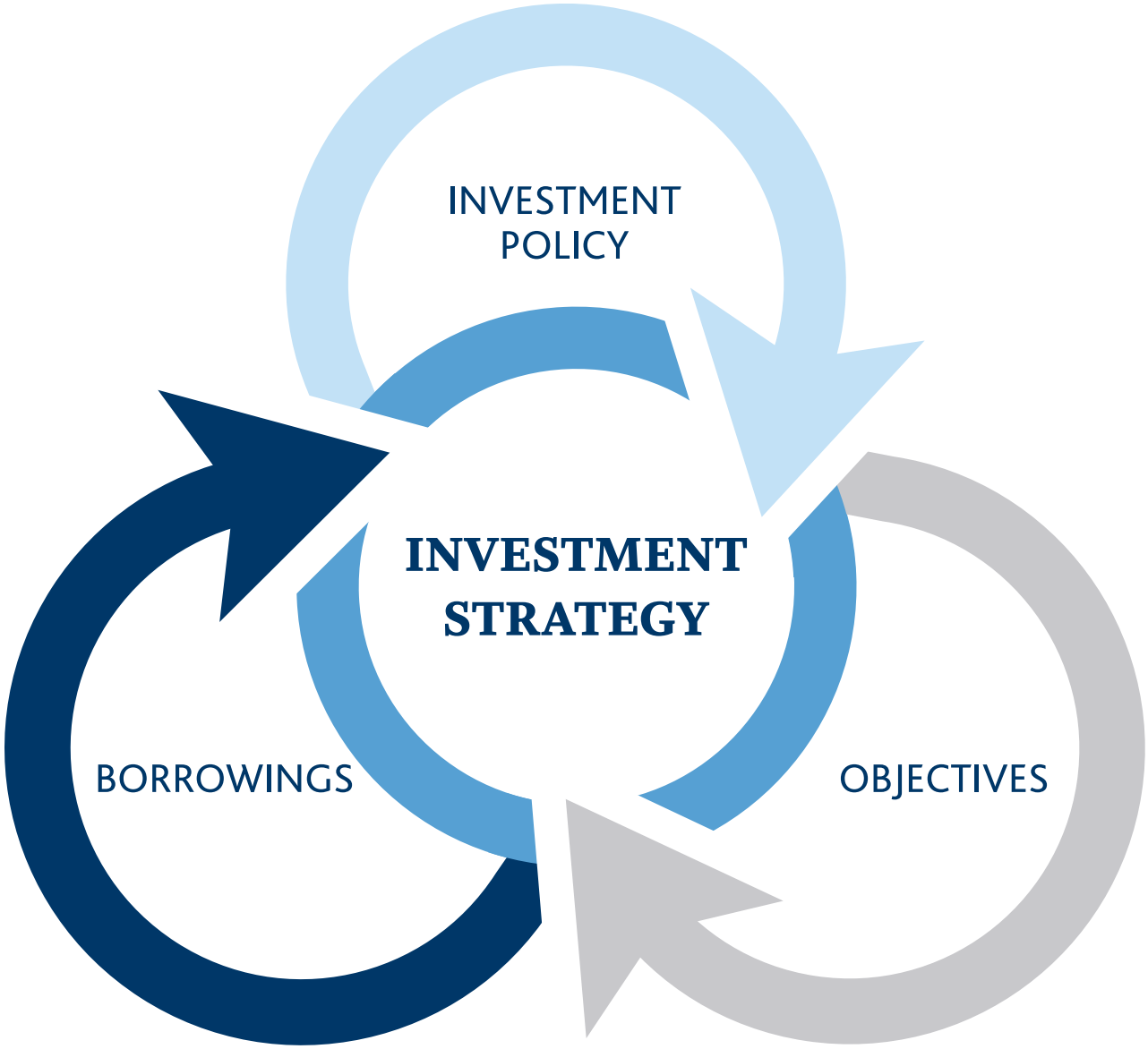
Our strategy, notwithstanding Brexit ambiguities, remains unchanged. This is based on the longer term business trends we see underpinning the regions as well as the opportunities of 'the Northern Powerhouse', the 'Midlands Engine', infrastructure spend, elected mayors and the new business rates structure, all of which should benefit the regions. This is reinforced by the prospect of continued UK economic growth.

The Board retains confidence in our selective approach to regional commercial property having regard to the implications of the EU referendum as they emerge. In the current market a key priority for investors is certainty and quality of income. This is central to the Regional REIT proposition.

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Investment Strategy and Business Model

The Group will invest in, actively manage and dispose of offices and industrial properties – or debt portfolios secured on such properties – located predominantly in the regional centres of the UK.



Investment Strategy and Business Model *(continued)*

Investment Strategy

- The Group aims to acquire a portfolio of interests that together offer Shareholders a diversification of investment risk, by investing in a range of geographical areas and sectors across a number of assets and tenants and through letting properties, where possible, to low-risk tenants.
- The Group will use gearing, borrowings and other sources of leverage, to implement its investment strategy and enhance equity returns.

Investment Policy

- The Group will invest in office and industrial properties that are situated in the UK and outside of the M25 motorway.
- The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.
- In the ordinary course of business no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally the Board may consider taking this up to 20%.
- The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.
- No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant.
- Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.

Investment Objective

- The Investment Objective of the Company is to deliver an attractive total return to Shareholders – the Board targets 10-15% per annum – with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway.

Borrowings

- The Group targets a ratio of net borrowings to Gross Investment Properties Value of 35% over the longer term, with a maximum limit of 50%.

Investment Strategy and Business Model *(continued)*

"Our uniqueness is that we have the platform to do everything that all good asset and property managers should do, but by doing so much more in-house we can ensure the thoroughness of our due diligence on the market, individual properties and for occupiers, we can aim for consistently high standards for our assets and tenants and can focus the benefits to the REIT's Shareholders."

Stephen Inglis,
Group Property Director
and Chief Investment Officer of
London & Scottish Investments,
the Asset Manager

Our Business Model

- Yield differential between regional secondary office properties and London at approximately 1.7% (end 2016) remains above the long-term average.
- Total Shareholder Return of 13.2% since IPO and 11.5% annualised in 2016.

- Completed acquisitions in 2016 totalling £133.6m and disposals (net of costs) of £44.9m, with average net initial yields of c. 8.6% and c. 6.8% respectively.
- Refinancings totalling £42.2m, reducing average funding costs (including hedging) by 80 basis points to 3.7% over the year. LTV of 40.6% on £203.9m of net borrowings (including unamortised loan arrangement costs).

- Contracted rental income as at end 2016 of £44.0m (31 December 2015: £35.9m).
- Reversionary yield increased to 9.5% (31 December 2015: 9.0%).
- Declared dividends per share of 7.65p for 2016.

- Net capital expenditure of £9.1m in 2016; much capital expenditure is recovered through dilapidations, service charges or improved property rental income.
- Active and intense asset management to improve occupancy (by area) following the acquisition of the Wing/Rainbow portfolios to 83.8% at end 2016.

- 123 properties, 941 units and 717 tenants, as at 31 December 2016.
- The largest single property is only 6.4% of the Gross Investment Properties value and the largest tenant only 3.7% of gross rental income.
- England & Wales represent 73.2% of the Gross Investment Properties value (31 December 2015: 64.1%); offices and industrial sites are 92.7% (31 December 2015: 84.1%).

- Management grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 down-turn.
- LSI is based in Glasgow and a number of offices around the UK, with the vast majority of the 42 staff employed as at 31 December 2016 working on Regional REIT.

Investment Strategy and Business Model *(continued)*

Our Approach	How we add value
• That the "regions remain strong" in UK commercial real estate, believing that: growing capital inflows into the regions; the UK domestic economy will continue to grow; tenant demand for offices and industrial sites will outweigh available supply; and, secondary property will continue to outperform prime. • The yield differential between the regions and London remains well above its historic average, supporting some yield compression and value growth continuing in the regions.	• The investment policy focuses on a balanced portfolio of offices and light industrial sites located outside of the M25 motorway, broadly based on the regions' economic worth and population mix. • The Group seeks to enhance income growth and capital values through the services of the Asset Manager. • The Asset Manager operates through a number of regional offices, implementing a targeted investment policy and each property's asset management plan.
• A focus on exploiting pricing inefficiencies and mismatches between regional secondary and primary property yields. • From such opportunities the Group will acquire, hold and sell commercial real estate that it believes to be mispriced and have good income and capital growth prospects. • Utilising leverage to build the acquisitions capability of the business.	• An opportunistic approach to UK commercial property and the recycling of capital from the legacy portfolio, aiming to acquire where the Group can add value through its in-house expertise. • Seeking to build the income growth and capital values of properties; taking undermanaged and underinvested properties to being attractive investments to be retained for yield or for disposal. • An established borrower with long-term relationships in place with a number of UK banks. The Group will exploit opportunities to improve total returns utilising leverage. • With debt maturing and opportunities to renegotiate existing facilities, the Group aims to reduce its funding costs.
• The Group has a strict set of investment criteria to invest, predominantly, in income producing assets capable of delivering an attractive total return to our Shareholders.	• Investment decisions will be based on identifying strong underlying fundamentals, inter alia, prospects for future income growth, sector and geographic prospects, lease length, initial and equivalent yields and the potential for active asset management. • Speculative development strictly limited to refurbishment programmes.
• The Group prides itself on maintaining a close relationship with its tenants and in the intensive granular management of its properties, a very hands-on approach. • Our aim is to provide a consistent approach to improving returns, thereby enhancing the quality of the underlying portfolio.	• The Asset Manager undertakes all of the principal property management activities in-house by regular contact and remains close to its tenants, with an immediate understanding of their requirements and a better decision-making capability. • The Managers can respond in the best interests of the Group and its Shareholders. • The Asset Manager utilises a range of approaches to each asset, tailoring the project programme for each property.
• A distinctive large and diverse commercial property portfolio. • An approach that diversifies the investment risk of the portfolio and enables better management of the timing of lease regears and new lettings.	• The portfolio consists of offices and light industrial units, geographically well spread across the regions of the UK outside of the M25 motorway and with a broad mix of tenants.
• The Asset Manager, London & Scottish Investments ("LSI"), has the heritage of a long established property investment management company.	• The capabilities and track record of the management team, including knowledge, expertise and established relationships provide an important competitive advantage for operating in the fragmented UK regional secondary property market. • The senior management team of the Asset Manager collectively have over 150 years of property experience, with a proven record of creating value.

Wardpark Industrial Estate, Cumbernauld

JPS

Asset and Investment Managers' Report

"It has been a very active year for Regional REIT with significant acquisitions, continuing our strategy of non-core disposals, increasing our geographic spread of properties and growing the number and diversity of our tenants. We continue to implement our successful approach to active asset management with our initiatives achieving increased occupancy. We remain optimistic in respect of our strategy and in the strength of our core regional office and light industrial property markets."

Stephen Inglis,
Group Property Director and Chief Investment Officer of London & Scottish Investments, the Asset Manager of Regional REIT Limited

Market Overview

The market in regional commercial real estate remains robust, from both the occupational and investment perspectives. Whilst investment volumes were down in 2016, part of this was already anticipated as a 'hangover' following a record 2015, however, this was then combined with the market's inactivity in the run-up to and then post the EU referendum. The commercial property market only really began to show signs of recovery in the fourth-quarter of 2016.

In the view of the Asset Manager, this undoubtedly held back any hardening of yields. We witnessed a very thin market with little transactional activity and with retail property funds and valuers reactively heavily marking-down values across the board; only for them to change their views as the market held up and vendors and purchasers alike regained their self-confidence. For the Asset Manager, part of the issue in the third-quarter of 2016 was a mismatch in expectations between purchasers – believing that there should be a pricing discount in light of the EU referendum vote – and vendors – who being under no immediate financial pressures were happy to hold on to properties when they could not secure the 'full value'.

Commercial property continues to offer a higher yielding investment class than most equities and other asset classes, with some certainty of income from leases. As such we, and other market commentators, expect to see increased investment activity in 2017-18 which could well result in a resumption in the narrowing of the yield gap between prime and secondary regional properties.

Regional commercial property occupancy remains robust and we expect this to continue, given the continuing beneficial supply-demand dynamics of our core markets, and with elements of our portfolio potentially witnessing headline rental growth for the first time in several years.

Regional REIT has been active and opportunistic throughout 2016. The Group undertook property acquisitions of £133.6m, with an average net initial yield of c. 8.6%; disposals amounted to £44.9m net (£45.9m before costs), at an average net initial yield of c. 6.8%. Occupancy increased to 83.8%, from a low of 80.9% post the acquisition of the Wing and Rainbow portfolios in Q1 2016, mainly as a result of completing 116 new leases in 2016, totalling 728,382 sq. ft.; when fully occupied these will provide approximately c. £5m pa of contracted rental income. In addition, the Group has completed 62 lease renewals, c. 67% of the leases that have come up for renewal in the period. Including these renewals and the acquisition of new replacement tenants, c. 76% of the units with lease renewals remain occupied.

Investment Activity in UK Commercial property

In 2016, the total investment in UK commercial property was £48.9bn, 27% lower than in 2015. Investment slowed in the first-half of 2016 ahead of the EU referendum and then retrenched further in Q3 2016 following the UK's vote to leave, in the face of heightened uncertainty and diminished confidence. CoStar estimates that investment in London property fell by approximately 29%; in comparison the rest of the UK showed more resilience with an average year-on-year decline of c. 12%. Investment activity improved in the final quarter of 2016 (£16bn), buoyed by overseas buyers attracted by the exchange rate advantage and by some recovery in domestic confidence as the occupier market remained steady.

Following a recovery in overseas investment in UK commercial property from 2014-15, overseas investment fell in 2016 by approximately 33% to £19bn. However, overseas investment increased in the UK's regions, such as Scotland (up 50% y-o-y), the Midlands (up 23% y-o-y) and the North West (up 19% y-o-y). In comparison, London experienced its lowest level of overseas investment spend since 2012.

Asset and Investment Managers' Report *(continued)*

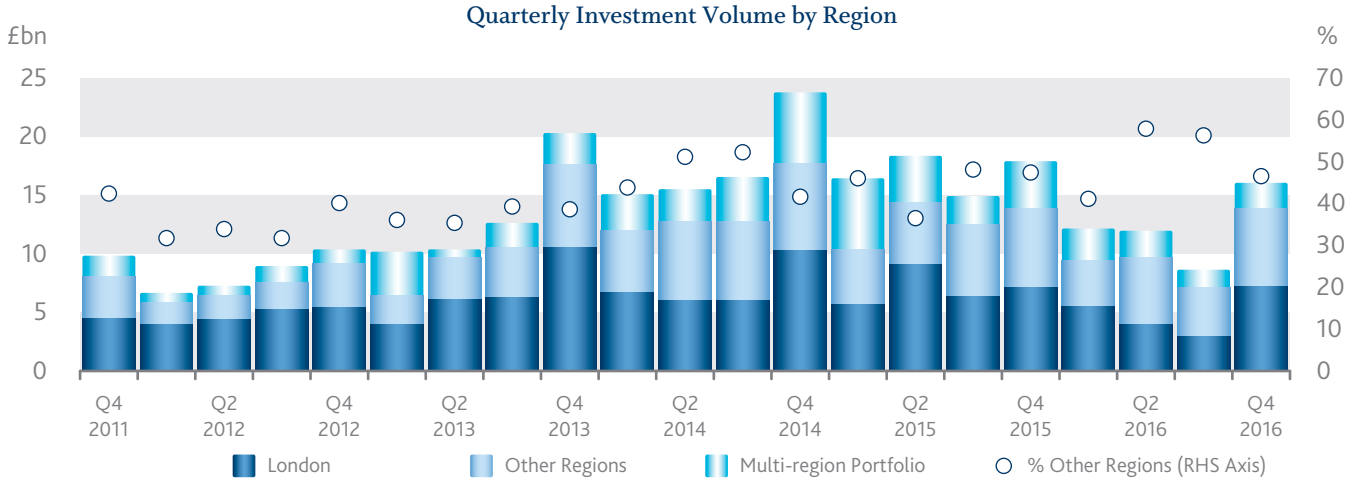


Figure 1: CoStar Research (February 2017)

For the Asset Manager, a key metric is the yield spreads between prime and secondary properties in the UK's regions, which have continued to fall over the last 12 months from the historic highs of 2013-14. The yield spread still remains above its long-term average, by approximately 1.7 percentage points, indicating that there continue to be significant opportunities with secondary properties set to outperform in the short-to medium-term (Figures 2 and 3).

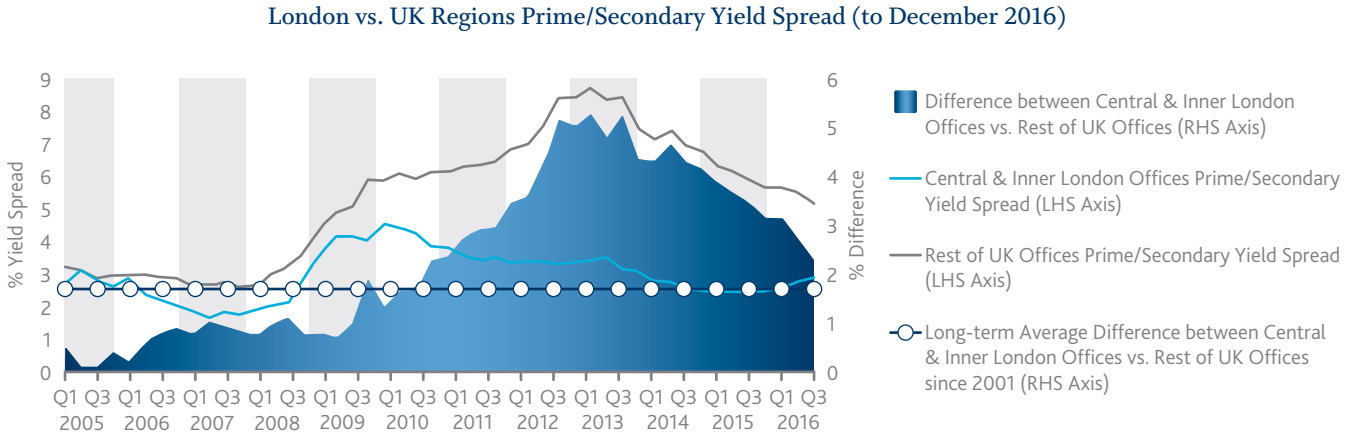


Figure 2: Strong potential for high quality regional secondary properties to achieve stronger returns in the short-to medium-term than prime London properties. Cushman & Wakefield Research, IPD/MSCI (December 2016)

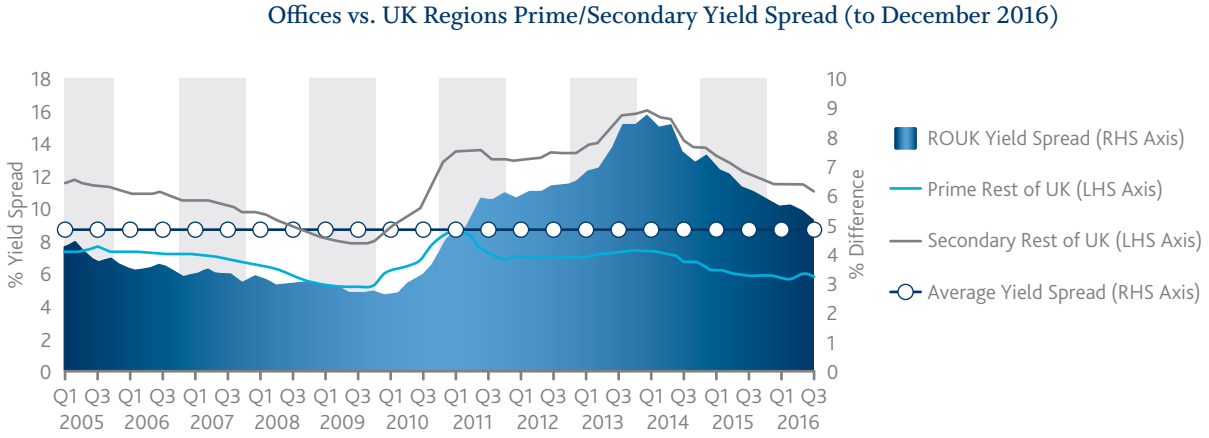


Figure 3: Yield spreads between prime and regional secondary moving back to their long-term average. Cushman & Wakefield Research, IPD/MSCI (December 2016)

Asset and Investment Managers' Report *(continued)*

Occupational Demand in the UK Regional Office Market

The uncertainty surrounding the EU referendum resulted in lower levels of take-up ahead of the referendum which then continued directly after the UK voted to leave. However, an increase in the level of activity in the fourth-quarter of 2016 boosted letting activity in the main regional markets.

Take-up of office space reached 5.1 million sq. ft. in 2016, slightly lower than the 5.6 million sq. ft. recorded in 2015. Occupational demand was particularly robust in Manchester, Cardiff, Bristol and Glasgow, mainly as a result of large pre-lets. Professional services continued to dominate the take-up of office space throughout 2016, although an increasing amount of office space was taken by the public sector, accounting for some 20% in the core regional centres. JLL predicts that the public sector will continue to drive take-up as the year progresses. Knight Frank expects occupational demand for office space in the UK to remain robust throughout 2017.

The supply of offices in the core regional markets remains low, with occupier demand continuing to reduce availability, particularly for grade A offices. This has resulted in an increase in pre-lets signed (developments under construction) in 2016, which in turn has limited the amount of space being released to market. Research from Cushman & Wakefield shows that approximately 43% of new development space was let by completion.

Some activity surveys, such as the recent Deloitte Crane Survey (January 2017), suggest heightened construction activity in certain regional urban centres (Birmingham, Manchester, Leeds and Belfast); a total of approximately 3.7m sq. ft. of office space is currently under construction. Consequently, in the medium-term, we are likely to see some increase in regional office supply. Commentators continue to suggest that a supply-demand imbalance will remain even when office space currently under construction is complete.

Rental Growth in the UK Regional Office Market

According to JLL, prime rental growth across the core 8 regional office markets averaged 3.3% (year-on-year) in 2016. However, increased rent free incentives that were evident in the second-half of 2016 were indicative of weaker sentiment as a result of uncertainty likely due to the EU referendum result.

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

The Asset Manager anticipates that increased occupier activity in the final quarter of 2016 will continue throughout 2017, with critically a low supply of prime properties resulting in rising demand for high-quality secondary properties. In turn, this will likely put an upward pressure on rents and a downward pressure on rent incentives.

Regional REIT's Office Assets

A like-for-like comparison of the Group's regional offices from December 2015 to December 2016, shows that occupancy (by area) rose to 88.7% (31 December 2015: 83.7%). The like-for-like WAULT to first break was 3.4 years (31 December 2015: 3.0 years).

Occupier Demand Strengthens in the UK Industrial Market

Take-up in the UK industrial market in 2016 totalled 37.9 million sq. ft., a 6.5% increase from 2015. The industrial sector was robust in most of the UK's regions throughout 2016, with particularly strong occupier demand in the Midlands, London and the South East.

Annual Office Take-up By Grade

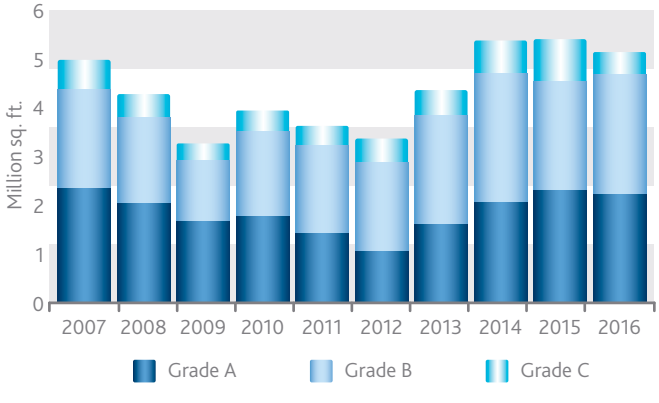


Figure 4: Cushman and Wakefield (February 2017)

Availability of Offices by Grade

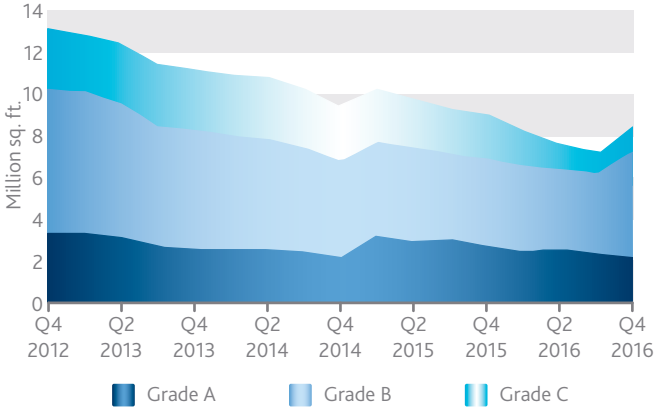


Figure 5: Cushman and Wakefield (February 2017)

Asset and Investment Managers' Report *(continued)*

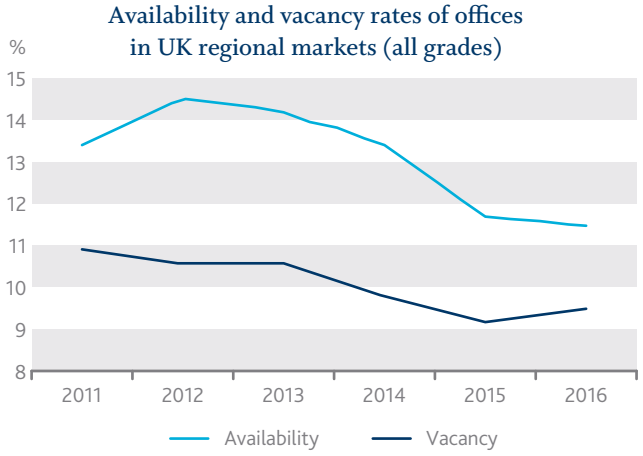


Figure 6: CoStar (February 2017)

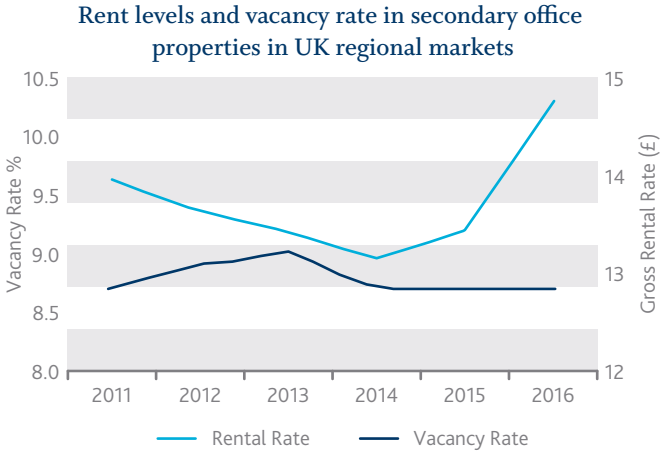


Figure 7: CoStar (3 star office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (Feb 2017)

The continued growth in online shopping, which has seen internet sales grow to a 16% market share, resulted in increased demand for both big-box and mid-size industrial/ warehouse space in urban areas. Rising demand can also be attributed to variety of other sectors, including: manufacturing, automotive, pharmaceuticals, food and engineering.

Development remained focused on Grade A space, with strong development activity in the South East, the Midlands and the North West, resulting in stable supply levels for Grade A industrial in these regions. However, development outside the North-South trunk roads (namely the M1 and M6 corridor) has increased, with increasing activity along routes such as the M4, M5 and M62.

The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2017.

According to Cushman & Wakefield, some markets may experience an outward pressure on yields in 2017 as a result of investors seeking greater risk premiums due to increased uncertainty.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced the highest rental value growth in 2016, showing a c. 4% increase according to IPD. In comparison, all property average annual rental value growth was c.2%. The Investment Property Forum UK Consensus Forecast, February 2017, shows 1.8% and 1.1% average rental growth rates respectively for 2017 and 2018.

Research by Cushman & Wakefield indicates that limited land availability will become a major problem, and subsequently moderate speculative development. Consequently, the supply-demand imbalance will result in an upward pressure in prime industrial rents throughout 2017.

Regional REIT's Industrial Assets

Increased occupier demand for industrial space was reflected in occupancy (by area) for the Group's industrial assets. A like-for-like comparison of the Group's industrial assets from December 2015 to December 2016, shows occupancy of 85.7% (31 December 2015: 85.6%). The like-for-like WAULT to first break was 4.2 years (31 December 2015: 5.6 years).

Rental and Capital Value Growth Forecasts (%) (Whole UK)

	Rental value growth				Capital value growth				Total return			
	2017	2018	2019	2017/21	2017	2018	2019	2017/21	2017	2018	2019	2017/21
Office	-1.3	-1.2	0.3	0.2	-3.2	-2.2	0.1	-0.6	1.5	2.5	4.8	4.1
Industrial	1.8	1.1	1.4	1.5	1.3	0.7	1.0	1.0	6.6	6.1	6.5	6.4
Standard Retail	0.7	0.4	0.9	1.0	-1.1	-0.2	1.1	0.6	3.6	4.6	6.0	5.4
Shopping Centre	0.4	0.2	0.7	0.8	-2.2	-0.9	0.6	0.0	2.8	4.4	6.0	5.2
Retail Warehouse	0.2	0.1	0.6	0.7	-1.8	-0.6	0.5	0.0	3.8	5.2	6.4	5.8
All Property	0.2	0.1	0.8	0.8	-1.6	-0.7	0.8	0.2	3.2	4.3	5.8	5.2

Table 1: Investment Property Forum UK Consensus Forecasts, ipf.org.uk, February 2017

Asset and Investment Managers' Report *(continued)*

Property Portfolio

As at 31 December 2016, the Group's property portfolio was valued at £502.4 million (31 December 2015: £403.7m), with contracted rental income of £44.0m (31 December 2015: £35.9m), and a vacancy rate of 16.2% (31 December 2015: 16.1%). There were 123 properties (31 December 2015: 123) in the portfolio, with 941 units (31 December 2015: 712) and 717 tenants (31 December 2015: 531), following the acquisition of 20 properties in the year.

If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the gross rental income would be £53.1 million per annum as at 31 December 2016 (31 December 2015: £40.4m).

As at 31 December 2016 the net initial yield on the portfolio was 6.7% (31 December 2015: 7.6%), the equivalent yield was 8.6% (31 December 2015: 8.3%), and the reversionary yield was 9.5% (31 December 2015: 9.0%).

Property Portfolio by Sector

												Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy (%)	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Net initial	Equivalent	Reversionary
Office	61	318.2	63.3	2.72	82.2	3.5	28.0	23.4	12.52	34.6	116.95	6.6	8.6	9.7
Industrial	35	147.5	29.4	4.06	85.3	3.5	12.9	10.9	3.72	14.9	36.35	6.9	8.7	9.3
Retail	26	36.4	7.2	0.32	87.5	4.9	3.1	2.3	11.10	3.5	113.05	6.2	8.3	8.7
Other	1	0.4	0.1	0.04	2.7	18.7	0.0	0.0	9.85	0.0	10.30	1.7	9.8	5.1
Total	123	502.4	100.0	7.14	83.8	3.6	44.0	36.7	7.36	53.1	70.37	6.7	8.6	9.5

Property Portfolio by UK Region

												Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy (%)	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Net initial	Equivalent	Reversionary
Scotland	40	134.7	26.8	2.41	82.2	3.5	12.7	11.1	6.43	15.5	55.86	7.8	9.7	10.7
South East	18	102.6	20.4	0.95	84.3	3.6	8.9	7.1	11.17	10.1	108.54	6.2	7.4	8.4
North East	19	82.3	16.4	1.36	86.7	2.5	7.0	5.8	6.00	8.3	60.69	6.7	8.5	9.4
Midlands	22	79.1	15.7	0.97	81.5	3.6	6.7	5.9	8.52	7.7	81.58	6.6	8.2	8.5
North West	15	61.6	12.3	1.02	89.9	5.3	5.5	4.9	6.05	6.6	60.41	7.3	9.1	9.7
South West	7	24.6	4.9	0.22	58.4	3.0	1.5	0.7	11.47	3.3	110.83	2.4	8.5	10.8
Wales	2	17.5	3.5	0.21	88.1	4.8	1.5	1.1	8.17	1.7	81.46	6.2	8.4	9.0
Total	123	502.4	100.0	7.14	83.8	3.6	44.0	36.7	7.36	53.1	70.37	6.7	8.6	9.5

Tables may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Investments (market value) as at 31 December 2016

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.3	6.4	156,933	87.7	2.2	4.5
Juniper Park, Basildon	Industrial	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd	21.8	4.3	296,100	70.0	1.5	1.2
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Scottish Widows Limited, The Equitable Life Assurance Society	20.3	4.0	146,936	73.9	1.8	5.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited	19.9	4.0	707,775	90.7	2.4	2.3
Hampshire Corporate Park, Chandler's Ford	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	15.4	3.1	85,422	97.8	1.4	5.0
One & Two Newstead Court, Annesley	Office	E.ON UK plc	15.4	3.1	146,262	100.0	1.4	3.6
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.6	2.9	53,253	100.0	1.1	7.0
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.5	2.7	246,209	100.0	0.9	17.7
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.0	2.4	71,615	100.0	1.0	6.3
Arena Point, Leeds	Office	JD Wetherspoon PlC, Expotel Hotel Reservations Ltd	12.0	2.4	98,856	66.8	0.6	2.2
The Point, Glasgow	Industrial	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited	11.6	2.3	183,690	100.0	0.9	6.2
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	10.8	2.2	54,959	100.0	0.8	3.1
Oaklands House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.4	2.1	161,768	80.0	1.1	3.8
CGU House, Leeds	Office	Aviva Insurance Limited	9.1	1.8	50,763	100.0	1.0	0.7
The Genesis Centre, Warrington	Office	Evolution Recruitment Solutions Ltd, Environment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd	9.0	1.8	95,544	64.8	0.9	1.5
Total			228.0	45.4	2,556,085		19.0	

Tables may not sum due to rounding.

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Asset and Investment Managers' Report *(continued)*

Top 15 Tenants (share of rental income) as at 31 December 2016

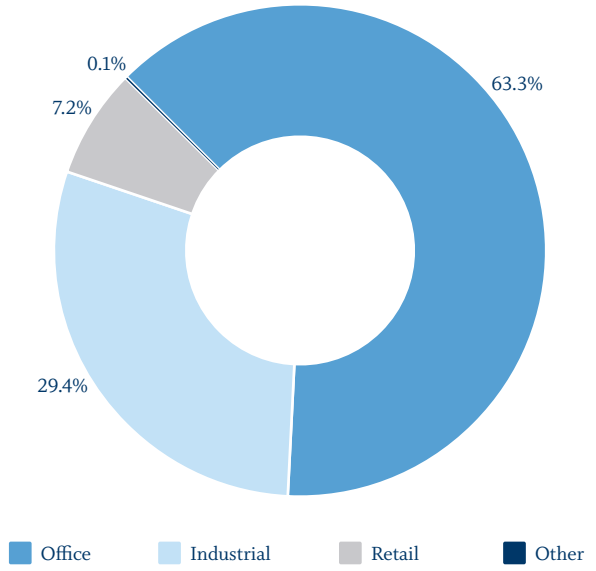
Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	4.9	78,044	3.7
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.6	146,262	3.3
Scottish Widows Limited	Buildings 2 & 3, Aylesbury	Financial and insurance activities	4.9	80,103	3.1
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	7.0	53,253	2.5
Aviva Insurance Ltd	CGU House, Leeds	Financial and insurance activities	0.7	50,763	2.3
Sec of State for Communities & Local Govt	Bennett House, Hanley, Sheldon Court, Solihull and Oakland House, Manchester	Public Sector	0.6	74,886	2.1
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	17.7	246,209	2.0
The Secretary of State for Transport	St Brendans Court, Bristol, & Festival Court, Glasgow	Public Sector	3.5	55,586	1.6
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Financial and insurance activities	1.4	48,372	1.5
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Financial and insurance activities	2.0	42,612	1.5
The Scottish Ministers, c/o Scottish Prison	Calton House, Edinburgh	Public Sector	0.8	51,914	1.4
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	4.5	66,436	1.4
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	0.5	86,548	1.3
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Wholesale and retail trade	2.1	34,262	1.3
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Professional, scientific and technical activities	1.6	32,647	1.2
Total				1,147,897	30.3

Tables may not sum due to rounding.

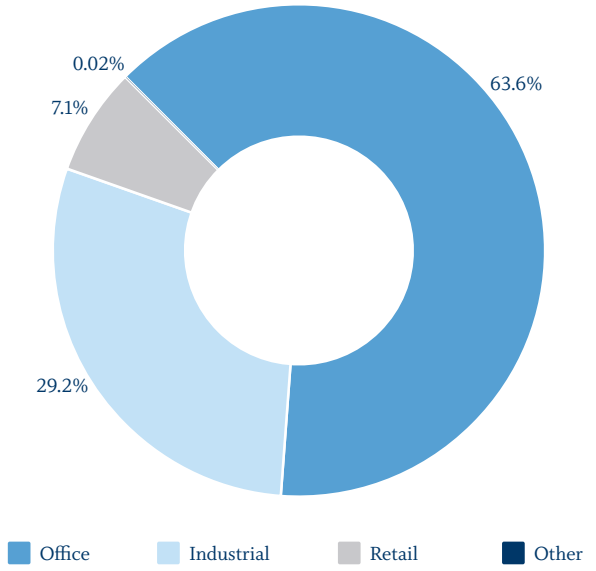
Asset and Investment Managers' Report *(continued)*

Property Portfolio – Sector and Region Splits by Valuation and Income

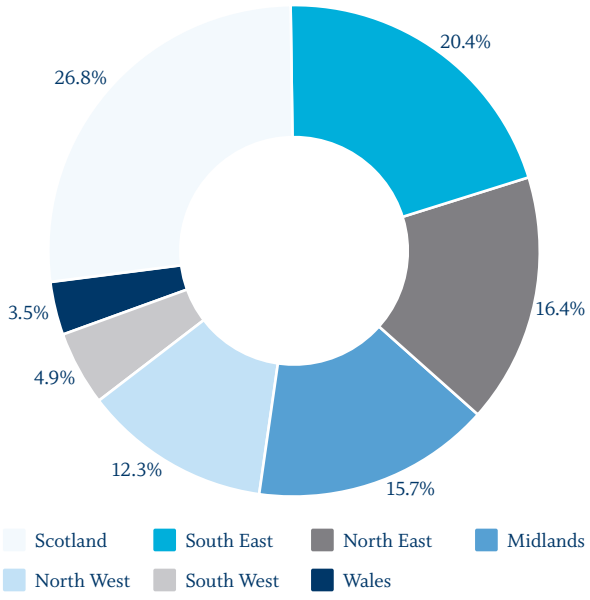
Sector split by valuation 2016



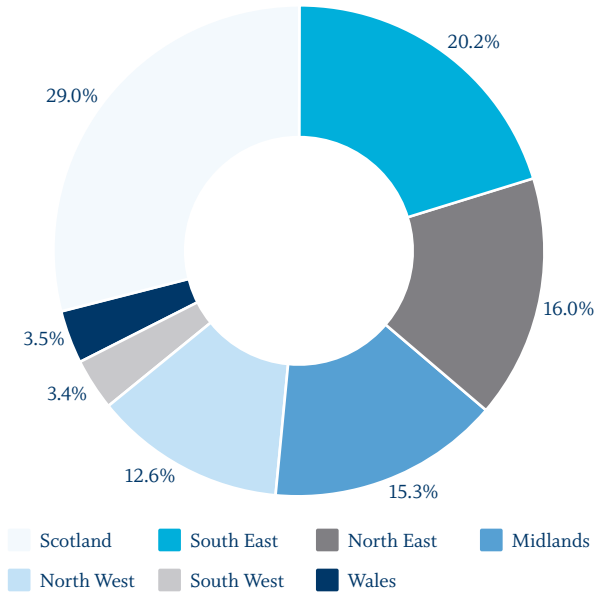
Sector split by income 2016



Regional split by valuation 2016



Regional split by income 2016



Charts may not sum due to rounding.

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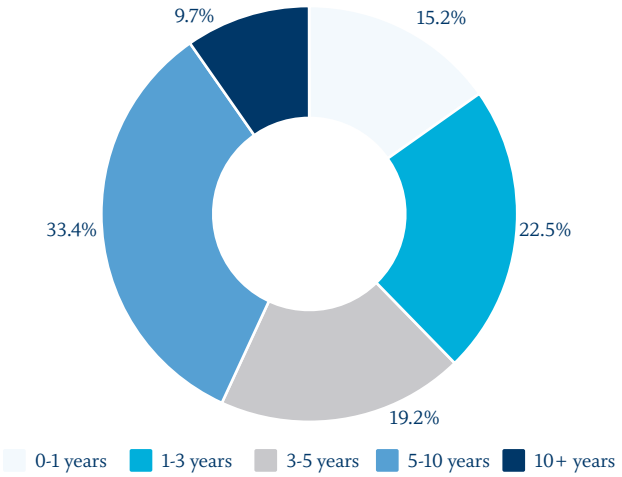
Asset and Investment Managers' Report *(continued)*

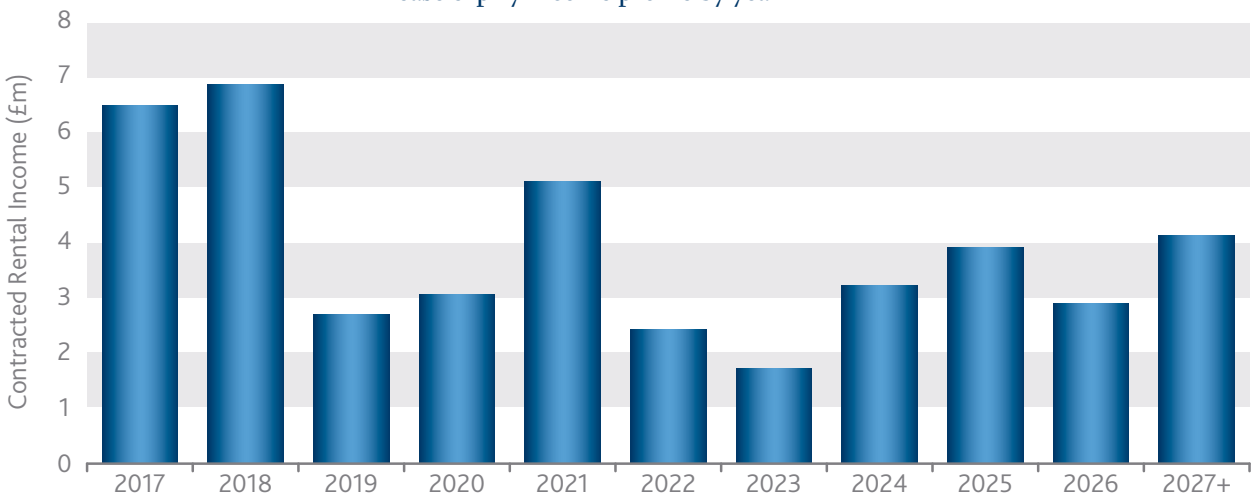
Lease Expiry Profile

The WAULT on the portfolio is 5.2 years (2015: 6.1 years; 5.6 years excluding Blythswood House); WAULT to first break is 3.6 years (2015: 4.4 years; 3.8 years excluding Blythswood House). As at 31 December 2016, 15.2% (2015: 12.8%) of income was leases which will expire within 1 year, 22.5% (2015: 31.1%) between 1 and 3 years, 19.2% (2015: 15.6%) between 3 and 5 years and 43.1% (2015: 40.5%) after 5 years.

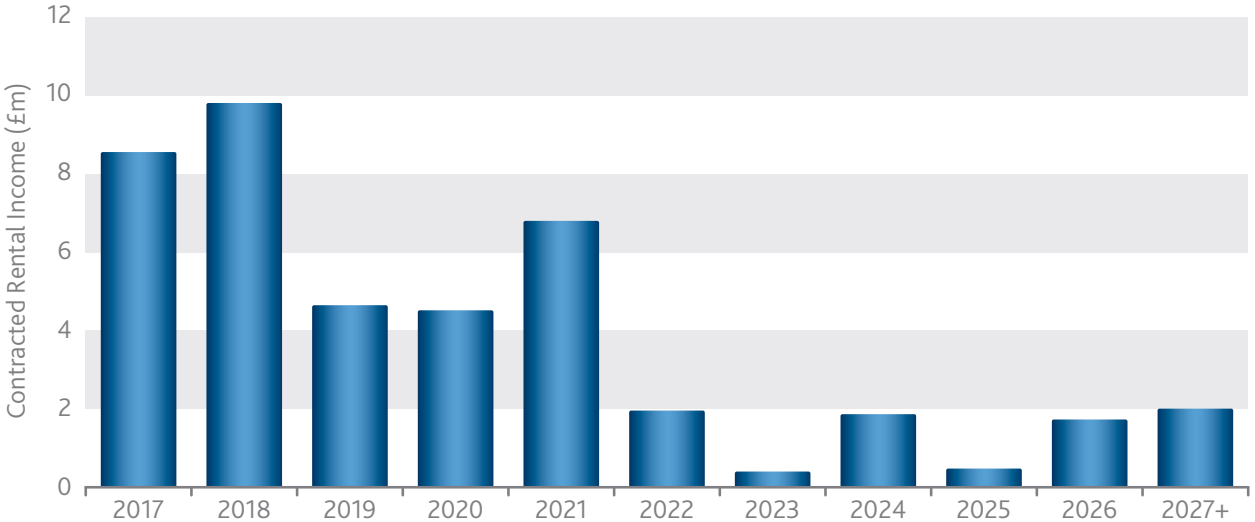
Lease expiry income profile



Lease expiry income profile by year



Lease expiry to first break income profile by year

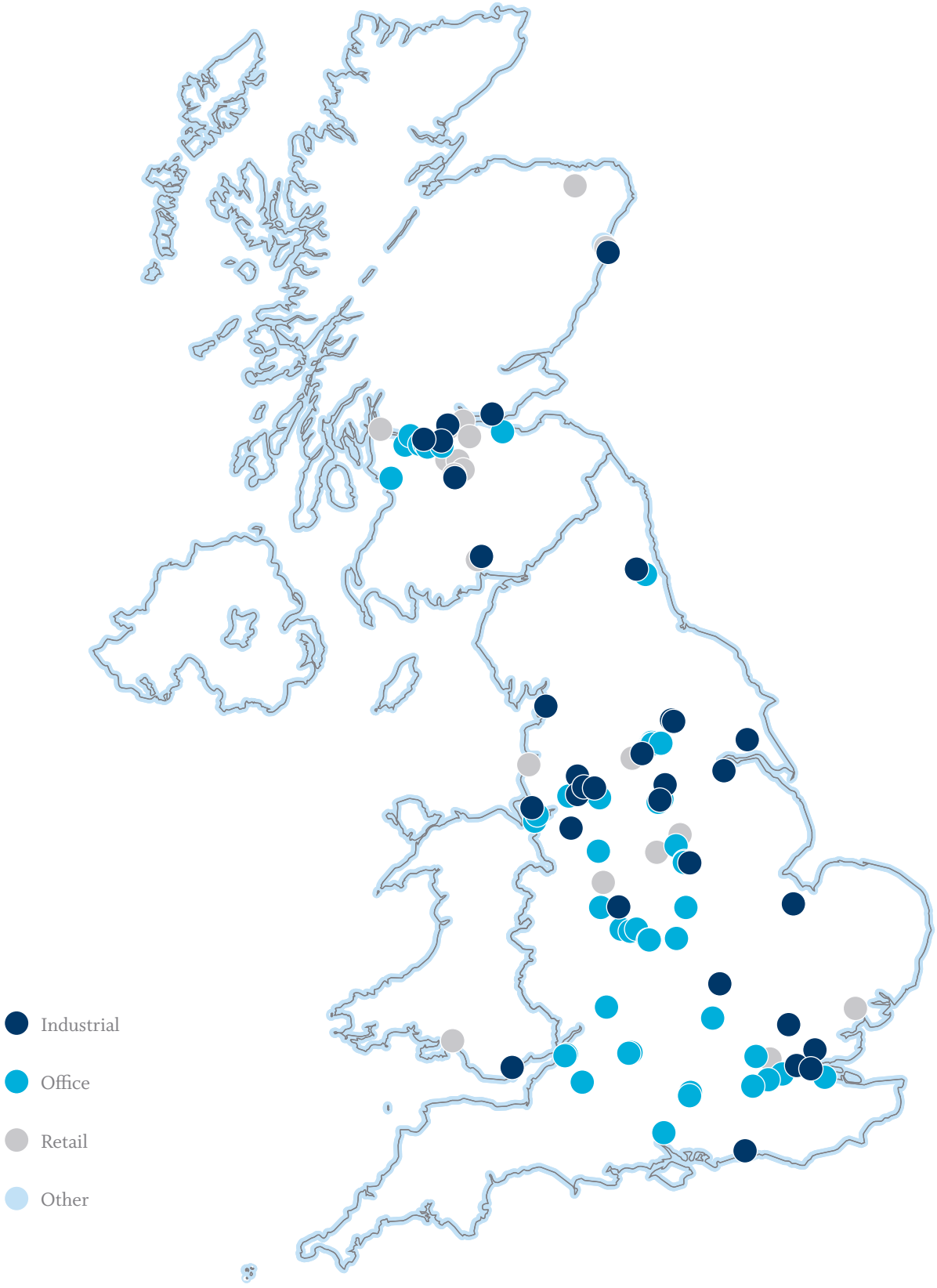


	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027+
Headline rent £m	8.56	9.81	4.65	4.52	6.80	1.96	0.40	1.87	0.48	1.73	2.01

Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

UK Property Locations as at 31 December 2016



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Asset and Investment Managers' Report *(continued)*

Tenants by Standard Industrial Classification

As at 31 December 2016, 13.7% of income was from tenants in the wholesale and retail trade sector, 12.1% Finance and insurance activities (other) (excluding banking) sector, 11.7% from the manufacturing and 11.4% from the professional, scientific and technical activities sector. The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 31 December 2016, the largest being 3.7%.

Tenants by SIC Codes
(% of gross rent)

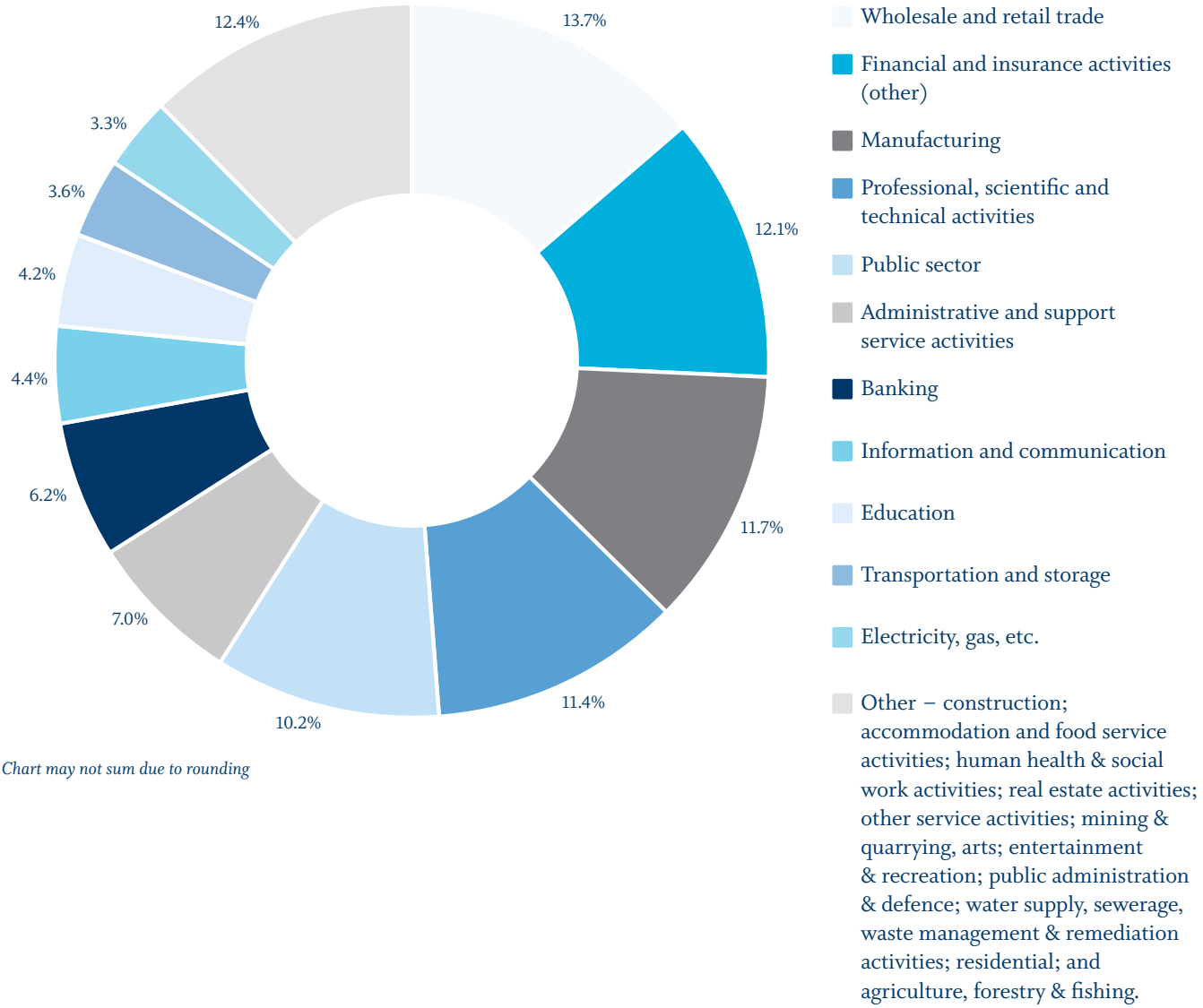


Chart may not sum due to rounding

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector

Tay House, Glasgow

Market value (£m)	32.3
Sector	Office
Annualised gross rental (£m)	2.25
Lettable area (Sq. Ft.)	156,933
Anchor tenants	Barclays Bank Plc, Glasgow University
Let by area (%)	87.7%
WAULT (years) (to first break)	8.3 (4.5)

- Barclays' leases re-geared in December 2015, securing the income until October 2021 at the earliest.
- First and second floors comprehensively refurbished in 2016.
- Second floor (30,000 sq. ft.) now let to Regus, being their first "Spaces" concept launch in UK outside London.
- Eaton Limited did not exercise their February 2017 option to break, maintaining their occupation until February 2022.
- Encouraging occupier demand for large refurbished floorplates within Glasgow City Centre.

Buildings 2 & 3, HBOS Campus, Aylesbury

Market value (£m)	20.3
Sector	Office
Annualised gross rental (£m)	1.77
Lettable area (Sq. Ft.)	146,936
Anchor tenants	Scottish Widows Limited, The Equitable Life Assurance Society
Let by area (%)	73.9%
WAULT (years) (to first break)	6.1 (5.2)

- Acquired March 2016.
- Scottish Widows, as expected, exercised their option to break lease on Building 2 in November 2016.
- New 10-year leases agreed with Equitable Life for first and second floors of Building 2.
- Refurbishment of all floors in Building 2 being advanced.
- Improved dilapidations position secured with Scottish Widows in respect of Building 2, reducing net refurbishment costs.

Hampshire Corporate Park, Eastleigh

Market value (£m)	15.4
Sector	Office
Annualised gross rental (£m)	1.39
Lettable area (Sq. Ft.)	85,422
Anchor tenants	Aviva Health UK Limited, Royal Bank of Scotland plc
Let by area (%)	97.8%
WAULT (years) (to first break)	5.0 (5.0)

- Recently completed external repair and decoration scheme to Hamphsire House (rebranded from NatWest House).
- Remodelling of entrance and foyer to include provision of new shower and locker facilities to Hampshire House.
- Refurbishment of first floor of Hampshire House being advanced, with all refurbished space already under offer at improved headline rent of £19.75/sq. ft.
- RBS did not exercise their December 2016 break option – occupancy secured until December 2021.
- Opportunity to re-gear lease with Aviva at Chilworth House.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

One & Two Newstead Court, Annesley

Market value (£m)	15.4
Sector	Office
Annualised gross rental (£m)	1.44
Lettable area (Sq. Ft.)	146,262
Anchor tenants	E.ON UK plc
Let by area (%)	100.0%
WAULT (years) (to first break)	8.6 (3.6)

- Renegotiated leases of larger Building 2 with E.ON from May 2015 for 10-years, with tenant break at fifth-year.
- E.ON completed £1.2m refurbishment of first floor of Building 1.
- Agreed with E.ON the re-gearing of the lease on Building 1 from March 2016 for 10-years, with tenant break at fifth-year, at a 10% improved rental rate.

Columbus House, Coventry

Market value (£m)	14.6
Sector	Office
Annualised gross rental (£m)	1.12
Lettable area (Sq. Ft.)	53,253
Anchor tenants	TUI Northern Europe Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	7.0 (7.0)

- Let to Tui until 2024 on a geared lease with fixed annual uplifts.
- Tui has now sub-let the entire building to First Utility underpinning the rent.
- Potential to agree lease surrender with Tui Travel, with benefit of existing sublets to First Utility.

Arena Point, Leeds

Market value (£m)	12.0
Sector	Office
Annualised gross rental (£m)	0.59
Lettable area (Sq. Ft.)	98,856
Anchor tenants	JD Wetherspoon Plc, Expotel Hotel Reservations Ltd
Let by area (%)	66.8%
WAULT (years) (to first break)	6.1 (2.2)

- Planning consent secured for high level illuminated signage and installation being progressed to highlight property as a landmark location in cityscape.
- Undertaking refurbishment of the vacant office space and creation of basement shower area and cycle store.
- Office rents expected to see a marked uplift as the remaining vacant floors are refurbished and let.
- Progressing rent review with JD Wetherspoon Plc in 2017.
- Consideration of the sale of the podium area, being a significant development site within Leeds City Centre.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

Portland Street, Manchester

Market value (£m)	10.8
Sector	Office
Annualised gross rental (£m)	0.77
Lettable area (Sq. Ft.)	54,959
Anchor tenants	Mott MacDonald Limited, New College Manchester
Let by area (%)	100.0%
WAULT (years) (to first break)	5.8 (3.1)

- Ground and six upper floors modern offices behind listed retained stone facade extending to 54,959 sq. ft.
- Let to various tenants, including Mott MacDonald Limited and New College Manchester.
- Completed legacy issues from previous developer's refurbishment.
- Final remaining space let to Mott McDonald, who also removed their break options on their existing lease securing income on the fourth floor to May 2025.

Oaklands House, Manchester

Market value (£m)	10.4
Sector	Office
Annualised gross rental (£m)	1.09
Lettable area (Sq. Ft.)	161,768
Anchor tenants	HSS Hire Service Group Limited, Rentsmart Ltd
Let by area (%)	80.0%
WAULT (years) (to first break)	6.1 (3.8)

- Second-phase improvement works underway, including new fire alarm, refurbished water supply system and a large suite of external high-level signage.
- Letting to business centre agreed with respect to the second and third floors.
- Opportunity to capitalise on competing buildings in the locality being converted to residential.
- Marketing literature and branding now update.

CGU House, Leeds

Market value (£m)	9.1
Sector	Office
Annualised gross rental (£m)	1.01
Lettable area (Sq. Ft.)	50,763
Anchor tenants	Aviva Insurance Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	0.7 (0.7)

- Investigation ongoing as regards refurbishment of upper levels following Aviva vacating.
- Refurbishment will also include a new front entrance reception foyer to provide a better presentation to the market.
- Ground floor likely to be for leisure/restaurant/licensed use. Current interest from new pizza chain.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

The Genesis Centre, Warrington

Market value (£m)	9.0
Sector	Office
Annualised gross rental (£m)	0.90
Lettable area (Sq. Ft.)	95,544
Anchor tenants	Evolution Recruitment Solutions Ltd, Environment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd
Let by area (%)	64.8%
WAULT (years) (to first break)	2.4 (1.5)

- Modern multi-let office development with car parking extending to 95,500 sq. ft..
- Management agreement agreed with serviced office operator for an initial 8,000 sq. ft. with option to grow to 22,000 sq. ft, with first letting agreed.
- Refurbishment of reception and some WCs completed.
- Additional space taken by Nodus Solutions, Naue Geosynthetics, Equity Release Supermarket Limited and Servium Limited, all of whom are existing occupiers growing within the building.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Industrial Sector

Juniper Park, Basildon

Market value (£m)	21.8
Sector	Industrial
Annualised gross rental (£m)	1.49
Lettable area (Sq. Ft.)	296,100
Anchor tenants	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd
Let by area (%)	70.0%
WAULT (years) (to first break)	1.4 (1.2)

- Industrial, warehouse and office park acquired in March 2016.
- Multi-let to 9 tenants on 13 leases.
- Lease renewal discussions being advanced with Schenker in relation to their office space. Looking to relocate Schenker to adjoining vacant unit to release more marketable office space to market.
- Proposals being advanced for alterations to vacant Unit 1A, being the largest void.

Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.9
Sector	Industrial
Annualised gross rental (£m)	2.38
Lettable area (Sq. Ft.)	707,775
Anchor tenants	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited
Let by area (%)	90.7%
WAULT (years) (to first break)	3.3 (2.3)

- Decision to retain asset based on outlook for stronger rental growth for industrial site.
- Proximate to the site of the new Scottish film centre, which offers significant growth potential to the area.

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	13.5
Sector	Industrial
Annualised gross rental (£m)	0.90
Lettable area (Sq. Ft.)	246,209
Anchor tenants	Jiffy Packaging Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	17.7 (17.7)

- Let to Jiffy Packaging Limited until 2034.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Industrial Sector *(continued)*

The Point, Glasgow

Market value (£m)	11.6
Sector	Industrial
Annualised gross rental (£m)	0.87
Lettable area (Sq. Ft.)	183,690
Anchor tenants	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	10.3 (6.2)

- Secured surrender of lease of Unit 4. Refurbished and re-let to more suitable trade counter users at new headline level for estate. Date of entry was mid-August 2016, resulting in the estate being 100% let.
- January 2016 rent review with HSS, Unit 5a, agreed at £7/sq. ft., a 26% increase.
- Rent review of largest unit (88,158 sq. ft.), See Woo Foods, currently being advanced against background of evidence of improved rental growth on the estate.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Retail/Other Sector

1-4 Llansamlet Retail Park, Swansea

Market value (£m)	12.0
Sector	Retail
Annualised gross rental (£m)	0.98
Lettable area (Sq. Ft.)	71,615
Anchor tenants	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	8.8 (6.3)

- Last remaining vacant unit now let to Tapi Carpets.
- Planning consent obtained for drive-thru unit.
- Terms agreed with international fast food operator for drive-thru.
- Decision to retain for an interim period to obtain maximum value on disposal.

Asset and Investment Managers' Report *(continued)*

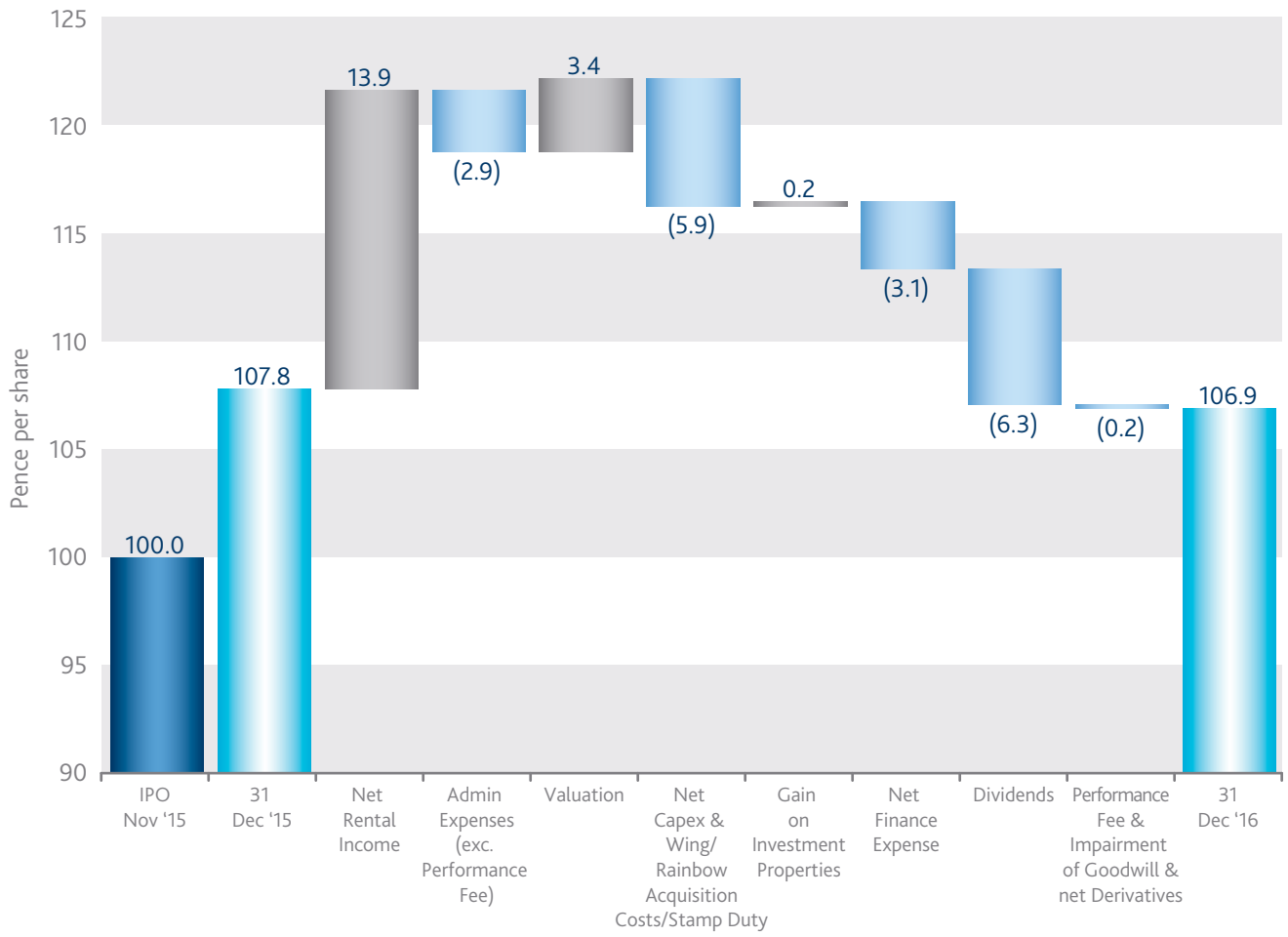
Net Asset Value

In the year to 31 December 2016, the EPRA Net Asset Value ("NAV") of the Group decreased marginally to £293.2m (31 December 2015: £295.7m), equating to a decrease of 0.9p pence per share ("pps") to 106.9pps (31 December 2015: 107.8pps) after the declaration of dividends in 2016 amounting to 6.25pps.

The Investment Property portfolio valuation was £502.4m (2015: £403.7m). In the year to 31 December 2016 the valuation increased on a like-for-like basis 2.25%, whilst for the period 1 July 2016 to 31 December 2016 on a like-for-like basis the valuation grew 0.03%. The property portfolios acquired in the first-quarter of 2016 were revalued higher at the year-end, however, this was more than offset by their associated acquisition costs and the impact of the increase in Stamp Duty on these properties, which together amounted to 2.5pps in the period.

The marginal reduction in the EPRA NAV over the year was predominately derived from the pace of capital expenditure amounting to £9.1m net, which was not fully reflected in the portfolio valuation. In addition, there was the impairment of the goodwill, which resulted in a £0.6m charge and an initial Performance Fee provision of £0.3m as well as dividends declared amounting to £17.1m, all of which had a particular impact in the second-half of 2016. These more than offset gains from the valuation of properties, net rental income and disposal gains.

Net Asset Value Bridge 2016



Asset and Investment Managers' Report *(continued)*

In the year to 31 December 2016 the Group completed property acquisitions of £133.6m (gross, including transaction costs, £140.7m), and disposals of £44.9m (gross, before transaction costs, £45.9m) and capital expenditure of £9.1m net.

The NAV decreased to 106.4pps (31 December 2015: 107.7pps) over the same period. The EPRA NAV is reconciled in the table below.

	2016 Pence per Share	2015 Pence per Share
EPRA NAV as at 1 January 2016 (2015: 6 November 2015)	107.8	100.0
Net rental income	13.9	1.7
Administration and other expenses	(3.0)	(0.5)
Gain on the disposal of investment properties	0.2	0.0
Change in the fair value of investment properties	(2.5)	8.7
Operating profit before exceptional items	116.4	109.9
Exceptional Item (2015: Launch Costs)	0.0	(1.9)
Operating profit after exceptional items	116.4	108.0
Net finance expense	(3.1)	(0.3)
Impairment of Goodwill	(0.2)	0.0
Net movement in fair value of derivative financial instruments	(0.4)	0.0
Operating profit after finance item	112.7	107.7
Income tax	0.0	0.0
Operating profit after taxation	112.7	107.7
Dividends paid	(6.3)	0.0
Net Asset Value	106.4	107.7
Gain/Loss in fair value of derivative financial instruments	0.5	0.1
EPRA NAV per share as at 31 December 2016	106.9	107.8

Income Statement

The 2015 comparative period was 56 days, being 6 November 2015 to 31 December 2015 (inclusive).

Operating profit before exceptional items and gains and losses on property assets and other investments for the year ended 31 December 2016 amounted to £29.9m (2015: 56 days, £3.3m). Profit after finance items and before taxation was £13.4m (2015: 56 days, £21.1m). 2016 included a full rent roll of properties held as at 31 December 2015, plus the partial rent roll for properties acquired during 2016. 2015 included an exceptional item for launch costs, of £5.3m, which were incurred as a result of the Group's Admission to the London Stock Exchange ("LSE"), as well as a £23.8m gain in the fair value of investment properties.

Rental income amounted to £43.0m (2015: 56 days, £5.4m). More than 80% of the rental income is collected within 28 days of the due date and bad debts in the year were minimal (2015: 56 days, minimal).

The EPRA cost ratio was 30.4% (2015: 56 days, 39.3%) which is the result of, as expected, higher void costs, additional expenses arising from property acquisitions, legal and professional fees associated with the refinancings and expenses associated with establishing a listed company. The increased void costs were a consequence of the significant property portfolio acquisitions in the first-quarter of 2016, with higher void rates than the Group's then portfolio. The costs ratio in the second-half of 2016 was lower, largely a consequence of the reduced acquisitions and refinancing activity. It is anticipated that the underlying costs ratio is trending down, with the benefit of the increasing scale of the Group's business and as it matures as a public company. The costs ratio in 2015 included the effects of certain costs incurred in the 56-day accounting period that would have normally been charged for a full year, for example, auditor's fees and some legal and professional fees.

Asset and Investment Managers' Report *(continued)*

Administrative expenses include, for the first time, an initial accrual for the Performance Fee for the period 6 November 2015 to 31 December 2018. As at 31 December 2016 the aggregate accrual was £0.25m, all of which was charged in the year; as noted previously the Group had identified but not accrued £0.1m for the 56 days of 2015. The total return from 6 November 2015 to 31 December 2016 was 13.2%, an annualised rate of 11.5%.

Finance expense increased due to increased debt and costs arising on the significant refinancing activity in the first-half of 2016 when refinancing costs amounted to £1.7m. The Group's percentage cost of debt (interest cost and hedging expense) nonetheless decreased, a combination of the favourable financing environment and its status as a listed Company which improved the Company's access to banking facilities.

Dividend

In relation to the period 1 January 2016 to 31 December 2016, the Company declared dividends totalling 7.65pps (2015: 56 days: 1pps).

Period Covered	Announcement Date	Ex Date	Record Date	Paid Date	Pence per Share
6 November 2015 to 31 December 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	1.00
1 January 2016 to 31 March 2016	27 May 2016	9 June 2016	10 June 2016	8 July 2016	1.75
1 April 2016 to 30 June 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	1.75
1 July 2016 to 30 September 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	1.75
1 October 2016 to 31 December 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	2.40

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2-to-5 years, with a weighted average maturity of 2.9 years (31 December 2015: 3.4 years).

The Group's borrowing facilities are with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing at 31 December 2016 amounted to £220.1m (31 December 2015: £128.6m) (before unamortised debt issuance costs).

At 31 December 2016 the Group's cash and cash equivalent balances amounted to £16.2m (31 December 2015: £24.0m).

The Group's net loan-to-value ratio stands at 40.6% (31 December 2015: 25.4%). The Board targets a Group net loan-to-value ratio of 35%, with a maximum limit of 50%.

The table below sets out the borrowings the Group had in place as at 31 December 2016:

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross LTV (%)†	Annual Interest Rate	Amortisation	Hedging & Swaps: Notional Amounts/Rates‡
Santander UK	£48,300	£45,432	Dec '18	43.0	2.00% over 3 month LIBOR	Mandatory prepayment basis	£6m/1.867% & £18.15m/1.014%
Santander UK	£25,343	£14,340	Dec '18	34.2	2.00% over 3 month LIBOR	Mandatory prepayment basis	£3.40m/2.246% & £9.271m/1.010%
Royal Bank of Scotland	£25,000	£24,450	Jun '19	42.1	2.15% over 3 month LIBOR	None	£12.48m/1.790% & £0.02m/1.110%
ICG Longbow Ltd	£65,000	£65,000	Aug '19	44.3	5.00% pa for term	None	n/a
Santander UK	£30,990	£30,990	Jan '21	48.1	2.15% over 3 month LIBOR	Mandatory prepayment basis	£9.375m/1.086% & £6.920m/1.203% & £5.280m/1.444%
Royal Bank of Scotland	£40,000	£39,848	Mar '21	50.2	2.40% over 3 month LIBOR	Prepayment basis	£19.9m/1.395%
	£234,633	£220,060					

* Including unamortised debt issue costs.
† Based upon Cushman & Wakefield property valuations.
‡ Hedging arrangements: As at 31 December 2016, the swap notional arrangements was £90.8m (31 Dcember 2015: £35.2m). Under the swap agreements, the notional amount redeuces on a quarterly basis.

Asset and Investment Managers' Report *(continued)*

As at 31 December 2016, the Group has substantial headroom against its borrowing covenants. The Group has the capacity to utilise further borrowings, if available, in excess of 20% of its current NAV.

The net gearing ratio, net debt to ordinary shareholders' equity (basic), of the Group was 69.9% as at 31 December 2016 (31 December 2015: 34.8%).

Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. At the year-end borrowings were 106.5% hedged against interest rate risk: of all borrowings 29.5% are at a fixed rate; 41.3% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 35.7% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The over-hedged position of 106.5% was the result of property disposals. Further to a management review, since the year end the position has been addressed with the over-hedged position reduced to 101.6%.

The weighted average effective interest rate on bank borrowings as at 31 December 2016, including the cost of hedging, was 3.7% (31 December 2015: 4.5%).

Tax

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

At 31 December 2016 the Group's taxation was a credit of £0.02m, due to a release of a historic accrual (2015: 56 days, nil).

Subsequent Events after the Reporting Period – Acquisitions and Borrowings

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC ("Conygar") to acquire regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares, and the two banks currently providing secured lending to Conygar.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

Juniper Park, Southfield Industrial Estate, Basildon

DB SCHENKER
MAERSK SEALAND
DB SCHENKER
DB SCHENKER
DB

Principal Risks and Uncertainties

The Board acknowledges that it faces a number of risks which could impact its ability to achieve its strategy. While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks. The Board and the Audit Committee robustly reviews the risk management plan on a bi-annual basis. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate.

Key to risk trend «» No change ⌃ Trend up ⌄ Trend down

Investment in Commercial Property Assets		
Impact	Mitigation	Movement in the period «»
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	The Board will acquire a portfolio of interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and a large number of assets.	The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	The Board will only invest in office and industrial properties that are situated in the United Kingdom and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway.	The Group continues to purchase properties outside the M25 motorway.
	No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's Investment Property value at the time of investment.	Tay House is the highest valued property which equates to 6.4% of the Group's investment properties.
	No more than 20% of the Group's Investment Property value shall be exposed to any single tenant or group undertaking of that tenant.	The Group's largest single tenant exposure is 3.7%.
	Speculative development (ie, properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	No speculative construction was undertaken in the year.
	The value of the assets is protected by an active property management programme and this is regularly reviewed against the business plan for the acquisition.	The Asset Manager continues to actively manage the investment properties in accordance with market conditions and individual asset programme.

Principal Risks and Uncertainties *(continued)*

Economic and Political Risk		
Impact	Mitigation	Movement in the period ⏫
The macro health of the UK economy could impact on borrowing costs, demand by tenants for suitable properties and the quality of the tenants.	The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.
Bank reference interest rates may be set to rise accompanying higher inflation.	The Board has instigated a policy of hedging at least 90% of variable interest rate borrowings.	Continued adherence to the hedging policy.
The Bank of England Financial Stability Report, November 2016, notes there is a risk of further adjustment in the commercial real estate market, given the reliance of the sector on inflows of foreign capital, and some incidences of stretched valuations. Further price falls could reduce access to finance.	The Group's borrowings are currently provided by a range of institutions with varying maturities. The Board is constantly reviewing funding options with an emphasis on the lengthening the maturity of borrowings.	The lending institutions continue to lend to established customers within agreed limits.

Tenant Risk		
Impact	Mitigation	Movement in the period ⏪⏩
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	Income risk has been diversified by letting properties, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the United Kingdom.	The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 717 as at 31 December 2016.
A high concentration of lease term maturity and/or break options.	The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. With a focus on securing early renewals and increased lease period.	The WAULT to first break as at 31 December 2016 was 3.6 years. The largest tenant is 3.7% of the gross rental income.
	The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents.	The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.

Financial and Tax Change Risk		
Impact	Mitigation	Movement in the period ⏪⏩
Changes to the UK REIT, tax and financial legislation.	The REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.	The Group continues to receive advice from a number of corporate advisors and adapts to changes as required.

Principal Risks and Uncertainties *(continued)*

Operational Risk		
Impact	Mitigation	Movement in the period «»
Business disruption could impinge on the normal operations of the Group.	The Asset Manager and Investment Manager each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group.	Both the Asset Manager and Investment Manager annually review their Disaster and Business Continuity Plans.
	An annual due diligence exercise is carried out on all principal vendors.	Annual due diligence visits were undertaken with the Company's principal vendors.
	As an externally managed Company, there is a continued reliance on the Asset Manager and Investment Manager.	Both the Asset Manager and Investment Manager are viable long-term concerns.

Accounting, Legal and Regulatory Risk		
Impact	Mitigation	Movement in the period «»
Changes to the accounting legal and/or regulatory legislation.	The Group has robust processes in place to ensure adherence to accounting, tax, legal and regulatory requirements.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
	All contracts are reviewed by the Group's legal advisors.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
	The Group has processes in place to ensure compliance with the applicable Listing Rules for a Premium Listed company. The Administrator, in its capacity as Group Accountant and the Company Secretary attends all Board meetings to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Advisor and Broker.	The Administrator continues to attend all Board meetings and advise on Listing Rules in conjunction with the Financial Advisor and Broker.

Arena Point, Leeds

CCTV
in
Operation
All vehicles and goods
are left entirely
at the owner's risk

One & Two Newstead Court, Annesley

Board of Directors

Kevin McGrath DL OBE

(Chairman and Independent Non-Executive Director – appointed 16 October 2015)

Kevin McGrath is a chartered surveyor who has worked in the property industry for 30 years. He is a member of the Royal Institute of Chartered Surveyors, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a Founding Trustee of a number of charities.

Kevin is Chairman of M&M Property Asset Management and the Chairman of INTCAS, an independent technology and support service company that assist education institutions from across the world to attract, recruit and manage international students in a safe, compliant and cost efficient way. Kevin was previously Managing Director and Senior Adviser of F&C REIT Asset Management and prior to that, he was a founding equity partner in REIT Asset Management, having previously worked as a Senior Investment Surveyor with Hermes Investment Management.

William Eason

(Senior Independent Non-Executive Director – appointed 16 October 2015)

William ("Bill") Eason was previously Head of Charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a Member of the London Stock Exchange in 1976. Bill was Chief Investment Officer at Laing & Cruickshank Investment Management and is a former Chairman of Henderson High Income Trust plc.

Bill is currently a Director of Henderson International Income Trust plc, The European Investment Trust plc and of Institutional Protection Services Limited. He is an Associate of the Society of Investment Professionals and a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles Bill has acted as a Governor of Henley Management School and is currently a Trustee of Marshall's Charity, The Gordon Foundation, and the John Hampden Fund. He is also a Business Fellow of Gray's Inn.

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Board of Directors *(continued)*

Daniel Taylor

(Independent Non-Executive Director – appointed 16 October 2015)

Daniel ("Dan") Taylor is the founder and CEO of Westchester Capital Limited, an investment and advisory firm, specialising in real estate. He currently holds the role as Managing Partner of Bourne Financial Limited, a privately held serviced office business based in London, in which Westchester Capital is a principal investor.

From 2011 to 2015, Dan was Chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK's second largest serviced office provider until the sale of the business to Regus plc.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He has active registered status with the FCA as an investment manager (CF30) and CF1-Director and has held the following controlled functions at authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; and CF27-Investment Management.

Stephen Inglis

(Non-Executive Director – appointed 16 October 2015)

Stephen Inglis is the Group Property Director and Chief Investment Officer of the Asset Manager. He has over 25 years' experience in the commercial property market, most of which has been working in the investment and development sectors.

Having worked for several International property consultants in Glasgow and London, Stephen established a specialist property investment consultancy business, with the objective of providing a superior quality of advice and service than he had witnessed being provided by larger consultancies.

In his current role, Stephen has, since June 2013, acquired or sold over 200 assets in deals totalling more than £650 million. He has responsibility for all property functions within the Asset Manager's structure, from investment management to asset and property management. He was instrumental in setting up, equity raising and investing both Tosca Property Fund I and Tosca Property Fund II and the subsequent IPO of Regional REIT.

Martin McKay

(Non-Executive Director – appointed 22 June 2015)

Martin McKay was appointed Chief Financial Officer to the Investment Manager in August 2007, but has been involved with the Toscafund business since its foundation in 2000.

Earlier in his career, Martin was the Chief Accountant at Sterling Brokers Limited, a money broking company. He graduated in Microbiology from Warwick University in 1983 and qualified as a member of the Institute of Chartered Accountants in England and Wales in October 1987.

Report of the Directors

The Directors of Regional REIT Limited present their report and the consolidated audited Financial Statements of the Company and the Group for the year ended 31 December 2016.

Status

The Company was incorporated in Guernsey, Channel Islands under the Companies (Guernsey) Law, 2008, as amended (the "Law") 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. It is a member of the Association of Investment Companies ("AIC").

Directors

The Directors of the Company were in office during the whole of the year ended 31 December 2016. Their biographies can be found on pages 52 and 53. Currently, all Directors are males and whilst the Board supports the Davies Report's recommendations to promote greater female representation, the Board does not consider that it would be appropriate to set diversity targets, as all appointments will be made on merit. However, the Board recognises the importance and benefits of improving the gender balance of the Board and there is an ongoing commitment to strengthen female representation at Board level.

In accordance with the Company's Articles of Incorporation (the "Articles"), all the Directors will stand for re-election at the forthcoming Annual General Meeting ("AGM") on Thursday, 25 May 2017.

The Directors ensure that they maintain their continuing professional development requirements in accordance with the requirements of their respective professions as well as receiving briefings from the Company Secretary and other advisors on a regular basis.

Directors and Officers Liability Insurance

Directors and Officers Liability insurance is maintained through the Asset Manager's own insurance policy. Save for the indemnity provisions in the Articles, there are no qualifying third party indemnity provisions in force.

Dividends

The Directors maintain a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' view on the outlook for sustainable recurring earnings, subject to compliance with REIT status requirements. The Directors intend to reinvest proceeds from disposals of assets in accordance with the Company's Investment Policy.

During 2016 the Company declared three quarterly dividends, each of 1.75 pence per share, and a dividend of 1.00 pence per share for the period 6 November 2015 to 31 December 2015. A dividend of 2.40 pence per share for the year ended 31 December 2016 was declared on 23 February 2017. This dividend will be payable on 13 April 2017 to shareholders on the register at the close of business on 3 March 2017. The ex-dividend date will be 2 March 2017.

Shareholders are not required to vote on the payment of a dividend under the Law at the Company's AGM on 25 May 2017. Given the requirement to distribute at least 90% of qualifying property rental business income and that the views of major Shareholders were sought before adopting a policy of paying dividends quarterly, it is not thought that this adversely impacts Shareholders' rights.

At the time of the IPO, the Company's stated Investment Objective was to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway. Whilst not forming part of the Company's Investment Objective nor Investment Policy, the Company stated that it would target a dividend yield of between 7 and 8 per cent. per annum at 100 pence per Ordinary Share, being the pro forma EPRA NAV per Ordinary Share as at 30 June 2015 (before costs and expenses of the Transaction), the Placing Price.

- For the purpose of determining the profits available for a dividend distribution the Company will choose to treat all of its net income from the Property Related Business as qualifying property income, notwithstanding that the Company accounts for both property income and interest income.
- The payment and level of dividends will always remain subject to the Company's performance, its financial position, the business outlook and to market conditions.
- It is the Company's intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution requirement.
- The Board will resolve to declare any dividends at an appropriate time after the end of the relevant quarter dates, being 31 March, 30 June, 30 September and 31 December. The dividends will be paid approximately one month after being declared. Pursuant to the Law, Shareholders are not required to approve the payment of any dividend.

Report of the Directors *(continued)*

In order to maintain REIT status, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute at least 90% of the income profits (broadly, calculated using normal tax rules) of the Group to the extent that they are derived from the Property Related Business of the Group (other than any Property Related Business carried on outside the UK by non-UK tax resident members of the Group).

The Company has the ability, by ordinary resolution, to offer shareholders the right to elect to receive further ordinary shares, credited as fully paid, instead of cash in respect of all or any part of any dividend (a scrip dividend). At the current time, and following a consultation with Shareholders, it is not the Directors' intention to offer a scrip dividend option.

Share Capital

As at 31 December 2016, the Company's total issued share capital was 274,217,264 ordinary shares (31 December 2015: 274,217,264). All of the Company's ordinary shares are listed on the premium listing segment of the London Stock Exchange and each ordinary share carries one vote.

There is only one class of ordinary shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2015: none) are currently in issue.

Purchases of own Shares

No shares have been bought back in the year. The latest authority to purchase its own ordinary shares was granted to the Directors at the Company's last AGM on 27 May 2016 and expires on the date of the next AGM. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming AGM on 25 May 2017.

Restrictions on the Transfer of Shares

Subject to the Articles, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his ordinary shares in any manner which is permitted by the Law or in any other manner which is from time to time approved by the Board.

If any Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a "Non-Qualified Holder" (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, (i) the person will be deemed, upon the expiration of such 30 days, to have forfeited his Shares or (ii) if the Board in its absolute discretion so determines, the Company may dispose of the Shares at the best price reasonably obtainable and pay the net proceeds of such a disposal to the former holder.

A Non-Qualifying Holder is defined as any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may:

- cause the Company's assets to be deemed "plan assets" for the purposes of the US Internal Revenue Code of 1986 (as amended), or US Employee Retirement Income Security Act of 1974 (as amended);
- cause the Company to be required to register as an "investment company" under the US Investment Company Act 1940;
- cause the Company or any of its securities to be required under the US Exchange Act, the US Securities Act or any similar legislation;
- cause the Company not being considered a "Foreign Private Issuer", as such term is defined in rule 3b-4(c) under the US Exchange Act;
- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Company being disqualified from issuing securities pursuant to Rule 506 of Regulation D under the US Securities Act;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under US Internal Revenue Code of 1986 (as amended), Section 708;
- result in a person holding ordinary shares in violation of the transfer restrictions put forth in any prospectus published by the Company from time to time; or
- cause the Company to be a "controlled foreign corporation" for the purposes of Section 957 of the US Internal Revenue Code of 1986, (as amended), or may cause the Company to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Company within formation that it requires in order to comply with its obligations under exchange of information agreements.

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Report of the Directors *(continued)*

Directors

The beneficial interests of the Directors of the Company are set out in the below table.

	At 31 December 2016		At 22 March 2017	
Director	Number of Ordinary Shares	% Interest in share capital	**Number of Ordinary Shares**	**% Interest in share capital**
Kevin McGrath	–	–	–	–
William Eason	100,000	0.04	**100,000**	**0.04**
Daniel Taylor	150,000	0.05	**150,000**	**0.05**
Stephen Inglis	752,549	0.27	**752,549**	**0.27**
Martin McKay	–	–	–	–

Substantial Shareholdings

The table below shows the holdings of major shareholders, directly or indirectly interested in 5% or more of the issued Ordinary Shares of the Company that have been notified to the Directors.

	At 31 December 2016		At 22 March 2017	
Shareholder	Number of Ordinary shares notified	% Interest in share capital	**Number of Ordinary shares notified**	**% Interest in share capital**
Toscafund Investments Limited	27,154,198	9.90	**27,154,198**	**9.90**
Toscafund Limited	19,556,508	7.13	**19,556,508**	**7.13**
Old Mutual Plc	15,781,198	5.76	**15,781,198**	**5.76**
Torreal SA	14,800,721	5.40	–	–
Johnson Tosc LLC	14,692,745	5.36	**14,692,745**	**5.36**

Financial Risk Management

The principal risks and uncertainties faced by the Company and the Company's policies for managing these risks are set out on pages 46 to 48.

The principal financial risks relating to financial instruments and details of the risk mitigation factors relating to financial instruments are set out in note 26.

Asset Manager

London & Scottish Investments Limited were appointed as the Asset Manager to provide property management services to the Company (and Regional Commercial Midco Limited ("Midco") and the Jersey limited companies which hold the properties directly) with effect from the Company's shares being admitted to trading on the London Stock Exchange on 6 November 2015.

Under the Asset Management Agreement, the Asset Manager is responsible for the day to day management of the Property Portfolio, subject to the Investment Objective of the Company and its Investment Policy (as set out on page 17) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the real estate assets of the Company.

Notice of termination of the Asset Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If a notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated earlier with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager or by the Investment Manager.

The Company or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

Report of the Directors *(continued)*

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board, the Asset Manager and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Investment Manager and Alternative Investment Fund Manager

The Company appointed Toscafund Asset Management LLP as the Company's Investment Manager (and to provide certain related services to Midco and the Jersey limited companies which hold property directly). The Investment Manager is responsible for the day to day management of the Company's investments, subject to the investment objective and the investment policy of the Company. The Investment Manager is an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

Notice of termination of the Investment Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5-years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

Management and Performance Fees

In addition 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 Total Shareholder Returns in excess of the annual Hurdle Rate of 8% for the relevant Performance Period. Total Shareholder Returns 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. The initial Performance Period runs from 6 November 2015 to 31 December 2018. Subsequent Performance Periods will be annual, from 1 January to 31 December.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark, which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially for the period ending 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-185 of the IPO Prospectus, published on 3 November 2015.

Continuing Appointment of Asset Manager and Investment Manager

The Management Engagement and Remuneration Committee ("MERC") recommended to the Board that the continued appointment of the Managers' on the terms of their respective agreements be approved and the Directors have agreed with this recommendation. Further details can be found in the MERC Report on page 74.

Administrator

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining Company's records and statutory registers, and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Capita Sinclair Henderson Limited as Sub-Administrator. An annual fee of £127,000 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

The Administration Agreement is for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Report of the Directors *(continued)*

Going Concern

The Board confirm that it has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these Financial Statements were approved.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Financial Statements on a going concern basis.

Viability Statement

The Board has assessed the viability for the Company over a four-year period, taking account of the Company's position and the risks as set out in the Strategic Report.

The Board confirms that is has a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the next four years, taking account of the risks as set out in the Chairman's Statement and the Principal Risks and Uncertainties Report.

During 2016, the Board in conjunction with the Audit Committee, carried out a robust assessment of the Principal Risks and Uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the four-year period. The risk review process from the internal control testing provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believe that the Group is well placed to manage its Principle Risks and Uncertainties successfully, taking into account the current and economic and political environment.

The Board conducted the review for a four-year period to reflect the Group's weighted average debt profile of approximately three years, and the Group's WAULT of 3.6 years to first-break, which allows the forecast to include the re-letting and rent reversions arising from tenancy reviews.

The Board's expectation is further underpinned by the regular briefings provided by the Asset Manager and Investment Manager. These reviews consider market conditions and opportunities and the associated risks, principally the ability to raise third-party funds and invest the capital, given current political and economic uncertainties, and changes in the taxation. These risks continue to be closely monitored by the Board.

The Directors have carefully reviewed areas of potential financial risk. No material uncertainties have been detected which would influence the Group's or the Company's ability to continue as going concerns for the next four years. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Corporate Governance Statement

The Corporate Governance Statement on pages 62 to 71 forms part of the Report of the Directors.

The Directors are committed to establishing and maintaining high standards of corporate governance, in line with best practice. The Board works closely with the Company Secretary in this regard. The Board is accountable to shareholders for the governance of the Group's affairs.

The Directors have prepared a statement on how the principles and recommendations of the AIC Corporate Governance Code have been applied. This statement may be found on pages 63 to 68.

Corporate, Social and Environmental Responsibility

Corporate responsibility covers many different aspects of business. The Company has no direct social or community responsibilites but the environmental impact of our properties is important to the Group. Although the Company is not required by statute to provide reporting on its environmental impact and, as a REIT with no employees, the Company's own direct environmental impact is minimal, the Board considers the environmental impact of the Group to be an important issue to be monitored by the Asset Manager, who is responsible for the management of the properties on behalf of the Company.

Report of the Directors *(continued)*

Environmental Impact

The Asset Manager currently has five main aspects in its management of the environmental impact of the portfolio:

- An independent environmental report is required for all potential acquisitions which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination.
- The process of development and refurbishment projects considers the choice of materials used to avoid health hazards or damage to the environment.
- An ongoing examination of the business activities of current and incoming tenants is carried out to identify and prevent pollution. All tenants are monitored to identify potential risks.
- All sites are visited at least annually with material environmental issues reported to the Board.
- All new leases seek to commit occupiers to environmental regulations.

Energy Performance Certificate ("EPC") Ratings

The Energy Act 2011 in England and Wales introduced a number of provisions to improve energy efficiency, including the proposed minimum energy standard effective from April 2018.

The Asset Manager has initiated a full review of all property units. From this there will be a unit-by-unit action plan to either improve EPC ratings rated "E and below" or sell these properties. The number of units identified as F and G is, on initial assessment by the Asset Manager, not considered significant. Additionally, some 10% of the units have no EPC at present, but this is expected to be resolved in the next few months.

Scotland is covered by different and already implemented legislation from England and Wales. Scotland represents approximately 300 units. There is no blanket ban on lettings with poor EPC ratings. Scottish legislation focuses on units of over 1,000 square metres, of which there are only a small proportion of the portfolio. The number of units that are likely to require extensive improvement works is, on initial assessment by the Asset Manager, not considered material.

During the year ended 31 December 2016, the Asset Manager improved the EPC ratings for several properties in the portfolio as part of its refurbishment of vacant units. The Group will consider property disposals and refurbishment to resolve the EPC status and limit any material impact.

The Asset Manager will continue to manage EPC risk through the implementation of ongoing improvement plans at all higher risk properties, in particular "E" rated assets in England and Wales, to ensure this does not adversely impact on its business activities post 2018.

Improving Resource Management at our Properties

In order to reduce energy consumption both in landlords' areas and the tenants' demise, the Asset Manager needs to work closely with tenants. The Asset Manager engages with tenants on resource consumption issues where the Asset Manager has responsibility for the payment of the supply. It has also engaged an energy consultant to advise on energy efficiencies.

Developments and Refurbishments

Development and refurbishments projects are subcontracted. The Asset Manager monitors the works, directly and with project managers on larger projects, to ensure they are in accord with relevant guidelines and laws. All subcontractors are assessed to ensure that they have sufficient resources to meet legal requirements.

Donations

No political contributions were made during the year (2015: nil).

Creditor Payment Policy

It is the policy of the Company to settle invoices of suppliers which are invoiced in accordance with their stated terms.

Anti-Bribery Policy

The Board notes the implementation of the Bribery Act 2010 in the United Kingdom, which came into force on 1 July 2011. The Company continues to be committed to carrying out its business fairly, honestly and openly. It has adopted an anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

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Report of the Directors *(continued)*

Auditor

RSM UK Audit LLP were appointed as auditor to the Company on listing on 6 November 2015. RSM UK Audit LLP ("RSM") has expressed its willingness to continue in office as Auditor to the Company and resolutions for its re-appointment and for the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Listing Rules Disclosures

Listing Rule 9.8.4R requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4 with the exception of the details of any contract of significance in which a Director is or was materially interested. The details of the Agreements with the Asset Manager and Investment Manager are set out on pages 56 and 57.

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails the Company to pay an annual fee of £1,200.

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax. In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

Subsequent Events

Details of significant subsequent events are set out on page 120.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on Thursday, 25 May 2017, at the offices of the Company's solicitors, MacFarlanes LLP, 20 Cursitor Street, London EC4A 1LT.

A copy of the notice of AGM, with each separate issue presented as a separate resolution, is available to view on the Company's website (www.regionalreit.com) and has been posted to Shareholders, together with an explanation of the resolutions proposed.

The Board has noted that at the Company's previous Annual General Meeting held on 27 May 2016, 27.8% of Shareholders voted against the ordinary resolution 10 (authority to issue shares for cash at a discount to NAV) and that Shareholders did not approve the extraordinary resolution 11 which sought approval to dis-apply pre-emption rights.

In accordance with the 'Corporate Governance Policy and Voting Guidelines 2017' of the Pensions and Lifetime Savings Association ("PLSA") ("the PLSA Guidelines") and ahead of the Company's AGM to be held on 25 May 2017. The Company has responded to Shareholders' concerns and the Directors have decided not to again seek the authority to issue shares for cash at discount to NAV at the next AGM.

For the forthcoming AGM, the Board will ensure that the wording of the resolutions 10 and 11, which will seek authority to disapply pre-emption rights, adheres to the provisions of the Pre-Emption Group's Statement of Principles and complies strictly with the wording recommended by the Pre-Emption Group.

In addition, the Board will seek to engage with Shareholders and voting recommendation services ahead of the forthcoming AGM.

The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole.

For and on behalf of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Statement of Directors Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements in accordance with applicable law and regulations.

The Law requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority ("FCA") to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under the Law to prepare the Company's Financial Statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the Group's and the Company's affairs at the end of the financial period and of the profit or loss of the Group and the Company for that period and are required by IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company.

In preparing the Group and the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group's and the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the Financial Statements comply with the requirements of the Law and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

Each of the Directors, whose names and functions are listed on pages 52 and 53 confirm that to the best of each person's knowledge:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Asset and Investment Managers' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and
- The Annual Report and Accounts, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Company's and Group's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

The Company is committed to maintaining high standards of corporate governance, which meet the statutory and regulatory requirements for companies listed in the UK. The Board is accountable to the Shareholders for the governance of the Group's affairs. This section of the Annual Report sets out the principles of corporate governance that the Board has adopted and their compliance with the codes of corporate governance that they have chosen to adopt.

The Listing Rules and the Disclosure Guidance and Transparency Rules ("Disclosure Rules") of the UK Listing Authority require listed companies to disclosure how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject.

As a member of the Association of Investment Companies ("AIC"), the Board has agreed to comply with the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") published by the AIC in February 2015, except as set out below. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules. Details of the Company's compliance with the AIC Code is set out within this statement.

The Guernsey Financial Services Commission's ("GFSC") "Finance Sector Code of Corporate Governance" (the "GFSC Code"), updated and published in February 2016, applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk. A copy of the GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

The Directors recognise the value of the AIC Code and believes that reporting against the principles and recommendations of the AIC Code, and by reference the AIC Guide will provide shareholders with better information. Accordingly, the Company has taken appropriate measures to ensure that the Company complies with the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company's position, being an externally managed investment company. In particular, all of the Company's day-to-day functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported on these provisions.

Corporate Governance Statement *(continued)*

The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections, covering:

1. The Board;
2. Board Meetings and the relationship with the Investment Manager; and
3. Shareholder Communications.

The Board

AIC Code	Principle	Compliance Statement
1	The Chairman should be independent.	The Chairman, Kevin McGrath, was independent of the Asset Manager and Investment Manager at the time of his appointment and remains so. The Chairman has not been employed by either of the Managers in the five-years prior to his appointment, nor did he act as advisor to either Manager in that period and he does not hold any other directorship of an investment company managed by the Asset Manager or the Investment Manager. There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third party service providers. The AIC Code recommends that the Board should appoint one of the Independent Non-Executive Directors as Senior Independent Director. The Senior Independent Director is available to shareholders for communication as well as providing a sounding board for the Chairman and review the performance of the Chairman. The Board recognises the importance of strong corporate governance and shareholder relations. William Eason was appointed as Senior Independent Non-Executive Director with effect from 1 December 2016.
2	A majority of the Board should be independent of the Managers.	The Board consists of five Non-Executive Directors; three Independent Non-Executive Directors (Kevin McGrath, William Eason and Daniel Taylor) who are each independent of the Asset Manager and Investment Manager; and two Non-Independent Directors (Stephen Inglis and Martin McKay) who sit on the Board and report on the activities of the Asset Manager and Investment Manager respectively. The independence of the Directors is important to the Company in maintaining good governance. The independence of each Director is assessed as part of the annual evaluation process. Having assessed the performance and independence of each Director, the Board is satisfied that Stephen Inglis and Martin McKay remain independent in judgement and character.
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance.	All Directors submit themselves for annual re-election by shareholders at the AGM of the Company. The individual performance of each Director is evaluated annually by the Chairman. The Senior Independent Director evaluated the performance of the Chairman. The recommendations made to shareholders to vote in favour of the re-election of all Directors at the AGM are based on the outcome of the Board evaluation process. Following this year's evaluation, the Chairman concluded that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time and therefore recommends the re-election of all the Directors at the forthcoming AGM.

Corporate Governance 52 - 79

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
4	The Board should have a policy on tenure, which is disclosable in the annual report.	The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, there is no limit on the overall length of service of any of the Directors. The Board does not believe that length of service on a wholly non-executive board has a bearing on independence. An individual Director's experience and continuity of Board membership can significantly enhance the effectiveness of the Board as a whole.
5	There should be full disclosure of information about the Board.	The biographical details for each Director are set out on pages 52 and 53 of this Report and demonstrate the wide range of skills, knowledge and experience they bring to the Board. Details of the Board's Committees and composition are set out in the Terms of Reference which are available on the Company's website at: http://www.regionalreit.com/~/media/Files/R/Regional-Reit/documents/audit-committee.pdf http://www.regionalreit.com/about-us/board-committees/management-engagement-and-remuneration-committee The Audit Committee report is set out on pages 72 and 73 of this Report. The Audit Committee membership comprises all the Independent Non-Executive Directors. The Chairman is a member of the Audit Committee but does not chair it. The Management Engagement and Remuneration Committee ("MERC") report is set out on page 74 of this Report. The MERC membership comprises all the Independent Non-Executive Directors. Whilst not in compliance with the AIC's recommendation, due to the size and nature of the Company, the Board feels that it is appropriate for the Chairman of the Board to also Chair the MERC, with the caveat that the Chairman's own remuneration is set by the other Independent Non-Executive Directors. The Board will monitor the committee structure and will carry out a regular review as part of the annual Board evaluation process. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and he is responsible for ensuring that all Directors receive accurate, timely and clear information. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic matters.
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	The Board considers that, as it is comprised of Non-Executive Directors and given the size of the Company, currently it is not appropriate to establish a Nomination Committee. The experience, skills and knowledge of the Directors is detailed in the biographies of the Directors, set out on pages 52 and 53 of this Report. The Board believes that diversity of experience and approach amongst board members is of great importance.
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.	It is the Board's policy to evaluate the performance of the Board, committees and individual Directors through an assessment process, led by the Chairman. The independence of each Director is also considered as part of this process. The performance of the Chairman is evaluated by the other Directors under the leadership of the Senior Independent Non-Executive Director. Details of the evaluation for 2016 are shown on page 70.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	Details on the Directors' remuneration is contained in the Director's Remuneration Report on page 75 of this Report. The Board's MERC annually reviews the fees paid to the Directors (and will compare these with its peer group and the REIT industry generally), taking into account the level of commitment and responsibility of each Board member. As all of the Directors are non-executive, the Board considers that it is acceptable for the Chairman of the Company to chair MERC meetings when discussing Directors' fees but he is excluded from setting his own remuneration.
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	The Company does not utilise a separate Nomination Committee as this is not thought appropriate given the size of the Board. The Independent Non-Executive Directors would be expected to lead the process of the appointment of any new Director to the Board.
10	Directors should be offered relevant training and induction.	New Directors will receive a full induction pack containing key information and governance documents from the Company Secretary when they are appointed. They will also be given key information on the Company's regulatory and statutory requirements as they arise. In addition they will be offered a tailored induction programme with the Asset Manager and Investment Manager which covers the investment portfolio and the Managers' approach to investment. All Directors will continue to receive periodic other relevant training and updates as necessary from the Company Secretary, legal advisors and other service providers as relevant to enhance and refresh their knowledge. The annual board evaluation process provides Directors with an opportunity to identify ongoing training requirements. The Directors have access to the advice and services of the Company Secretary through its appointed representative.
11	The Chairman (and the Board) should be brought into the process of structuring a new launch as soon at an early stage.	Principle 11 applies to the launch of new investment companies and is, therefore, no longer applicable to the Company.

Corporate Governance 52 - 79

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
12	Boards and managers should operate in a supportive, co-operative and open environment.	Formal Board meetings provide important forums for the Directors and key members of the Managers' teams to interact and for Directors to receive reports and provide challenge to both the Asset Manager and Investment Manager. Representatives of the Asset Manager and Investment Manager are appointed to the Board, which facilitates communication between them and the Board and supplements the regular reporting to the Directors at Board meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants. Interaction between the Board and the Asset Manager and Investment Manager is not restricted to Board meetings. Between meetings the Asset Manager and Investment Manager update the Board on developments and respond to queries and requests by Directors as they arise. In additional, informal meetings take place regularly between the Directors and the Asset Manager and Investment Manager. Senior members of the Asset Manager's and Investment Manager's teams are also invited to the Board's annual strategy meeting.
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues.	At each meeting, the Board receives a report on the performance of the Company and an investor relations report. The Board is responsible for establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments and the level of permitted gearing and borrowings. The Investment Management Agreement with the Investment Manager sets out restrictions on the activities of the Investment Manager without Board approval. The Board, at its regular meetings, undertakes reviews of key investment and financial data, analyses of asset allocation, peer group information, the economy generally, transactions and performance comparisons, share price and net asset value performance. It also receives an update from the Asset Manager on property market conditions and trends, movements compared to previous quarters, yields on properties within the portfolio, lease lengths and letting activity, including estimated rental values and vacant properties. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information and through the Company Secretary ensures that each service provider reports to the Board as required.
14	Boards should give sufficient attention to overall strategy.	The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis. The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager.	The MERC meet at least once annually to review the overall performance of the Asset Manager and Investment Manager and considers both the appropriateness of the Asset Manager's and Investment Manager's appointments and the contractual arrangements (including the structure and level of remuneration) with the Asset Manager and Investment Manager, as well as other contractual arrangements. The Audit Committee reviews the Asset Manager's and Investment Manager's compliance and control systems in operation insofar as they relate to the affairs of the Company. The Audit Committee further reviews the arrangements with, and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
16	The Board should agree policies with the manager covering key operational issues.	Representatives of the Asset Manager and Investment Manager attend each meeting of the Board to address questions on operational issues and discuss specific matters.
17	Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Company's share price is monitored continually and considered at each Board meeting.
18	The Board should monitor and evaluate other service providers.	On the Company's behalf, the Investment Manager monitors the performance and systems and controls employed by the service providers. The MERC reviews the performance and cost of the Company's third party service providers. The Audit Committee also receives third party service provider controls and the Board considers if a provider should be replaced.
19	The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's view to Shareholders.	The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. A detailed analysis of the substantial shareholders of the Company is provided to the Directors at each Board meeting. The Board receives feedback on the views of shareholders from its corporate broker and the investor relations representative at the Investment Manager. Through this process the Board seeks to monitor the views of shareholders and to ensure an effective communication programme. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office address. The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Meeting sets out the business of the meeting. The Asset Manager will make a presentation to shareholders covering the investment performance and strategy of the Company at the forthcoming AGM. The Directors welcome the view of all shareholders.
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues if the Asset Manager or Investment Manager is asked to act as spokesperson.	All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the Asset Manager and Investment Manager and, as appropriate, the Auditor, legal advisers, the broker and Company Secretary. Formal Board approval of any substantive communication is required.

Corporate Governance 52 - 79

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
21	The Board should ensure that Shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the Shares.	The Board believes that sufficient information is available to Shareholders to understand the risk: reward balance to which they are exposed by holding Shares in the Company. Details of the Principal Risks and their management are set out on pages 46 to 48 and note 26. The Investment Objective and Policy is set out on page 17. The performance of the Company and that of the Asset Manager and Investment Manager is discussed in the Chairman's Statement and the Asset and Investment Managers' Report on pages 12 to 15 and 22 to 43. The performance of the Asset Manager and Investment Manager is considered on an annual basis by the MERC. Details of the MERC's review of the performance by the Asset Manager and Investment Manager are set out on page 74. Details of the Performance Fees payable to the Asset Manager and Investment Manager are set out on page 57. The going concern and viability statements of the Group are set out on page 58. The full list of the property portfolio of the Group is available on the Company's website. The Top 15 properties are shown on pages 27 and 28. There is a formal set of matters reserved for decision by the Board which, together with the terms of the Asset Management Agreement and Investment Management Agreement, limits the decision making of the Asset Manager and the Investment Manager. Details of the Group's borrowings are set out on pages 42 and 43 and in the notes to the accounts.

Corporate Governance *(continued)*

Annual General Meeting

Notice of the Company's AGM and an explanation of the resolutions contained in the notice will be circulated separately.

Details of proxy votes received in respect of each resolution will be published on the Company's website.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's shareholders as a whole. The Board recommends unanimously to shareholders that they vote in favour of each of the resolutions.

The Board of Directors

The Board consists entirely of Non-Executive Directors and has no employees. Biographical details of the Directors of the Company who held office during the period are shown on pages 52 to 53.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision-making. The Directors possess a wide range of business expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs.

None of the Directors have a service contract, but letters of appointment setting out the terms of their appointment are in place. Directors are not entitled to any compensation for loss of office. Copies of the letters of appointment are available for inspection at the Company's registered office address and will be made available for up to 15 minutes prior of the start of the AGM.

Chairman and Senior Independent Director

The Chairman, Mr Kevin McGrath, is deemed by his fellow Board members to be independent and have no conflicting relationships. He considers himself to have sufficient time to commit to the Company's affairs.

Mr William Eason has been appointed by the Board as the Senior Independent Non-Executive Director. He provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman.

Board Diversity

The Board acknowledges the benefits of greater diversity, including gender and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

The Board does not feel that it would be appropriate to set diversity targets as all appointments must be made on merit. However, gender and diversity generally will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each Board vacancy. The Board has established the following measurable objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Long lists of potential Non-Executive Directors will always include diverse candidates of appropriate merit.
- Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

Directors' Tenure

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

Directors' Re-Election

Subject to the Articles, at each AGM of the Company all Directors will retire from office and each Director may offer himself for election or re-election by the Shareholders. If he is elected or re-elected he is treated as continuing in office throughout. If he is not elected or re-elected, he shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to elect or re-elect the Director is put to the meeting and lost.

Corporate Governance *(continued)*

Board Operation

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 December 2016, the number of scheduled Board meetings attended by each Director were as follows:

Director	Board	
	Number entitled to attend	Number attended
Kevin McGrath	6	6
William Eason	6	6
Daniel Taylor	6	6
Stephen Inglis	6	6
Martin McKay	6	6

Additional Board meetings were also held as required during the year and were attended by those Directors available at the time.

Conflicts of Interest

The Company's Articles permit a Director to act in a situation where a Director has disclosed the nature and extent of an interest that conflicts, or may possibly conflict, with the interests of the Group in accordance with the Law.

The Board has established a formal process whereby actual and potential condlicts of interests are considered by the Directors who have no interest in the matter, who then decide whether to authorise the conflict and any conditions to be attached to such authorisations.

The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances. A register of potential conflicts is maintained by the Company Secretary and is reviewed at each Board meeting to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

Board Evaluation

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. Given the relatively short history of the Company and to allow sufficient time for the individual Directors to develop and settle into their roles, the Board agreed that the use of an external evaluation service provider was not necessary at this stage.

During the year, the Board conducted an evaluation of its own performance and that of its committees. The individual performance of the Non-Executive Directors was also evaluated through one-to-one interviews with the Chairman.

This evaluation covered a number of key areas including: strategy; internal control and risk; performance management; shareholder communication; Board culture and dynamics; Board composition, including consideration of the balance of skills, experience, independence and knowledge of the Group on the Board, and its diversity (including gender); and the Board and Committee calendar, agendas and support.

Following these individual meetings, the Chairman presented his conclusions regarding performance and areas for improvement to the Board as part of the Board meeting in March 2017.

Overall the results were positive and the Chairman concluded that the performance of the Board, its Committees and individual Directors was effective and that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time.

The Senior Independent Non-Executive Director led the appraisal of the Chairman. It comprised a number of questions that were answered by each Director and each Director had the opportunity to meet with the Senior Independent Non-Executive Director to discuss the performance of the Chairman.

The Senior Independent Non-Executive Director concluded that the Chairman's performance was satisfactory. In particular, it was noted that he provides strong leadership, promotes and leads Board discussion and facilitates debate in an open yet respectfully constructive environment.

Following the Board evaluation and appraisal process, the Board recommends the re-appointment of each Director at the forthcoming AGM on 25 May 2017.

Board Committees

The Board has two Committees in operation and has delegated certain responsibilities to its Audit Committee and its Management Engagement and Remuneration Committee. Given the size of the Company, it is not felt appropriate for the Company to have a separate Nomination Committee or Remuneration Committee.

The Board has established formal terms of reference for each of the Committees which are available on the Company's website.

Audit Committee

The Audit Committee comprises the three Independent Non-Executive Directors and is chaired by Mr William Eason, whom the Board considers to have the required competence and experience. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman.

All members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates.

Corporate Governance *(continued)*

No individual who is not a member of the Audit Committee is entitled to attend or to vote at its meetings, but the Audit Committee may invite anyone to attend the meetings and representatives of the external auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 72 and 73.

Management Engagement and Remuneration Committee ("MERC")

The MERC comprises the three Independent Non-Executive Directors and is chaired by Kevin McGrath who is also the Chairman of the Company.

Although no individual who is not a member of the MERC is entitled to attend and vote on matters at its meetings, the committee may invite anyone to attend at its discretion. A Management Engagement and Remuneration Committee Report is set out on pages 74 and 75.

Internal Control Review and Management of Risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness, ensuring that risk management and control processes are embedded in day-to-day operations.

The Board has established an ongoing process for identifying, evaluating and managing significant risks with the aim of helping to safeguard the Company's assets. The Board exercises its oversight of financial, reporting, compliance, operational and overall risks by relying on regular reporting on performance and other management information from the Asset Manager and Investment Manager. These procedures are designed to manage rather than eliminate risk. The Board manages risks as set out below:

- The Board, through the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Company's third-party service providers;
- The responsibilities for the investment management, asset management, accountancy and depository functions are segregated and the procedures of the third-party service providers are designed to safeguard the Company's assets;
- The Board is kept regularly updated by the Asset Manager and Investment Manager outside of scheduled board meetings and provides reports at each meeting of the Board; and
- Under the terms of the Investment Management Agreement between the Company and the Investment Manager, Board level approval is required for purchases of property exceeding £15m in value and for disposals exceeding £5m in value.

Regular risk assessments and reviews of internal controls are undertaken in the context of the Company's overall investment objective by the Board, through the Audit Committee.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk register is reviewed at each meeting of the Audit Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 46 to 48.

The Board reviews financial information produced by the Investment Manager and Capita Sinclair Henderson Limited on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the third parties is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit Chairman on behalf of the Committee.

Taking into account the principal risks detailed on pages 46 to 48 and the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of Board, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Group; and have reviewed the effectiveness of the risk management and internal control systems and no significant failings were identified; and
- have reviewed the effectiveness of the risk management and internal controls systems and no significant failings were identified.

By order of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 December 2016.

Role of the Audit Committee

The principal duties of the Audit Committee are:

- to monitor the integrity of the financial statements of the Company;
- to report to the Board on any significant financial reporting issue and judgments having regard to any matters communicated to it by the auditor;
- as requested by the Board, to review the contents of the Annual Report and Accounts and advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides shareholders with sufficient information to assess the Company's performance, business model and strategy;
- to keep under review the adequacy of the Company's internal financial controls and risk management functions;
- to manage the relationship with the Company's external auditor, including reviewing the auditors remuneration, independence and performance and making recommendations to the Board as appropriate;
- to review the Company's procedures for detecting fraud and for the managers to raise concerns (in confidence) about potential financial wrongdoing; and
- to regularly review the need for an internal audit function.

The Audit Committee is to meet at least twice annually and its quorum is two members. It reports and makes recommendations to the Board, after each meeting.

Matters considered by the Audit Committee in the year

The Audit Committee met on three occasions during the year under review and once post the year end.

Member	Audit Committee	
	Number of meetings entitled to attend	Number attended
William Eason (Chairman)	3	3
Kevin McGrath	3	3
Daniel Taylor	3	3

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- reviewed financial results;
- agreed the audit plan with the Auditors, including the principal areas of focus, and agreed the audit fee;
- received and discussed with the Auditors their report on the results of the audit; and
- reviewed the Group's Financial Statements and advised the Board accordingly.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix.

Audit Committee Report *(continued)*

Significant Matters considered by the Audit Committee in the year

The Audit Committee has discussed and considered the impairment review of goodwill conducted by the Investment Manager. It was concluded that an impairment would be charged in 2016, which was agreed by the Board.

Property Portfolio Valuation

The Audit Committee recognises that the valuation of the properties within the Company's portfolio is central to the Company's business and that errors could have a material impact on the Company's net asset value. Properties are independently valued by a specialist third party service provider, DTZ Debenham Tie Leung Limited (trading as Cushman & Wakefield).

The valuation was prepared in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance-Applications and United Kingdom Valuation Standards contained within the RICS Valuation-Professional Standards 2014. The valuation was compliant with International Valuation Standards.

The Asset Manager has held open discussions with the valuers during the year on the valuation process and the external auditor has direct access to them as part of the audit process.

Since the year end, the Audit Committee has reviewed the valuation report and has discussed this report with the Asset Manager and Investment Manager. The Audit Committee were satisfied with the report.

External Audit Process

The Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, undertakes a detailed review of the audit plan and the audit results report and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year just ended.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit fees and Non-audit Services

An audit fee of £63,250 has been agreed in respect of the audit for the year ended 31 December 2016.

In order to help safeguard the external auditor's independence and objectivity, the Audit Committee has a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance and such approval will not be granted in circumstances where it's considered that the nature or cost of the work could interfere with the external auditor's independence.

The cost of non-audit services provided by the Auditor for the financial year ended 31 December 2016 was £112,325. These services related to work undertaken in respect of legacy taxation matters pre IPO. RSM had been engaged to provide these services prior to IPO of the Company. The total fee in respect of audit work for the period ended 31 December 2015 was £105,000. Deloitte LLP have been engaged to advise on all ongoing taxation matters.

Independence and Objectivity of the Auditor

RSM UK Audit LLP ("RSM") has been auditor to the Company since listing on 6 November 2015, during which time Mr Euan Banks, Partner at RSM, has been the audit partner on the audit. No tender for the audit of the Company has been undertaken. In evaluating RSM's performance, the Audit Committee considered the effectiveness of the audit process, quality of delivery, staff expertise, audit fees and the auditor's independence, along with matters raised during the audit.

In accordance with new requirements relating to the appointment of auditors, the Company would need to conduct an audit tender no later than for the accounting period beginning 1 January 2026.

Having considered the auditor's independence in respect of the year ended 31 December 2016, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

Review of Auditor Appointment

Following consideration of the performance of the Auditor, the service provided during the year and a review of their independence and objectivity, the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Company's external independent auditor.

Internal audit

The Audit Committee has determined that there is no need for an internal audit function given the limited size and complexity of the Company and its business.

William Eason
Audit Committee Chairman
22 March 2017

Management Engagement and Remuneration Committee Report

I am pleased to present the Management Engagement and Remuneration Committee ("MERC") Report for the year ended 31 December 2016.

Role of the Management Engagement and Remuneration Committee

The principal duties of the MERC are:

- to have responsibility for setting the remuneration policy for all Directors and the Company Chairman;
- to monitor the level and structure of remuneration of the Directors, Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager of the Company; and
- within the terms of the agreed policy and in consultation with the Chairman, to determine the total individual remuneration package of each Director and external Manager, including bonuses, incentive payments and share options or other share awards.

No individual is to be involved in discussions about his own remuneration.

The MERC reports, and makes recommendations, to the Board after each meeting. The MERC is to meet at least once annually and its quorum is two members.

Activities during the year

The MERC met once during the year to consider the continued appointment and remuneration of the Investment Manager and Asset Manager and the continued appointment of all of the Company's corporate advisers and principal services providers. The MERC also considered the remuneration of the independent non-executive Directors.

Member	MERC	
	Number entitled to attend	Number attended
Kevin McGrath (Chairman)	1	1
William Eason	1	1
Daniel Taylor	1	1

Having assessed the performance, quality of service and additional added value given by the Managers' and the Company's service providers, the MERC was satisfied with their performance and recommended to the Board, the continuing appointment of both the Asset Manager and Investment Manager and their remuneration, details of which are set out on page 57. The MERC recommended that all service providers should be retained.

On the basis of the assessment under taken by the MERC, the Board was satisfied with the performance of the Asset Manager and Investment Manager and their ability to deliver performance to support the Company's Investment Objective, and agreed that the continued appointment of both the Asset Manager and Investment Manager, on the terms agreed, was in the best interests of the Company and its shareholders as a whole. The Board was satisfied that the Company was benefiting from added value in respect of the services it procures and also agreed that all service providers should be retained.

Further details of the Directors' remuneration can be found in the Remuneration Report on the next page.

Remuneration Report

Directors' Remuneration

All Directors act in a non-executive capacity and the level of remuneration has been set to reflect the experience of the Board as a whole, determined with reference to comparable organisations and appointments. The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine).

The fees per annum of each of the Directors are as follows:

Director	Position	Annual Fee
Kevin McGrath	Chairman and Chairman of the Management Engagement & Remuneration Committee	£70,000
William Eason	Independent Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee	£50,000
Daniel Taylor	Independent Non-Executive Director	£50,000
Stephen Inglis	Non-Executive Director	–
Martin McKay	Non-Executive Director	–

Kevin McGrath receives no additional remuneration for his role as Chairman of the Management Engagement & Remuneration Committee.

William Eason receives no additional remuneration for his role as Chairman of the Audit Committee or as Senior Independent Non-Executive Director.

Stephen Inglis received no remuneration from the Company due to his position as Chief Investment Officer and Group Property Director of the Asset Manager.

Martin McKay received no remuneration from the Company due to his position as Chief Financial Officer of the Investment Manager.

The Directors may be paid all reasonable travel, hotel and other out-of-pocket expenses properly incurred by them in attending Board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director.

In respect of Directors' remuneration, the MERC considered the level of activity of the Company, market rates generally and took into account the time commitment and responsibilities of each Director.

Additional Remuneration

There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. The Directors do not receive pension benefits, long-term incentive schemes or share options or any other non-statutory benefits.

No element of the Directors' remuneration is related to performance.

Payment for Loss of Office

No payment has been made to any former Director for loss of office.

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The Board will consider the engagement of remuneration consultants in the future if it is thought appropriate or desirable to do so.

Total Director Remuneration

The following amounts were paid to the Directors as fees for their services during the year:

Director	Fees paid to 31 December 2016
Kevin McGrath	£70,000
William Eason	£50,000
Daniel Taylor	£50,000
Stephen Inglis	–
Martin McKay	–
Aggregate:	£170,000

No additional remuneration was paid to the Directors during the year

Remuneration of the Asset Manager and Investment Manager

The fees payable to the Asset Manager and the Investment Manager are detailed in note 32 to the Accounts. Details of the contractual relationship between the Company and both Managers are set out in the Report of the Directors.

By order of the Board

Kevin McGrath
Chairman and Management Engagement and Remuneration Committee Chairman
22 March 2017

Relations with Shareholders

The Board considers that maintaining good and regular communications and of strong relationships with shareholders is of critical importance to the Group and that this will be a key factor in supporting the successful development of the business. To this end the Investment Manager appointed a dedicated investor relations officer at the beginning of 2016, whose role supports the investor engagement undertaken by the Asset Manager, the Investment Manager and the Board. The investor relations officer's responsibilities include: regulatory disclosure, buy-side investor and sell-side analyst engagement, private shareholder support and the Group's website, as well as media coverage. In addition communications activity is supported by the Group's broker and the appointed public relations advisor.

The Group has a comprehensive investor relations programme. It has a regular schedule of announcements and then additional announcements as required. In addition the Asset Manager and the investor relations officer meet regularly throughout the year with institutional shareholders, including private client brokers and wealth managers, and with sell-side equity analysts to present the Group's financial and operational results and to discuss the strategy and business model as well as the UK regional commercial property market. The Group also encourages investors and analysts to utilise its on-line facilities and communications and has developed a comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

The Board receives regular reports on the investor relations programme, together with sell-side analysts' research. The Board also receives feedback from its broker on shareholder issues.

Shareholders are encouraged to attend and vote at the Company's AGM with the opportunity to discuss governance and strategy, which also provides an opportunity for the Board to understand shareholder issues. The Board makes itself available at AGM to answer any shareholder questions. The Chairman, and as necessary all other members of the Board, is available to meet with Shareholders throughout the year. In late 2016 the Chairman was available for a planned programme of meetings with major institutional shareholders to discuss governance and strategy and to gauge investors' views on the Group.

The Group ensures that all material and price sensitive information is released to the Market and to shareholders in accordance with regulatory requirements, in a timely manner and with simultaneous access. The Group's Annual Report and Accounts is despatched to shareholders by post and it, the Interim Results and all other announcements by the Group, are made available on the Group's website. In addition shareholders, and any other interested parties, can register for email alerts of the Group's announcements.

The Group will consider a number ways of building on its engagement with shareholders, sell-side analysts and potential investors in the course of 2017.

Whilst it is difficult to quantify the success of the shareholder engagement programme the Board notes the progress made with increasing the number of shareholders, with the extensive programme of meetings undertaken by the Asset Manager and the Chairman, the increased research coverage of the stock over the year and the relative performance of the Company's shares.

Milburn House, Newcaste-Upon-Tyne

Independent Auditor's Report to the Shareholders of Regional REIT Limited

Opinion on Financial Statements

We have audited the Group and parent Company Financial Statements ("the Financial Statements") on pages 80 to 120. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 and of the Group's and the parent Company's profit for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of the Companies (Guernsey) Law, 2008, as amended and, as regards the group Financial Statements, Article 4 of the IAS Regulations.

Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- the director's explanation in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our assessment of risks of material misstatement

The risks set out below should be read in conjunction with the significant risk issues considered by the Audit Committee on page 73 and the significant accounting policies disclosed in note 4 to the Financial Statements. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

In arriving at our audit opinion on the Financial Statements as set out above, the risks of material misstatements that had the greatest impact on our audit were as follows:

Valuation of investment properties held by the group

Risk of material misstatement – The accounting policy in respect of investment properties is to hold them at fair value in the Financial Statements, and to recognise the movement in the value in the accounting period in the Income Statement. The Directors' assessment of the value of the investment properties at the period end date, is considered a significant audit risk due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity of the valuation process.

Audit approach adopted – We reviewed the independent valuation of investment properties to ensure they had been prepared on a consistent basis for all properties and are considered to be appropriate and correctly recorded in the Financial Statements in line with Accounting Standards.

We tested the inputs provided by the asset manager to the valuer and ensured these reflected the correct inputs for each property.

We considered market data for a sample of properties and ensured this was consistent with the valuation report.

We discussed significant movements with the property manager and the valuer and challenged where appropriate.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the Financial Statements as a whole.

At the audit planning stage the level at which an uncorrected misstatement would be material for the Financial Statements as a whole (FSM) was calculated as £4.1 million, which was not changed during the course of the audit. The figure was calculated by taking an average of a set percentage of the total for gross assets; total turnover; the results before tax, and the smallest disclosable item.

We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £75,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Shareholders of Regional REIT Limited *(continued)*

An overview of the scope of our audit

Our audit scope covered 100% of group revenue, group profit and total group assets, and was performed to the materiality levels set out above.

Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the International Standards on Auditing (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Guernsey) Law, 2008, as amended, we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent Company; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 58, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages 63 to 68 relating to the company's compliance with the provisions of the AIC Code specified for our review.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 61, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We read the other financial and non-financial information contained in the Annual Report and consider the implications for our report if we become aware of any material inconsistency with the Financial Statements or with knowledge acquired by us in the course of performing the audit, or any material misstatement of fact within the other information. We also read the information in the directors' report and consider the implications for our report if we become aware of any material inconsistency with the Financial Statements.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Law. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by the Companies (Guernsey) Law, 2008, as amended, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP, Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

22 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

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

	Notes	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Continuing Operations			
Revenue			
Rental income	5a	42,994	5,361
Non-recoverable property costs	6	(4,866)	(753)
Net rental income		38,128	4,608
Administrative and other expenses	7	(8,217)	(1,353)
Operating profit before gains and losses on property assets and other investments		29,911	3,255
Gain on the disposal of investment properties	15	518	86
Change in fair value of investment properties	15	(6,751)	23,784
Operating profit before exceptional items		23,678	27,125
Exceptional items	9	–	(5,296)
Operating profit after exceptional items		23,678	21,829
Finance income	10	193	177
Finance expense	11	(8,822)	(997)
Impairment of goodwill	17	(557)	–
Net movement in fair value of derivative financial instruments	25	(1,097)	115
Profit before tax		13,395	21,124
Taxation	12	23	–
Profit for the year after tax (attributable to owners of the parent)		13,418	21,124
Other comprehensive income		–	–
Total comprehensive income for the year		13,418	21,124
Attributable to:			
– Owners of the parent		13,418	21,124
– Non-controlling interests		–	–
		13,418	21,124

The total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	4.9p	7.7p
Earnings per share attributable to owners of the parent – diluted	13	4.9p	7.7p
EPRA earnings/(losses) per share attributable to owners of the parent – basic	13	7.7p	(1.1)p
EPRA earnings/(losses) per share attributable to owners of the parent – diluted	13	7.7p	(1.1)p

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

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

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Investment properties	15	502,425	403,702
Goodwill	17	2,229	2,786
Non-current receivables on lease surrender	18a	206	1,004
Non-current receivables on tenant loan	18b	1,541	–
		506,401	407,492
Current assets			
Trade and other receivables	19	11,375	11,848
Cash and cash equivalents	20	16,199	23,955
		27,574	35,803
Total assets		533,975	443,295
Liabilities			
Current liabilities			
Trade and other payables	21	(14,601)	(12,576)
Deferred income	22	(8,022)	(5,906)
Taxation	23	(662)	(2,387)
Bank and loan borrowings	24	–	(200)
		(23,285)	(21,069)
Non-current liabilities			
Bank and loan borrowings	24	(217,442)	(126,469)
Derivative financial instruments	25	(1,513)	(416)
		(218,955)	(126,885)
Total liabilities		(242,240)	(147,954)
Net assets		291,735	295,341
Equity			
Stated capital	28	274,217	274,217
Retained earnings		17,518	21,124
Total equity attributable to owners of the parent		291,735	295,341
Net assets per share – basic	29	106.4p	107.7p
Net assets per share – diluted	29	106.3p	107.7p
EPRA net assets per share – basic	29	106.9p	107.8p
EPRA net assets per share – diluted	29	106.9p	107.8p

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Attributable to owners of the parent: Stated capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		–	13,418	13,418
Share based payments	32	–	115	115
Dividends paid	14	–	(17,139)	(17,139)
Total transactions with owners, recognised directly in equity		–	(17,024)	(17,024)
Balance at 31 December 2016		274,217	17,518	291,735

For the period 22 June 2015 to 31 December 2015

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

	Notes	Attributable to owners of the parent: Stated capital £'000	Retained Earnings £'000	Total £'000
Balance at 22 June 2015		–	–	–
Total comprehensive income		–	21,124	21,124
Issue of Shares at no par value	28	274,217	–	274,217
Total transactions with owners, recognised directly in equity		274,217	–	274,217
Balance at 31 December 2015		274,217	21,124	295,341

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit for the year after taxation	13,418	21,124
– Change in fair value of investment properties	6,751	(23,784)
– Change in fair value of financial derivative instruments	1,097	(115)
– Gain on disposal of investment properties	(518)	(86)
Impairment of goodwill	557	–
Finance income	(193)	(177)
Finance expense	8,822	997
Share based payments	115	–
Taxation	(23)	–
Increase in trade and other receivables	(716)	(5,358)
Increase in trade and other payables and deferred income	2,124	5,167
Cash generated from/(used in) operations	31,434	(2,232)
Financial income	988	247
Finance costs	(7,614)	(671)
Taxation paid	(1,715)	–
Net cash flow generated from/(used in) operating activities	23,093	(2,656)
Investing activities		
Purchase of investment properties	(144,143)	(4,190)
Sale of investment properties	44,857	5,347
Interest received	60	12
Acquisition of subsidiaries, net of cash acquired	(5,573)	26,659
Net cash flow (used in)/generated from investing activities	(104,799)	27,828
Financing activities		
Dividends paid	(15,723)	–
Bank borrowings advanced	107,762	–
Bank borrowings repaid	(16,345)	(1,217)
Bank borrowing costs paid	(1,744)	–
Net cash flow generated from/(used in) financing activities	73,950	(1,217)
Net (decrease)/increase in cash and cash equivalents for the year	(7,756)	23,955
Cash and cash equivalents at the start of the year	23,955	–
Cash and cash equivalents at the end of the year	16,199	23,955

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Company Statement of Comprehensive Income

For the year ended 31 December 2016

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

	Notes	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Revenue			
Amounts charged to group entities	5b	837	–
Administrative and other expenses	7	(3,343)	(700)
Operating loss before exceptional items		(2,506)	(700)
Exceptional items	9	–	(5,296)
Operating loss after exceptional items		(2,506)	(5,996)
Finance income	10	19,061	5,150
Profit/(loss) before tax		16,555	(846)
Taxation	12	–	–
Profit/(loss) for the year after tax (attributable to equity shareholders)		16,555	(846)
Other comprehensive income		–	–
Total comprehensive income/(loss) for the year		16,555	(846)
Attributable to:			
Equity shareholders		16,555	(846)
		16,555	(846)

Total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	6.0p	(0.3)p
Earnings per share attributable to owners of the parent – diluted	13	6.0p	(0.3)p

The notes on pages 88 to 120 are an integral part of these financial statements.

Company Statement of Financial Position

As at 31 December 2016

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

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Investment in subsidiaries	16	274,286	274,217
		274,286	274,217
Current assets			
Trade and other receivables	19	870	3
Cash and cash equivalents	20	65	19
		935	22
Total assets		275,221	274,239
Liabilities			
Current liabilities			
Trade and other payables	21	(2,319)	(868)
Total liabilities		(2,319)	(868)
Net assets		272,902	273,371
Equity			
Stated capital	28	274,217	274,217
Accumulated losses		(1,315)	(846)
Total equity		272,902	273,371
Net assets per share – basic	29	99.5p	99.7p
Net assets per share – diluted	29	99.5p	99.7p

The notes on pages 88 to 120 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent
Non-Executive Director
22 March 2017

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2016		274,217	(846)	273,371
Total comprehensive income		–	16,555	16,555
Share based payments	32	–	115	115
Dividends paid	14	–	(17,139)	(17,139)
Total transactions with owners, recognised directly in equity		–	(17,024)	(17,024)
Balance at 31 December 2016		274,217	(1,315)	(272,902)

For the period 22 June 2015 to 31 December 2015

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

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 22 June 2015		–	–	–
Total comprehensive loss		–	(846)	(846)
Issue of Shares at no par value	28	274,217	–	274,217
Total transactions with owners, recognised directly in equity		274,217	–	274,217
Balance at 31 December 2015		274,217	(846)	273,371

The notes on pages 88 to 120 are an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2016

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit/(loss) for the year after taxation	16,555	(846)
Share based payments	46	–
Increase in trade and other receivables	(867)	(3)
Increase in trade and other payables and deferred income	35	868
Cash generated from operations	15,769	19
Financial income	–	–
Net cash flow generated from operating activities	15,769	19
Investing activities		
Acquisition of subsidiaries	–	–
Net cash flow used in investing activities	–	–
Financing activities		
Dividends paid	(15,723)	–
Net cash flow used in financing activities	(15,723)	–
Net increase in cash and cash equivalents for the year	46	19
Cash and cash equivalents at the start of the year	19	–
Cash and cash equivalents at the end of the year	65	19

The notes on pages 88 to 120 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2016 comprise the results of the Company and its subsidiaries (together constituting "the Group") and, together with the Company's financial statements, were approved by the Board and authorised for issue on 22 March 2017.

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

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

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

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

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

2. Basis of preparation

The Group's Consolidated and Company financial statements (together constituting "the financial statements") have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA (previously the Financial Services Authority ("FSA")) and with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB and as adopted by the European Union ("EU"), in accordance with Article 4 of the IAS Regulations and the Law.

The Group's 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 Company's financial statements have been prepared on a historical cost basis.

2.1. Comparative period

The comparative period reported in these financial statements is not a full year as the Group was not in existence for that period, but represents the period disclosed in the preceding financial statements from 22 June 2015 to 31 December 2015, however, trading did not commence until 6 November 2015.

2.2. Functional and presentation currency

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

2.3. Going concern

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

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

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

2.4. Business combinations

The Group may acquire subsidiaries that own investment properties. 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.

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

2. Basis of preparation *(continued)*

2.5. New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2016 have not had a significant impact on the preparation of these financial statements.

2.6. New standards, amendments and interpretations effective for future accounting periods

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2017, and have not been applied in preparing these financial statements. These are:

Amendments to IAS 7 'Statement of Cash Flows', is effective for annual period beginning on or after a January 2017. The amendments require the disclosure of cash and non-cash changes in liabilities arising from financing activities.

IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Other changes include changes to the model for impairments from "expected loss" to "incurred loss".

The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has yet to assess IFRS 15's full impact and intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

Amendment to IFRS 2, 'Classification and measurement of share-based payment transactions', is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 2 are intended to eliminate diversity in practice in three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The Group has yet to assess the full impact of the amendments to IFRS 2 and intends to adopt them no later than the accounting period beginning on or after 1 January 2018.

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, most leased assets are capitalised as "right-to-use-assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. This is a significant change for the lessee, however IFRS 16 substantially carries forward existing lessor accounting from IAS 17.

The Group has yet to assess the full impact of IFRS 16 and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2019.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £502,425,000 (31 December 2015: £403,702,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 15.

3.1.2. Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £1,513,000 (31 December 2015: £416,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £2,229,000 (31 December 2015: £2,786,000).

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

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

3.2.1. Operating lease contracts – the Group as lessor

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

3.2.2. Performance Fee

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.2. Critical judgements in applying the Group's accounting policies *(continued)*

3.2.2. Performance Fee (continued)

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no Performance Fee is ultimately due. Management have modelled a number of scenarios for the Performance Fee calculation and has concluded that it is appropriate for a liability to be accrued in the consolidated financial statements. Further details are disclosed in note 32.

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

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries (the "Credential Sub Group") by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement which means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 16.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the period ended 31 December 2015 and have been consistently applied for the year ended 31 December 2016. There are no significant changes to the financial statements arising from accounting standards effective for the first time.

4.1. Basis of consolidation

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

4.2. Subsidiaries

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

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

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

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

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

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

At Company level, the investments in subsidiary companies are included in the Statement of Financial Position at cost less impairment.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.2.1. Disposal of subsidiaries

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

4.3. Segmental information

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

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

4.4. Investment property

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

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

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

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

4.5. Goodwill

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

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

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of 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 Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.6. Derivative financial instruments

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

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

4.7. Financial assets

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for maturities of greater than twelve months from the end of the reporting period.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value, being carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written-off when identified. Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

4.9. Cash and cash equivalents

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

4.10. Trade payables

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

4.11. Bank and other borrowings

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

4.12. Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.13. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental income in the Group's Consolidated Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.13. Rental income *(continued)*

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

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

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

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

4.14. Non-recoverable property costs - service and management charges

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

4.15. Exceptional items

Exceptional items are those items of an income or expense of a non-recurring nature which are shown separately in the Group's Consolidated Statement of Comprehensive Income by virtue of their nature, size or incidence.

4.16. Interest income

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

4.17. Dividend income

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

4.18. Finance costs

Finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs, such as arrangement fees, that an entity incurs in connection with bank and other borrowings.

4.19. Taxation

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

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

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

4.20. Deferred tax

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.20. Deferred tax *(continued)*

The current rate of UK Corporation Tax is 20%. Reductions in UK Corporation Tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has been enacted that the rate will be further reduced to 17% from 1 April 2020.

4.21. Stated capital

Stated capital (previously described as share premium) represents the consideration received by the Company for the issue of Ordinary shares. Ordinary shares are classed as equity.

4.22. Share based payments

The Group has entered into Performance Fee arrangements with the Asset Manager and Investment Managers which depend on the growth in the net asset value of the Group exceeding a Hurdle Rate of return over a Performance Period. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a share-based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to Equity reserves.

Where the Company has an obligation to issue shares under the Performance Fee arrangements and the Performance Fee cost is recognised in a subsidiary company, the Company should recognise an increase in the investment of the subsidiary and the obligation to settle shares, where this arises, should be credited to equity.

5. Revenue

5a. Rental income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Rental Income – freehold property	36,233	4,500
Rental Income – long term leasehold property	6,761	861
Total	42,994	5,361

5b. Amounts charged to group entities

Amounts charged to group entities of £837,000 (2015: £nil) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non-recoverable property costs

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Property insurance expense	–	37
Other property expenses and irrecoverable costs	4,866	716
Total	4,866	753

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

7. Administrative and other expenses

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Investment management fees	1,914	264
Property management fees	1,698	203
Performance fees	249	–
Asset management fees	1,675	232
Directors' remuneration (see note 8)	186	48
Administration fees	543	118
Legal and professional fees	1,671	390
Marketing and promotion	73	15
Other administrative costs	184	82
Bank charges	24	1
Total	8,217	1,353
Company		
Investment management fees	1,584	218
Performance fees	110	–
Directors' remuneration (see note 8)	186	48
Administration fees	222	34
Legal and professional fees	1,009	289
Marketing and promotion	73	15
Other administrative costs	159	96
Total	3,343	700

The number of persons employed by the Group and Company in the year was 5, being the Directors, whose remuneration is set out in note 8.

Services provided by the Company's auditor and its associates

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Audit of the annual financial statements	63	87
Review of the half year financial statements	25	–
Audit of the subsidiaries for their respective periods of account	131	105
Corporate finance services in connection with the flotation	–	250
Tax compliance services provided to the subsidiaries	112	69
Total	331	511

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

8. Directors' remuneration

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group & Company		
Directors' fees	170	42
Employers National Insurance contributions	16	6
Total	186	48

9. Exceptional items

There were no exceptional items recognised in the year ended 31 December 2016. Exceptional items of £5,296,000 recognised in the period 22 June 2015 to 31 December 2015 comprise the professional fees and regulatory costs associated with the acquisition and the listing of the shares on the London Stock Exchange.

10. Finance income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest income	60	13
Other finance income	(99)	99
Unwinding of the discount on financial assets	232	65
Total	193	177
Company		
Group dividend income	19,061	5,150
Total	19,061	5,150

11. Finance expense

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest payable on bank borrowings	7,821	910
Amortisation of loan arrangement fees	1,001	87
Total	8,822	997

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

12. Taxation

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Income tax credit	(36)	–
Increase in deferred tax creditor	13	–
Total	(23)	–

The current tax charge/(credit) is reduced by the UK REIT tax exemptions. The Tax credit is due to the release of a historic accrual. The tax charge/(credit) for the year can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Profit before taxation	13,395	21,124
UK Corporation tax rate	20%	20%
Theoretical tax at UK Corporation tax rate	2,679	4,225
Effects of:		
Revaluation loss/(gain) on investment properties	1,350	(4,757)
Profits from tax exempt business	–	(359)
Permanent differences	(3,601)	1,023
Utilisation of losses brought forward	14	(132)
Taxation losses and other timing differences	(343)	–
Prior year adjustment	(122)	–
Total	(23)	–

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

Company		
Profit/(loss) before taxation	16,555	(846)
UK Corporation tax rate	20%	20%
Theoretical tax at UK Corporation tax rate	3,311	(169)
Effects of:		
Permanent differences	(3,311)	169
Total	–	–

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

13. Earnings per share

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary shares. As detailed in note 32, an estimate of Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

Group

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	13,418	21,124
Adjustments to remove:		
Changes in value of investment properties	6,751	(23,784)
Changes in fair value of interest rate derivatives and financial assets	865	(180)
Gain on disposal of investment property	(518)	(86)
Impairment of goodwill	557	–
EPRA Net profit/(loss) attributable to Ordinary Shareholders	21,073	(2,926)
Add back exceptional items	–	5,296
Adjusted Net profit before exceptional items attributable to Ordinary Shareholders	21,073	2,370
Weighted average number of Ordinary Shares	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted weighted average number of Ordinary Shares	274,324,993	274,217,264
Earnings per share – basic	4.9p	7.7p
Earnings per share – diluted	4.9p	7.7p
EPRA Earnings/(loss) per share – basic	7.7p	(1.1)p
EPRA Earnings/(loss) per share – diluted	7.7p	(1.1)p
Adjusted Earnings per share before exceptional items – basic	7.7p	0.9p
Adjusted Earnings per share before exceptional items – diluted	7.7p	0.9p

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

13. Earnings per share *(continued)*

Company

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit/(loss) attributable to Ordinary Shareholders	16,555	(846)
Add back exceptional items	–	5,296
Net profit attributable to Ordinary Shareholders before exceptional items	16,555	4,450
Weighted average number of Ordinary Shares	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted weighted average number of Ordinary Shares	274,324,993	274,217,264
Earnings/(loss) per share – basic	6.0p	(0.3)p
Earnings/(loss) per share – diluted	6.0p	(0.3)p
Earnings per share before exceptional items – basic	6.0p	1.6p
Earnings per share before exceptional items – diluted	6.0p	1.6p

14. Dividends

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group and Company		
Dividend of 1.00 pence per Ordinary share (for the period 6 Nov 2015-31 Dec 2015)	2,742	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Jan 2016-31 Mar 2016)	4,799	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Apr 2016-30 Jun 2016)	4,799	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Oct 2016-30 Sep 2016)	4,799	–
Total	17,139	–

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

On 27 May 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 January 2016 to 31 March 2016. The dividend payment was made on 8 July 2016 to shareholders on the register as at 10 June 2016.

On 1 September 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 April 2016 to 30 June 2016. The dividend payment was made on 7 October 2016 to shareholders on the register as at 9 September 2016.

On 17 November 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 July 2016 to 30 September 2016. The dividend payment was made on 22 December 2016 to shareholders on the register as at 25 November 2016.

On 23 February 2017 the Company announced a dividend of 2.40 pence per share in respect of the period 1 October 2016 to 31 December 2016. The dividend will be paid on 13 April 2017 to shareholders on the register as at 3 March 2017. The financial statements do not reflect this dividend.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

15. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, Chartered Surveyors, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

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

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

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions – acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the year	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016	424,310	78,115	502,425
Movement in investment properties for the period 22 June 2015 to 31 December 2015			
Upon acquisition of subsidiaries	319,541	61,448	380,989
Property additions	1,020	3,170	4,190
Property disposals	(5,347)	–	(5,347)
Gain on the disposal of investment properties	86	–	86
Change in fair value during the period	16,752	7,032	23,784
Valuation at 31 December 2015	332,052	71,650	403,702

The historic cost of the properties is £488,104,000 (31 December 2015: £379,918,000).

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

	31 December 2016 £'000	31 December 2015 £'000
As set out in Cushman & Wakefield's valuation report	502,425	405,422
Adjustment in respect of Blythswood House disposal after period end	–	(1,720)
As shown in the Consolidated Statement of Financial Position	502,425	403,702

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

15. Investment properties *(continued)*

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

Date of valuation	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2016	502,425	–	502,425	–
31 December 2015	403,702	–	403,702	–

The hierarchy levels are defined in note 25.

There have been no transfers between levels during the year.

The determination of Fair Value of the investment properties requires the analysis of current and future cash flows from assets (taking into account current income, void holding costs, comparable evidence, tenant covenant strength and potential capital expenditure) and the appropriate capitalisation rates for those assets.

Future revenue streams comprise contracted rent (passing rent), estimated rental value ("ERV") and Market Rental value. In calculating ERV and Market Rent, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2016, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

Techniques used for valuing investment properties

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

Valuation technique: market comparable method

Under the market comparable method (or market approach), a property 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: £3,100-£3,119,381 per annum (2015: £1-£1,350,000 per annum).

Observable Input: Rental growth

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

Observable Input: net initial yield

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 0.28%-29.23%) (2015: 1.84%-23.05%).

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 Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cost at start of year	274,217	–
Acquisitions of subsidiaries during the year	69	274,217
Cost at end of year	274,286	274,217

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

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

	Country of incorporation	Ownership %
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%
Tosca Faraday Close Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Rosalind Ltd	Jersey	100%
Tosca Scotland Limited	Jersey	100%
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

	Country of incorporation	Ownership %
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%

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

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

Under this option, the Group may acquire any of the properties held by the Credential Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice is obliged to convey its title within one month after receipt of the option notice. The option may be exercised in whole by serving one option notice in respect of all the remaining relevant assets or on any number of occasions by servicing any number of separate option notices.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries *(continued)*

The companies which make up the Credential Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	Ownership %
Castlestream Limited	United Kingdom	100%
Caststop Limited	United Kingdom	100%
Credential (Baillieston) Limited	United Kingdom	100%
Credential (Greenock) Limited	United Kingdom	100%
Credential (Peterborough) Limited	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%
Credential Bath Street Limited	United Kingdom	100%
Credential Charring Cross Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Investment Holdings Limited	United Kingdom	100%
Credential Muirhouse Limited	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Credential SHOP Limited	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
Douglas Shelf Seven Limited	United Kingdom	100%
Dumbarton Road Limited	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
London & Scottish Property Management Limited	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Squeeze Newco 2 Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%

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

Business Combinations

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

During the year there was only one subsidiary company acquisition. The acquisition of Toscafund Strathclyde BP Limited took place in order for the Group to acquire the investment property owned by that company. This acquisition has not been treated as a business combination. For further details please refer to the Group's basis of preparation note 2.4.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

17. Goodwill

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	2,786	–
Goodwill arising on acquisition of subsidiaries	–	2,786
Impairment	(557)	–
At end of year	2,229	2,786

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

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

18. Non-current receivables

18a. Non-current receivables on lease surrender premium

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	1,760	–
Arising on acquisition of subsidiaries	–	1,942
Movement in year	(988)	(247)
Unwinding of discount	232	65
At end of year	1,004	1,760
Asset due within 1 year	798	756
Asset due after 1 year	206	1,004
	1,004	1,760

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 4-years with the final instalment to be paid in the quarter ending 31 March 2018. The amount due was recognised initially at fair value and subsequently recorded at amortised cost using the effective interest method. The unwinding of the discount is included in finance income.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

18. Non-current receivables *(continued)*

18b. Non-current receivables on tenant loans

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	–	–
Amounts loaned in the year	1,926	–
At end of year	1.926	–
Asset due within 1 year	385	–
Asset due after 1 year	1,541	–
	1,926	–

During 2016 the Group entered into a loan agreement with a tenant for £1,926,000. The loan is subject to interest of 4% above the base rate of the Bank of Scotland and is repayable in instalments over 10-years.

19. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Gross amount receivable from tenants	4,384	3,246
Less provision for impairment	(258)	(228)
Net amount receivable from tenants	4,126	3,018
Current receivables – surrender premium (note 18a)	798	756
Current receivables – tenant loans (note 18b)	385	–
Other receivables	2,487	5,257
Prepayments	3,579	2,817
	11,375	11,848

	31 December 2016 £'000	31 December 2015 £'000
Company		
Other debtors	837	–
Prepayments	33	3
	870	3

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

19. Trade and other receivables *(continued)*

The aged analysis of trade receivables that are past due but not impaired was as follows:

	31 December 2016 £'000	31 December 2015 £'000
Current	1,176	1,485
< 30 days	1,692	571
30-60 days	806	550
> 60 days	710	640
	4,384	3,246
Less provision for impairment	(258)	(228)
	4,126	3,018

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

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

Provision for impairment of trade receivables movement as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	228	–
Arising on acquisition of subsidiaries	–	228
Provision for impairment in the year	184	–
Receivables written off as uncollectable	(7)	–
Unused provision reversed	(147)	–
At end of year	258	228

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

20. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Group		
Cash held at bank	10,850	15,155
Restricted cash held at bank	5,349	8,800
At end of year	16,199	23,955

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cash held at bank	65	19
Restricted cash held at bank	–	–
At end of year	65	19

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

20. Cash and cash equivalents *(continued)*

Restricted cash balances of the Group comprise:

- £2,000 (2015: £6,349,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £4,025,000 (2015: £2,171,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £1,322,000 (2015: £280,000) of funds which represent tenants' rental deposits.

All restricted cash balances will be available before 31 March 2017.

21. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Withholding tax due on dividends paid	1,416	–
Trade payables	3,381	2,513
Other payables	5,164	5,095
Value added tax	1,136	1,092
Accruals	3,504	3,876
At end of year	14,601	12,576

	31 December 2016 £'000	31 December 2015 £'000
Company		
Withholding tax due on dividends paid	1,416	–
Accruals	903	868
At end of year	2,319	868

22. Deferred income

Deferred rental income represents rent received in advance from tenants.

23. Taxation liabilities

	31 December 2016 £'000	31 December 2015 £'000
Group		
Income tax	36	1,775
Deferred tax	626	612
	662	2,387

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

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

	31 December 2016 £'000	31 December 2015 £'000
Group		
Bank borrowings drawn at start of year	128,643	–
Bank borrowings drawn	107,762	128,643
Bank borrowings repaid	(16,345)	–
Bank borrowings drawn at end of year	220,060	128,643
Less: unamortised costs	(874)	(1,875)
Less: loan issue costs incurred in the period	(1,744)	–
Less: adjustment through finance income	–	(99)
At end of year	217,442	126,669
Maturity of bank borrowings		
Repayable within 1 year	–	200
Repayable between 1 to 2 years	58,960	200
Repayable between 2 to 5 years	158,482	126,269
	217,442	126,669

During the year, largely to fund property acquisitions, the Group increased its borrowings and refinanced existing facilities. The total outstanding debt drawn is less than the total of the original facility due to the repayment of debt following the sale of one of the assets on which borrowings were secured. At 31 December 2016 the amount of undrawn debt was £nil (31 December 2015: £nil). The weighted average term to maturity of the Group's debt at the year end was 2.9 years (31 December 2015: 3.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the year end was 3.3% (31 December 2015: 4.1%).

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Gross LTV (%)	Interest cost per annum	Amortisation
Santander UK	48,300	45,432	Dec '18	43.0	2.00% over 3 month LIBOR	Mandatory prepayment
Santander UK	25,343	14,340	Dec '18	34.2	2.00% over 3 month LIBOR	Mandatory prepayment
Royal Bank of Scotland	25,000	24,450	Jun '19	42.1	2.15% over 3 month LIBOR	None
ICG Longbow Ltd	65,000	65,000	Aug '19	44.3	5.00% pa for term	None
Royal Bank of Scotland	40,000	39,848	Mar '21	50.2	2.40% over 3 month LIBOR	Mandatory prepayment
Santander UK	30,990	30,990	Jan '21	48.1	2.15% over 3 month LIBOR	Mandatory prepayment
	234,633	220,060				

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

As shown in note 25, 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

25. Derivative financial instruments

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

	31 December 2016 £'000	31 December 2015 £'000
Group		
Fair value at start of year	(416)	–
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	–	(531)
Fair value (loss)/gain	(1,097)	115
Fair value at end of year	(1,513)	(416)

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.

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

	Loan Details				Swap Details	
Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Interest cost per annum	Notional Amount £'000	Rate %
Santander UK	48,300	45,432	Dec '18	2.00% over 3 month LIBOR	6,000 18,150	1.867 1.014
Santander UK	25,343	14,340	Dec '18	2.00% over 3 month LIBOR	3,400 9,271	2.246 1.010
Royal Bank of Scotland	25,000	24,450	Jun '19	2.15% over 3 month LIBOR	12,480 20	1.790 1.110
ICG Longbow Ltd	65,000	65,000	Aug '19	5.00% pa for term	n/a	n/a
Royal Bank of Scotland	40,000	39,848	Mar '21	2.40% over 3 month LIBOR	19,900	1.395
Santander UK	30,990	30,990	Jan '21	2.15% over 3 month LIBOR	9,375 6,920 5,280	1.086 1.203 1.444
	234,633	220,060			90,796	

The weighted average cap and swap rate for the Group as at the year end was 3.5% (31 December 2015: 4.4%), with a Group weighted average effective interest rate of 3.7% (31 December 2015: 4.5%) 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 debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end the total proportion of hedged debt equated to 106.5% (31 December 2015: 90.1%), as shown below. The over-hedge at 31 December 2016 is the result of a property disposal and the hedging position was under review, subsequent to the year end the over hedged position has been reduced to 101.6%.

	31 December 2016 £'000	31 December 2015 £'000
Total bank borrowings	220,060	128,643
Notional value of interest rate caps and swaps	169,441	50,825
Value of fixed rate debts	65,000	65,000
	234,441	115,825
Proportion of hedged debt	106.5%	90.1%

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

25. Derivative financial instruments *(continued)*

Fair value hierarchy

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

The different levels are defined as follows.

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

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

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

For assets and liabilities that are recognised in the 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.

Interest rate derivatives	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2016	(1,513)	–	(1,513)	–
31 December 2015	(416)	–	(416)	–

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

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

26. Financial risk management

26.1. Financial instruments

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

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

	31 December 2016		31 December 2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Group				
Financial assets – measured at amortised cost				
Trade and other receivables	9,543	9,543	10,035	10,035
Cash and short-term deposits	16,199	16,199	23,954	23,954
Financial liabilities – measured at amortised cost				
Trade and other payables	(15,263)	(15,263)	(14,963)	(14,963)
Bank and loan borrowings	(217,442)	(217,442)	(126,669)	(126,669)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(1,513)	(1,513)	(416)	(416)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.1. Financial instruments *(continued)*

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

	31 December 2016		31 December 2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Company				
Financial assets – measured at amortised cost				
Trade and other receivables	837	837	–	–
Cash and short-term deposits	65	65	19	19
Financial liabilities – measured at amortised cost				
Trade and other payables	(2,319)	(2,319)	(868)	(868)

26.2. Risk management

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

26.3. Market risk

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

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

If interest rates were to increase by the following rates, this would increase the annual interest charge to the Group and thus reduce profits and net assets as follows:

Interest rate increase (%)	Increase to the annual interest charge £'000
0.00	–
0.25	186
0.50	372
0.75	529
1.00	592

26.4. Credit risk

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

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

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.5. Credit risk related to trade receivables

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

26.6. Credit risk related to financial instruments and cash deposits

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

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

Bankers	Fitch Ratings
Barclays	A
Royal Bank of Scotland	BBB+
Santander UK	A

26.7. Liquidity risk

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

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

Group at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(15,263)	–	–	(15,263)
Bank borrowings	(7,177)	(66,093)	(164,942)	(238,212)
Interest rate derivatives	(884)	(874)	(528)	(2,286)
	(23,324)	(66,967)	(165,470)	(255,761)

Group at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(14,963)	–	–	(14,963)
Bank borrowings	(5,275)	(5,275)	(135,410)	(145,960)
Interest rate derivatives	(464)	(464)	(495)	(1,423)
	(20,702)	(5,739)	(135,905)	(162,346)

Derivative instrument interest rate swaps and caps with a negative fair value are included within the less than one year category.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.7. Liquidity risk *(continued)*

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

Company at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(2,319)	–	–	(2,319)

Company at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(868)	–	–	(868)

27. Capital management

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

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

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

Based on current market conditions, the Board will target Group net borrowings of 35% of Investment Property Values at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent. of the Investment Property Values at any time without the prior approval of Ordinary shareholders in a General Meeting.

Debt will be secured at the asset level subject to the assessment of the optimal financing structure for the Group and having consideration to key metrics including lender diversity, debt type and maturity profile.

28. Stated capital

Stated capital (previously described as share premium) represents the consideration received by the Company for the issue of Ordinary shares.

	31 December 2016 £'000	31 December 2015 £'000
Issued and fully paid shares at £1 per share	274,217	274,217
Number of shares in issue		
At start of the year	274,217,264	–
Initial issued share capital	–	1
Shares issued	–	274,217,263
At end of the year	274,217,264	274,217,264

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

28. Stated capital *(continued)*

The Company was incorporated on 22 June 2015 and issued one ordinary share of no par value at a price of 100 pence to the sole subscriber.

On 16 October 2015 a further 3 ordinary shares of no par value were issued at a price of 100 pence each. The shares issued have the same rights as the subscriber share.

On 6 November 2016 the Company issued 274,217,260 ordinary shares of no par value to the general partners of four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) in consideration for their shares in Regional Commercial MIDCO Limited. The fair value of the shares issued amounted to £274,217,260 and the shares issued have the same rights as the other shares in issue.

On 6 November 2015, the Group announced that its entire share capital of 274,217,264 Ordinary Shares had been admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange.

29. Net asset value per share (NAV)

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

Dilutive instruments to future the partial settlement of the Performance Fee by the future issue of Ordinary shares. As detailed in note 32, an estimate Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

Net asset values have been calculated as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	291,735	295,341
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	1,513	416
EPRA net assets	293,248	295,757
Number of Ordinary Shares in issue	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted number of Ordinary Shares	274,324,993	274,217,264
Net asset value per share – basic	106.4p	107.7p
Net asset value per share – diluted	106.3p	107.7p
EPRA net asset value per share – basic	106.9p	107.8p
EPRA net asset value per share – diluted	106.9p	107.8p

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

29. Net asset value per share (NAV) *(continued)*

	31 December 2016 £'000	31 December 2015 £'000
Company		
Net asset value per Company Statement of Financial Position	272,902	273,371
Number of Ordinary Shares in issue	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted number of Ordinary Shares	274,324,993	274,217,264
Net asset value per share – basic	99.5p	99.7p
Net asset value per share – diluted	99.5p	99.7p

30. Operating leases

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

	31 December 2016 £'000	31 December 2015 £'000
Group		
Receivable within 1 year	37,950	3,842
Receivable between 1 to 2 years	–	–
Receivable between 2 to 5 years	100,292	55,958
Receivable after 5 years	88,243	87,374
	226,485	147,174

The Group has in excess of 684 operating leases. The number of years remaining on these operating leases varies between 1 and 61 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point a surrender premium will be charged to cover the shortfall in rental income received.

31. Segmental information

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

Segmental reporting information was disclosed in the previous annual report and financial statements for the period ending 31 December 2015. This was a short period of trading and at the time of reporting it was unclear on whether the business would be split into segments for the purpose of reporting.

32. Transactions with related parties

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

32. Transactions with related parties *(continued)*

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.

Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited (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 year and the amount outstanding at the end of the year:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Asset management fees charged*	1,675	232
Property management fees charged*	1,698	165
Performance fees charged	115	–
Total	3,488	397

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding**	563	397

* Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

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

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

Transactions with the Investment Manager, Toscafund Asset Management LLP

Martin McKay is a Non-Executive Director of Regional REIT Limited and is the Chief Financial Officer of Toscafund Asset Management LLP. The LLP is also the discretionary Investment Manager of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited, all of which previously owned shares in Regional REIT Limited. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

32. Transactions with related parties *(continued)*

Transactions with the Investment Manager, Toscafund Asset Management LLP (continued)

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

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

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Investment management fees charged*	1,914	264
Performance fees charged	115	–
Irrecoverable VAT on performance fees charged	19	–
Total	2,048	264

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding**	609	264

* Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

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 Shareholder Returns in excess of the Hurdle Rate of 8% for the relevant Performance Period. Shareholder Returns for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the Performance Period. A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-185 of the IPO Prospectus.

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

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

Based on the EPRA Net Asset Value of the Group as at 31 December 2016 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2016 was estimated at £249,000 (31 December 2015: £95,000). This fee has been accrued in the consolidated financial statements for the year ended 31 December 2016 but none in the comparative period. To reflect the nature of the future payment of the performance fee charge, 50% of the fee along with the irrecoverable VAT thereon of £19,000 has been accrued as a liability of £134,000 and the 50% of the fee which is payable by the issue of Ordinary shares has been reflected as a share based payment in the Consolidated Statement of Changes in Equity.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

33. Operating lease commitments

Total commitments on operating leases in respect of land and buildings are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Payable within 1 year	485	261
Payable between 1 to 2 years	485	261
Payable between 2 to 5 years	1,456	783
Payable after 5 years	37,794	18,240
	40,220	19,545

34. Subsequent events

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC ("Conygar") to acquire an investment portfolio of 31 regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants, and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited. Ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations on zero dividend preference shares total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares and the two banks currently providing secured lending to Conygar. Once the transaction completes, the Group will consider if it is to be treated as a business combination under IFRS 3 or an asset acquisition.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

Glossary of Terms

AIF – Alternative Investment Fund.

AIFM – Alternative Investment Fund Manager.

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.

Contracted Rent – Annualised rent, adjusting for the inclusion of rent free periods. See also Passing Rent.

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.

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 Valuer is Cushman & Wakefield.

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

Gross Property Assets – Investment properties encompassing the entire property portfolio of freehold and leasehold assets.

Gross Rental Income – Accounting based rental income under IFRS. When the Group provides lease incentives to its tenants the lease incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is the cash Passing Rent as adjusted for the spreading of these incentives.

Group – Regional REIT Limited and its subsidiaries.

IPO – Initial Public Offering. The Company's Admission to London Stock Exchange was 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.

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

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

Manager – The Company's external Asset and Property Manager is London & Scottish Investments Limited. Its external Investment Manager is Toscafund Asset Management LLP.

Net Asset Value (NAV) (or Shareholder' 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 Gearing – (Borrowings – cash and cash equivalents) / (Total Issued Shares + Retained Earnings).

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Glossary of Terms *(continued)*

Net Initial Yield – (Annualised current passing rent less non-recoverable property expenses, such as empty rates) / (Investment Properties Value). This phrase is regularly used for Triple Net Initial Yield (NNNIY).

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

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

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.

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 (ie, 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.

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

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

Reversion – Expected increase in rent estimated by the Company's External Valuer, 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.

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

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees). The calculation excludes residential leases and development properties where relevant.

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

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

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

AIFMD Disclosure

The Alternative Investment Fund Managers' Directive ("AIFMD"), requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within the Initial Public Offering ("IPO") Prospectus, which can be found on the Group's website at: www.regionalreit.com. There have been no material changes to the disclosures contained within the IPO document since its publication on 3 November 2015.

Management Agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited ("LSI") as Asset Manager and Toscafund Asset Management LLP ("Toscafund" or the "AIFM") as Investment Manager. LSI and Toscafund each receive half of an annual management fee on a scaled rate of 1.1 % of the European Public Real Estate Association ("EPRA") net asset value (NAV) up to £500 million and 0.9% above £500 million. A Performance Fee will also be paid to LSI and Toscafund.

The investment management agreement between the Company and Toscafund (the "Management Agreement") may be terminated by either party giving 12 months' written notice. No additional compensation is payable to the AIFM on the termination of this agreement other than the fees payable during the notice period.

Toscafund was authorised as an Alternative Investment Fund Manager ("AIFM"), by the UK's Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy ("the Policy"), which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Regional REIT Limited during the period 1 January 2016 to 31 December 2016 was £2,338,044.

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM and LSI. The Board, through its Audit Committee and Management Engagement and Remuneration Committee (the "Committees"), has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. This is because of the good performance of the Group and because the remuneration of the AIFM is fair both in absolute terms and compared to that of managers of similar investment companies. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

Risk management by the AIFM

The AIFM has established and maintains a permanent and independent risk management function to ensure that there is a comprehensive and effective risk management policy in place and to monitor compliance with risk limits. The risk policy applicable to the Group covers the risks associated with the management of the investment portfolio and the AIFM reviews and approves the adequacy and effectiveness of the policy on at least an annual basis, including the risk management processes and controls and limits for each risk area. The AIFM sets risk limits that take into account the risk profile of the Group's investment portfolio, as well as its investment objectives and strategy. The AIFM monitors the risk limits, including leverage, and periodically assesses the portfolio's sensitivity to key risks. The AIFM reviews risk limit reports at regular meetings of its Risk Committee.

Principal risks and uncertainties

The Board considers that the following are the principal risks associated with investing in the Group: investment risk, market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 26 on pages 112 to 115 of the Financial Statements.

Shareholder Information 121 - 126

AIFMD Disclosure *(continued)*

Leverage

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. The Group has entered into five separate banking facilities during the period, drawing on £220.1 million of secured debt. All available debt facilities have been fully drawn.

Leverage has been measured in terms of the Group's exposure, and is expressed as a ratio of net asset value. The AIFMD requires this ratio to be calculated in accordance with both the Gross Method and the Commitment Method. Details of these methods of calculation can be found by referring to the AIFMD. In summary, these methods express leverage as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. The principal difference between the two methods is that the Commitment Method enables derivative instruments to be netted off to reflect hedging arrangements and the exposure is effectively reduced, while the Gross Method aggregates the exposure.

The AIFMD introduced a requirement for the AIFM to set maximum levels of leverage for the Group. The Company's AIFM has set a maximum limit of 400 for both the Gross and Commitment Methods of calculating leverage.

At 31 December 2016 this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	230	235

In accordance with the AIFMD, any changes to the maximum level of leverage set by the Group will be communicated via the Group's website to the Shareholders.

Company Information

Directors

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

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

Daniel Taylor (Independent Non-Executive Director)

Stephen Inglis (Non-Executive Director)

Martin McKay (Non-Executive Director)

Company Secretary

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

Registered office

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

Asset Manager

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

Investment Manager

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

Financial Adviser and Broker

Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

Legal Adviser to the Company

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

Administrator

Jupiter Fund Services Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey
GY1 3US

Sub-Administrator

Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

Auditor

RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

Registrar

Capita Registrars (Guernsey) Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Phone: 0871 664 0300

Calls cost 12p per minute plus your providers access charge. If outside the United Kingdom call +44 371 664 0300.

Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00 and 17:30 Monday to Friday (excluding public holidays in England and Wales).

For shareholder enquiries please email shareholderenquiries@capita.co.uk

Depositary

Heritage Depositary Company (UK) Limited
Innovation Centre
Northern Ireland Science Park
Queens Road
Belfast
County Antrim
BT3 9DT

Valuers

DTZ Debenham Tie Leung Limited (trading as Cushman & Wakefield)
125 Old Broad Street
London
EC2N 2BQ

Regional REIT Limited

ISIN:
GB00BYV2ZQ34

SEDOL:
BYV2ZQ3

ESMA Legal Entity Identifier:
549300D8G4NKLRIKBX73

Company Website

www.regionalreit.com

Shareholder Information 121 - 126

Forthcoming Events

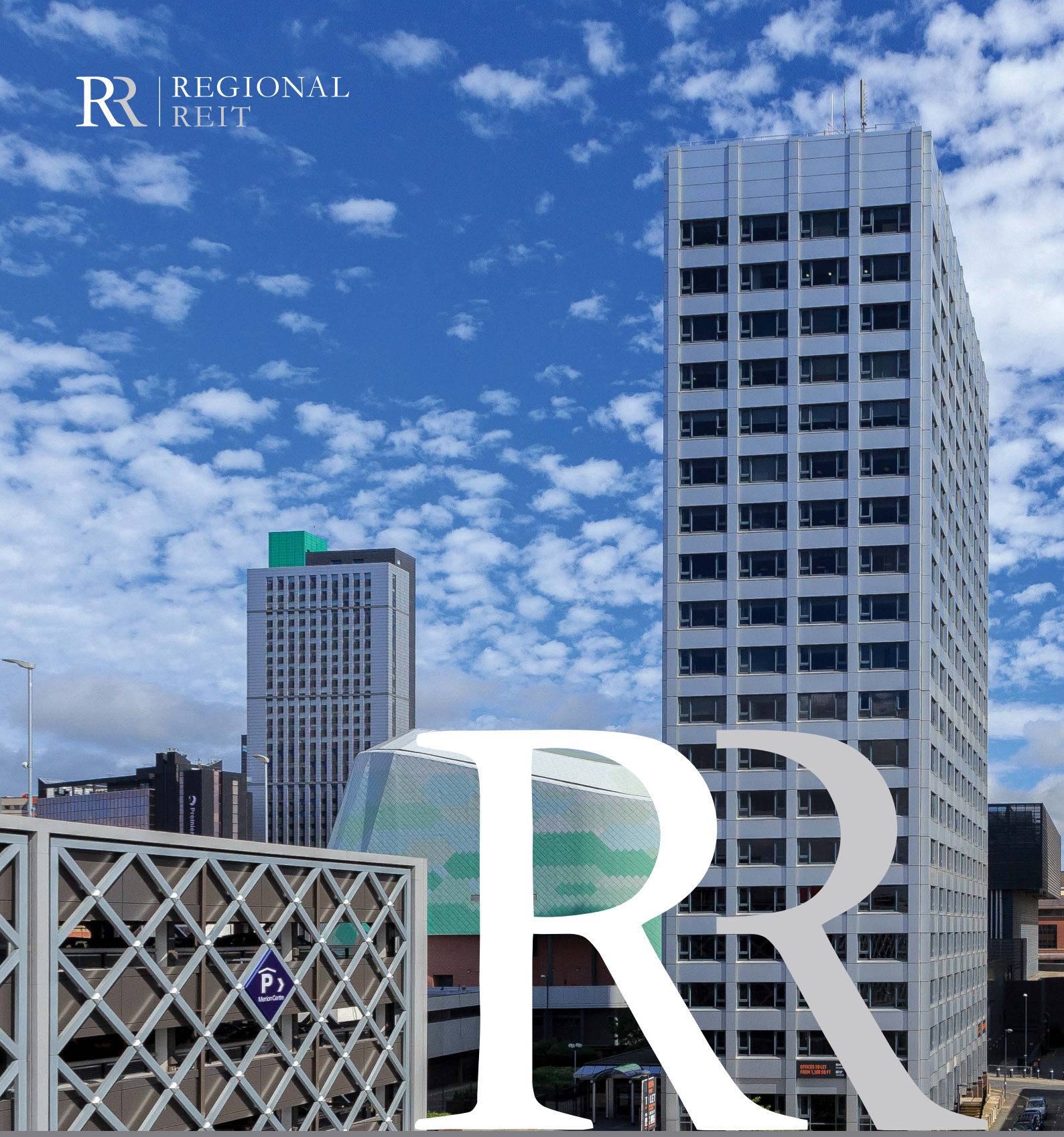
Q1 2017 Trading Update, AGM Statement and Dividend Announcement	25 May 2017
2016 Annual General Meeting	25 May 2017
Q2 2017 Dividend Announcement	31 August 2017
2017 Interims Results Announcement	14 September 2017
Q3 2017 Trading Update and Dividend Announcement	16 November 2017

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

REGIONAL REIT

Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH
www.regionalreit.com

REGIONAL REIT



Annual Report and Accounts

for the year ended 31 December 2017

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Cover photo: Arena Point, Leeds

Who we are

Regional REIT Limited ("Regional REIT", or the "Company") and its subsidiaries[1] (the "Group") is a United Kingdom based real estate investment trust. Regional REIT is managed by London & Scottish Investments Limited ("LSI"), the Asset Manager, and Toscafund Asset Management LLP ("Tosca"), the Investment Manager, and was formed from the combination of property funds previously created by the Managers.

Regional REIT's commercial property portfolio is wholly in the UK and comprises, predominantly, offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The portfolio is highly diversified, with 164 properties, 1,368 units and 1,026 tenants as at 31 December 2017, with a valuation of £737.3m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional property assets. The Group offers investors a differentiated play on the recovery prospects of UK regional property. Regional REIT aims to deliver an attractive total return to its Shareholders, targeting 10-15% per annum, with a strong focus on income and good capital growth prospects.

Office

Tay House, Glasgow

Industrial

Winsford Industrial Estate, Winsford

Retail/Other

1-4 Llansamlet Retail Park, Swansea

For more information visit the Group's website at www.regionalreit.com.

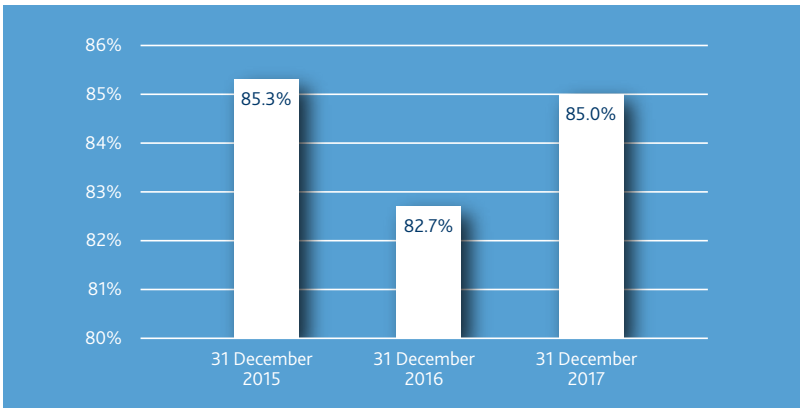
[1] Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law 2008, as amended and the International Financial Reporting Standard ("IFRS") 10, 'Consolidated Financial Statements', as issued by the International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

Performance Highlights 2017

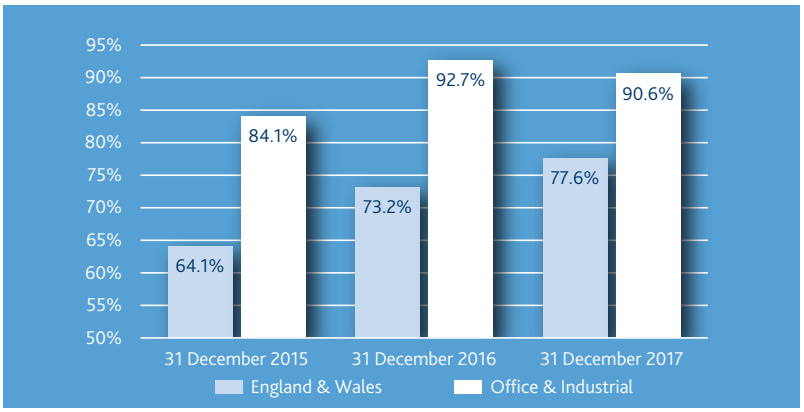
Continued targeted and opportunistic acquisition of commercial property coupled with intensive asset management

Property acquisitions	£228.1m (before costs) including 3 major acquisitions amounting to £216.9m
Profitable property disposals	£16.9m (net of costs)
Active management portfolio occupancy (by value)	85.0% as at 31 December 2017
Diversified portfolio (by value)	77.6% England & Wales 90.6% Office & Industrial
Member of FTSE All Share Index since March 2016	
Member FTSE EPRA NAREIT UK Index since June 2016	

Portfolio Occupancy (by value)



Share of Gross Property Portfolio (by value)



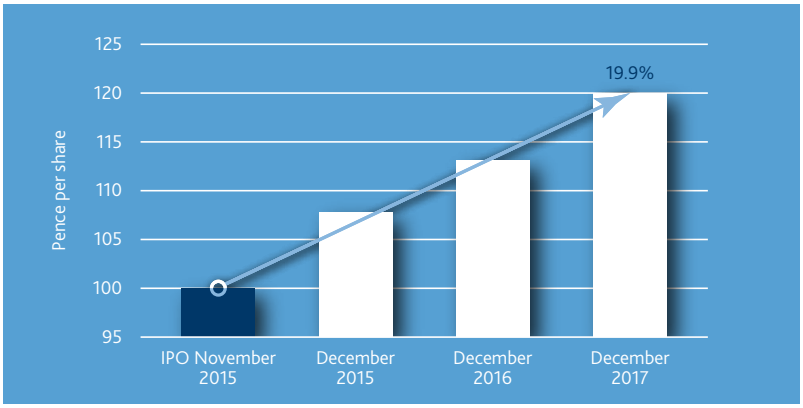
Performance Highlights 2017

Continued geographical spread of properties growing the number and diversity of tenants, securing income

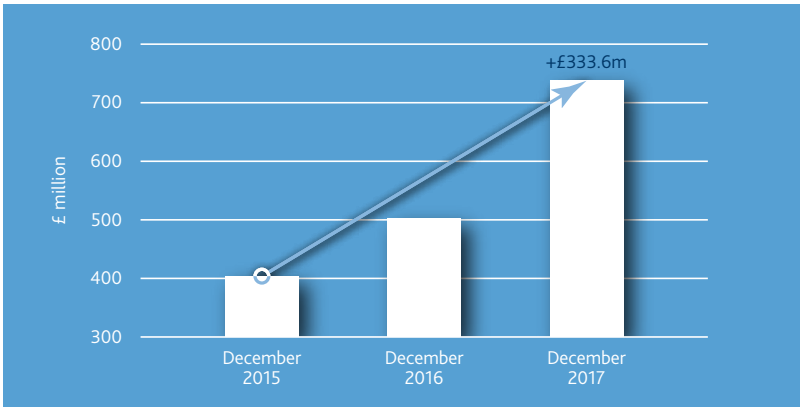
Dividends declared per share:	
2017	7.85p
2016	7.65p
2015	1.00p
EPRA Net Asset Value since Admission* (Admission: 100p)	+5.9%
EPRA Total Return attributable to Shareholders since Admission	+19.9%
Operating profit before gains and losses on property assets & other investments	£36.4m
Profit before tax	£28.7m
EPRA Cost Ratio for the year ended 31 December 2017	29.7%
Investment Properties Valuation as at 31 December 2017	£737.3m
Net Loan To Value	45.0%

* Admission: 6 November 2015

Total Shareholder Return (from IPO)
(EPRA NAV & dividends declared)



Investment Properties Valuation

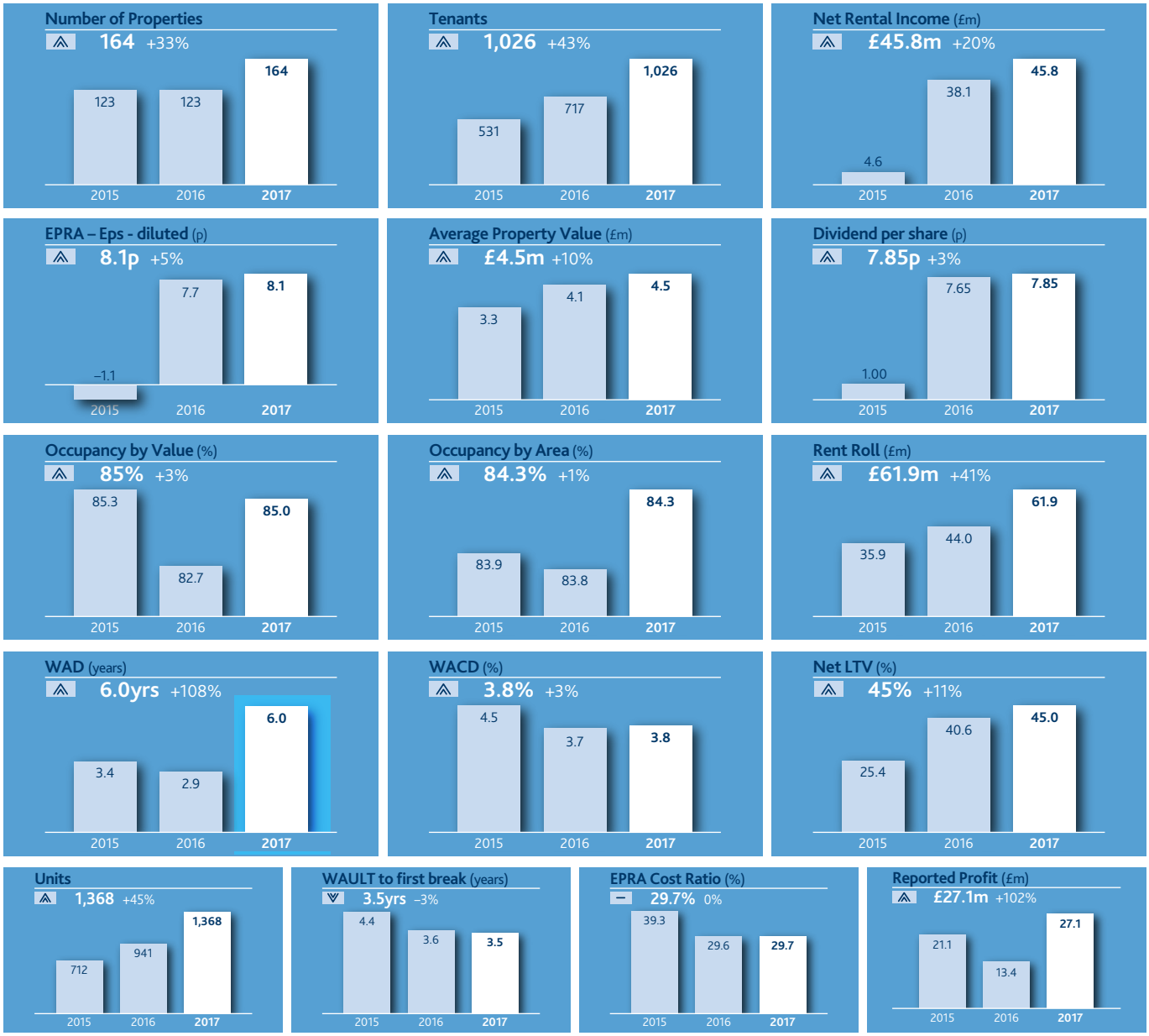


Columbus House, Coventry

Market value (£m)	14.6
Sector	Office
Let by value (%)	100.0%

At a Glance

Key facts



Terms are defined in the glossary of terms on page 136.

Group Milestones and History

Tay House, Glasgow

Building 2 & 3 HBOs Campus, Aylesbury

Juniper Park, Basildon

22 June
Company incorporated in Guernsey

30 June
Property assets valued at £386.1m

December
Announced acquisition of a £37.5m regional office and industrial unit property portfolio (completed March 2016)

31 December
Regional REIT market capitalisation of £287.2m. Gross investment properties valued at £403.7m

February
Sale of £12m Churchill Plaza, Basingstoke

March
Rainbow Portfolio purchased for £80m

21 March
Entry to FTSE All Share Index

2015

2016

6 November
Regional REIT Limited, combining the existing Toscafund property funds, admitted to the Official List and to trading on the LSE along with the Placing of 80m existing shares. External management, London & Scottish Investments ("LSI"), the Asset Manager, and Toscafund Asset Management ("Toscafund"), the Investment Manager

31 December
123 properties, 712 units and 531 tenants

February
Announced acquisition of a £80m regional office and industrial unit property portfolio (completed March)

March
Wing Portfolio purchased for £37.5m

End March
Post acquisition, 130 properties, around 970 units and approximately. 700 tenants. Gross investment properties of £507m

Oakland House, Manchester

Arena Point, Leeds

Turnford Place, Cheshunt

April
Blythswood House sold for £17.4m

31 December
Gross investment properties valued at £502.4m. 123 properties, 941 units & 717 tenants.

End June
Gross investment properties valued at £640m. 150 properties, 1,093 units & 823 tenants.

November
Potential sale of the podium site at Arena Point, Leeds to Unite Students for £10.5m

27 December
Announced completion of acquisition of two portfolios comprising 20 properties

31 December
Gross investment properties valued at £737.3m. 164 properties, 1,368 units and 1,026 tenants.

2017

2018

20 June
Entry to FTSE EPRA NAREIT Developed Europe Index

30 June
Gross property assets valued at £501.3m, 128 properties, 974 units and 719 tenants

23 February
Announced conditional acquisition of c. £129m regional offices, industrial, retail and leisure property portfolio

12 December
New 10-year £165m debt facility. Simplifying the debt profile and increasing weighted average debt maturity to 6.0 years

19 December
Successful capital raise of £73m at 101 pence per share. 72,277,228 shares issued

1 February
Frances Daley appointed as Non-Executive Director

9 Portland Street, Manchester

Market value (£m)	12.5
Sector	Office
Let by value (%)	96.9%

9
PORTLAND STREET
AIR CONDITIONED REFURBISHED OFFICES
TO LET
2,886 - 54,941 SQ FT
(268 - 5,104 SQ M)
WHR
whrproperty.co.uk
0161 228 1001
PORTLAND STREET
AYTOUN STREET

Chairman's Statement

The Chairman's Statement forms part of the Strategic Report.

"Regional REIT is in a strong position and we have again delivered to our Shareholders a significant dividend, with an attractive total return. In line with our business strategy we have increased our property portfolio, managed the occupancy and contracted rent roll upwards, extended the weighted average lease term to expiry and weighted average debt duration. In an uncertain economic and geopolitical environment, we are well poised for the year ahead."

Kevin McGrath,
Chairman and Independent Non-Executive Director.

I am pleased to present the third annual report for Regional REIT for the financial year from 1 January 2017 to 31 December 2017. After an active transactional year, the Group generated profit after tax of £27.1m (up 102% on 2016), EPRA earnings per share ("pps") diluted, rose by 5% to 8.1pps, and we have declared a total dividend for the year of 7.85pps.

We have continued to implement our strategy of acquiring assets to which our asset management initiatives can be best employed. We also continued to dispose of properties which had met their individual asset plans to realise returns, recycling capital promptly and thereby ensuring minimal cash drag.

During the year, the Group acquired properties for an aggregate value of £228.1m (before costs), disposed of properties for an aggregate value of £16.9m (net of costs), and undertook £13.4m of capital expenditure. This clearly illustrates that it has been a year of growth for the Group with major acquisitions in both halves of the year. In the first half, in March, the Group acquired a c. £129m multi-asset portfolio, in exchange for the issuance of 26,326,644 shares, and £105m of borrowings. This was followed in the second half, in December, by a successful share capital raise of £73m, with the funds being immediately deployed for the purchase of two portfolios for c. £88.3m, before costs and £35.7m of borrowings. In addition, the Company simplified its borrowings by reducing nine facilities to six and increasing the term of the debts. We continue to target net borrowings of 40% of gross investment properties and though we finished the year above this level at 45% we are focused on reducing this ratio back towards 40% in the coming year.

Despite the uncertainty in the current economic climate, we believe Regional REIT's distinctive portfolio of regional offices and light industrial sites, supported by the depth of experience of our Asset Manager puts us in a good position for the year ahead.

Market Environment

The regional property markets have remained in good health, and whilst letting decisions are taking longer to execute in some instances, we have nonetheless experienced increased tenant demand.

There was firm occupational demand for offices and industrial sites in the UK's regions throughout the year. This was evidenced by a steady stream of new lettings and re-gears, which was particularly pronounced in the second half of the year.

Market optimism continues to focus on the industrial property sector, and we believe this sector provides a broad range of asset management and capital enhancement opportunities in the UK's regions. We also continue to hold the view that the office sector offers good opportunities. This underpins our enduring strategy and income growth prospects.

Going forward the Board remains supportive of the Asset Manager's strategy to target both acquisition and disposal opportunities, to further our aim to grow the asset base in tandem with recycling our capital in pursuit of dividend growth, whilst ensuring the Asset Manager remains focused on enhancing the portfolio and responding to the needs of our tenants.

Dividends

The dividend is the major component of the total return. The Company declared total dividends of 7.85p for 2017, comprising of three quarterly dividends of 1.80pps and a fourth quarterly dividend of 2.45pps.

In the absence of unforeseen circumstances, it remains the Board's intention to pursue a progressive dividend policy and continue to pay quarterly dividends.

Chairman's Statement *(continued)*

Shareholder Engagement

The Company has continued to develop its relations with investors, engaging closely with Shareholders.

The website continues to evolve with the aim of improving the dissemination of information to all our stakeholders. We look forward to welcoming Shareholders to our Annual General Meeting on Thursday 17 May 2018.

Strong Relationships

Ultimately, the experience of our tenants, suppliers, and the communities we operate in, will determine our performance, which is why we endeavour to ensure we maintain strong relationships with all parties, with particular emphasis on our tenants. We continue to monitor the Group's impact on the environment.

Board and the Asset and Investment Managers

I am once again grateful to my fellow Directors, who have contributed their skills and experience to the rigorous discussions during this transformational year of growth. As previously announced Martin McKay stepped down as a Non-Independent Director on 6 July 2017 and was replaced by Tim Bee on the same date.

Following an internal review of the Board's effectiveness to ensure we evolve appropriately with the development of the Group, Frances Daley was appointed as an Independent Director on 1 February 2018. Frances brings extensive financial experience to the Board. No other significant issues were raised and the view of the Board is that the governance structure of the Group operates effectively with a positive and open culture.

The Board has been pleased with the progress and performance of the Asset and Investment Managers, particularly the raising and timely deployment of new monies for asset acquisitions, which meet the business strategy, and secure the earnings required to pursue a progressive dividend policy.

Performance

The total return performance since listing on 6 November 2015 has amounted to 19.9%, with an annualised total return of 8.8% for 2017. The 2017 total return was impacted by one off charges for the 10 year £165m refinancing package, the costs associated with the capital raise in December 2017, and the capital expenditure programme, the benefits of which are expected to be realised in the coming year. Excluding these costs, the total return for 2017 was 9.4%. Though below our 10+% target return we credit the Asset and Investment Managers for a strong performance in a very active and fee heavy period of growth, and we are confident the significantly enlarged portfolio will generate improved returns in the coming year.

Subsequent Events

On 1 February 2018, the Company announced the appointment of Frances Daley as an Independent Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

Outlook

The outlook for the Group remains positive. We have achieved our plans of acquiring portfolios, simplifying and broadening our borrowing structure and increasing the make-up of the Shareholder base, whilst ensuring our asset management initiatives, benefitting both our tenants and Shareholders, remain on track.

For 2018, the Group is confident of delivering good returns for Shareholders through a diversified, high-yielding property portfolio, as well as continuing to pursue the asset management initiatives of growing the income stream and providing further opportunities for capital value enhancement.

The Board looks forward to building upon the successes of 2017.

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Juniper Park, Basildon

Market value (£m)	23.8
Sector	Industrial
Let by value (%)	97.4%

DB SCHENKER
MAERSK SEALAND
DB SCHENKER
DB SCHENKER
DB

Investment Strategy and Business Model

The Group will invest in, actively manage and dispose of offices and industrial properties – or debt portfolios secured on such properties – located predominantly in the regional centres of the UK.

Investment Strategy

- The Group aims to acquire a portfolio of interests that, together, offers Shareholders a diversification of investment risk, by investing in a range of geographical areas and sectors across a number of assets and tenants and through letting properties, where possible, to low-risk tenants.
- The Group will use gearing, borrowings and other sources of leverage, to implement its investment strategy and enhance equity returns.

Investment Policy

- The Group will invest in office and light industrial properties that are situated in the UK and outside of the M25 motorway.
- The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.
- In the ordinary course of business no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally the Board may consider taking this up to 20%.
- The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.
- No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant.
- Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.

Investment Objective

- The Investment Objective of the Company is to deliver an attractive total return to Shareholders – the Board targets 10-15% per annum – with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway.

Borrowings

- The Group targets a ratio of net borrowings to Gross Investment Properties Value of 40% over the longer term, with a maximum limit of 50%.

BUSINESS MODEL

Regions Remain Strong

OUR APPROACH

- That the "regions remain strong" in UK commercial real estate, believing that: growing capital inflows into the regions; the UK domestic economy will continue to grow; tenant demand for offices and industrial sites will outweigh available supply.
- The yield spread between London and the regions continued to narrow in 2017.

HOW WE ADD VALUE

- The investment policy focuses on a balanced portfolio of offices and light industrial sites located outside of the M25 motorway, broadly based on the regions' economic worth and population mix.
- The Group seeks to enhance income growth and capital values through the services of the Asset Manager.
- The Asset Manager operates through a number of regional offices, implementing a targeted investment policy and each property's asset management plan.
- Total Shareholder Return of 19.9% since IPO and 8.8% annualised in 2017 (11.5% in 2016).

Opportunistic Approach to the Property Market

OUR APPROACH

- A focus on exploiting pricing inefficiencies and mismatches between regional secondary and primary property yields.
- From such opportunities the Group will acquire, hold and sell commercial real estate that it believes to be mispriced and have good income and capital growth prospects.
- Utilising leverage to build the acquisitions capability of the business.

HOW WE ADD VALUE

- An opportunistic approach to UK commercial property and the recycling of capital from the legacy portfolio, aiming to acquire properties where the Group can add value through the expertise of the Asset Manager.
- Seeking to build the income growth and capital values of properties; taking undermanaged and underinvested properties to being attractive investments to be retained for yield or for disposal.
- An established borrower with long-term relationships in place with a number of UK banks. The Group will exploit opportunities to improve total returns utilising leverage.
- With debt maturing and opportunities to renegotiate existing facilities, the Group aims to reduce its funding costs.
- Completed acquisitions in 2017 totalling £228.1m (before costs) and disposals (net of costs) of £16.9m, with average net initial yields of c. 7.9% and c. 6.3% respectively.
- During 2017 refinancing's totalled £213m, new borrowings were £51m, and assumed financing of £105m, resulting in total borrowings of £376.5m. The average funding costs (including hedging) increased from 3.7% to 3.8% over the year.

Investing in Income Producing Assets

OUR APPROACH

- The Group has a strict set of investment criteria to invest, predominantly, in income producing assets capable of delivering an attractive total return to our Shareholders.

HOW WE ADD VALUE

- Investment decisions will be based on identifying strong underlying fundamentals, inter alia, prospects for future income growth, sector and geographic prospects, lease length, initial and equivalent yields and the potential for active asset management.
- Speculative development strictly limited to refurbishment programmes.
- Contracted rental income of £61.9m as at end 2017 (31 December 2016: £44.0m).
- Average rents have increased to £8.18 per sq. ft. (31 December 2016: £7.36 per sq. ft.)
- Declared dividends per share of 7.85p for 2017 (7.65p in 2016).

Active Management of the Properties

OUR APPROACH

- The Group prides itself on maintaining a close relationship with its tenants and in the intensive granular management of its properties, a very hands-on approach.
- Our aim is to provide a consistent approach to improving returns, thereby enhancing the quality of the underlying portfolio.

HOW WE ADD VALUE

- The Asset Manager undertakes all of the principal property management activities in-house by regular contact and remains close to its tenants, with an immediate understanding of their requirements and a better decision-making capability.
- The Managers can respond in the best interests of the Group and its Shareholders
- The Asset Manager utilises a range of approaches to each asset, tailoring the project programme for each property.
- Net capital expenditure of £13.4m in 2017 (£9.1m in 2016); much capital expenditure is recovered through dilapidations, service charges or improved property rental income.
- Active and intense asset management to improve occupancy: from 82.7% (by value) (31 December 2016) to 85.0% (31 December 2017).

Diversified Portfolio

OUR APPROACH

- A distinctive large and diverse commercial property portfolio.
- An approach that diversifies the investment risk of the portfolio and enables better management of the timing of lease re-gears and new lettings.

HOW WE ADD VALUE

- The portfolio consists of offices and light industrial units, geographically well spread across the regions of the UK outside of the M25 motorway and with a broad mix of tenants.
- 164 properties, 1,368 units and 1,026 tenants, as at 31 December 2017.
- The largest single property is only 4.4% of the Gross Investment Properties value and the largest tenant only 2.6% of gross rental income.
- England & Wales represent 77.6% of the Gross Investment Properties value (31 December 2016: 73.2%); offices and industrial sites are 90.6% (31 December 2016: 92.7%).

Highly Experienced Asset Manager

OUR APPROACH

- The Asset Manager has the heritage of a long established property investment management company.

HOW WE ADD VALUE

- The capabilities and track record of the management team, including knowledge, expertise and established relationships provide an important competitive advantage for operating in the fragmented UK regional secondary property market.
- The senior management team of the Asset Manager collectively have over 150 years of property experience, with a proven record of creating value.
- Management grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 recession.
- LSI is based in Glasgow and has a number of offices around the UK, with the vast majority of the 57 staff employed as at 31 December 2017 working on Regional REIT.

One and Two Newstead Court, Annesley

Market value (£m)	15.9
Sector	Office
Let by value (%)	100.0%

CCTV
in
Operation
YC07 BGZ

Asset and Investment Managers' Report

"It has been a very active year for Regional REIT with significant acquisitions, continuing our strategy of non-core disposals, increasing our geographic spread of properties and growing the number and diversity of our tenants. We continue to implement our successful approach to intensive asset management with our initiatives achieving increased occupancy. We remain confident that our strategy and the strength of our core regional office and light industrial property markets will continue to deliver for our investors."

Stephen Inglis,
Chief Executive Officer of London & Scottish Investments, the Asset Manager of Regional REIT Limited.

Market Overview

The view of the Asset Manager is that regional commercial real estate performed strongly in 2017 from both an occupational and investment perspective. Overall investment volumes in the UK commercial property market in 2017 were 27% higher than 2016 levels, with clear evidence of rising investment in the regional markets, proving that they continue to remain attractive to both domestic and overseas investors who are "searching for value".

The average yield spread between London and the regions continued to narrow in 2017 as a result of investor demand, a trend which the Asset Manager expects to continue. There has also been evidence that the yield gap between prime and secondary property narrowed over the last 12 months. Much of the capital chasing property assets was for "stabilised-income", reflecting investor's aversion to risk. This in turn has led to prices increasing accordingly. The Asset Manager believes that this presents an opportunity to capitalise on strong occupier fundamentals in the secondary market and produce stable income from active and intensive asset management of high quality secondary properties in key locations.

The attraction of the regional cities and towns has continued and regional commercial property occupancy remains robust. We expect this to continue with the unprecedented levels of Government lettings having already taken place under the Government Property Unit's "Hubs" initiative in the office sector and continued competition for space in the industrial and logistics sectors. Our core markets continue to experience beneficial supply-demand dynamics with elements of our portfolio already witnessing headline rental growth across a number of properties.

Regional REIT has been active and opportunistic throughout 2017. The Group undertook property acquisitions of £228.1m (before costs), with a weighted average net initial yield of c.7.9%; disposals (net of costs) amounted to £16.9m at an average net initial yield of c. 6.3%. Occupancy by value increased to 85.0%, from a low of 82.7% (31 December 2016), mainly as a result of completing 81 new leases in 2017, totalling 564,463 sq. ft.; when fully occupied these will provide approximately c. £4m pa of contracted rental income. In addition, 117 leases came up for renewal over the period, totalling 1,029,079 sq. ft.. Including tenants that are currently holding over, lease renewals, and the acquisition of new replacement tenants, c. 64% (by value) has been retained and c. 76% of the units with lease renewals remain occupied.

Investment Activity in UK Commercial property

In 2017, total investment in UK commercial property reached £62.1 billion, 27% higher than 2016 volumes, with over 5,000 deals taking place throughout 2017, according to research from CoStar. In the final quarter of 2017, investment volumes reached £18.9 billion, indicating an increase of 18% when compared to Q4 2016. There has been evidence of a considerable increase in regional investment, which was particularly heightened in Q4 2017 reaching a 10 year high. Despite investment in London rising by 19% year-on-year to £24.2 billion in 2017, there was evidence of a decrease in the frequency with which deals took place, as the number of deals fell to their lowest level in the last 10 years.

Asset and Investment Managers' Report *(continued)*

Quarterly Investment Volume by Region

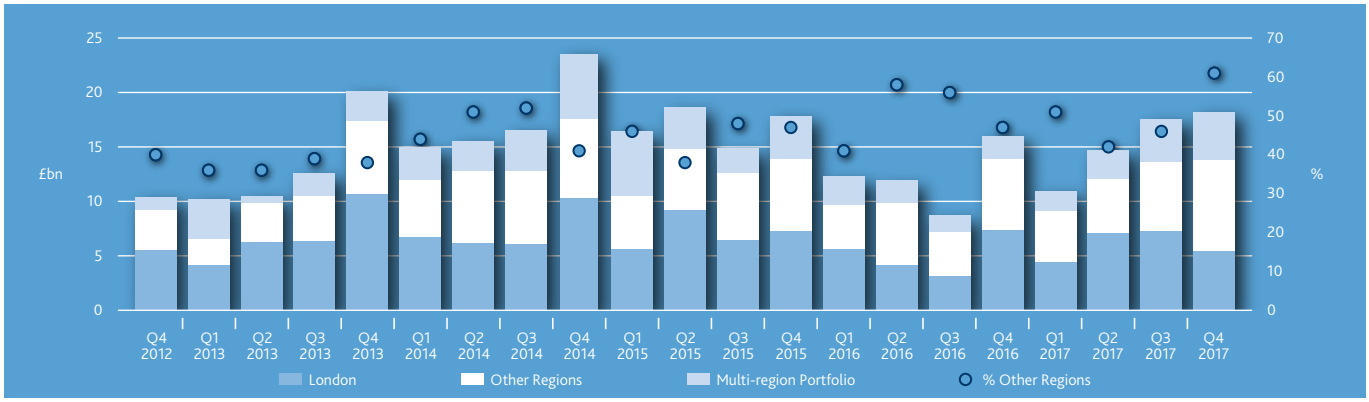


Figure 1: CoStar Research (February 2018)

Overseas investment in UK commercial property accounted for 39% (£24.2 billion) of the total volume in 2017, marking a year-on-year increase of 26%. However, this was 14% below the level experienced in 2015. Although the majority of overseas investment in 2017 was in London, research suggests that foreign investment in the regions is increasing, with 21% of foreign spend in Q4 being outside of London, increasing from 13% in Q3. UK investors increased spending in the regions in 2017, with investment in the big six office markets 59% above the 2016 level.

CBRE research indicates that average yields in regional markets fell to 6.60% in January 2018, the lowest figure since before their records began in April 2009, causing the yield spread between London and the regions to narrow when compared to January 2017. The yield spread between prime and secondary properties continued to narrow over the last 12 months from historic highs of 2013-14. Research from CoStar suggests that investors were increasingly risk averse throughout 2017, as a result, investors' preference for prime properties has resulted in pricing increasing accordingly. Against this backdrop and given strong occupier demand, CoStar estimates that the secondary property market may become increasingly attractive to investors throughout 2018.

London vs. UK Regions Prime/Secondary Yield Spread (to January 2018)

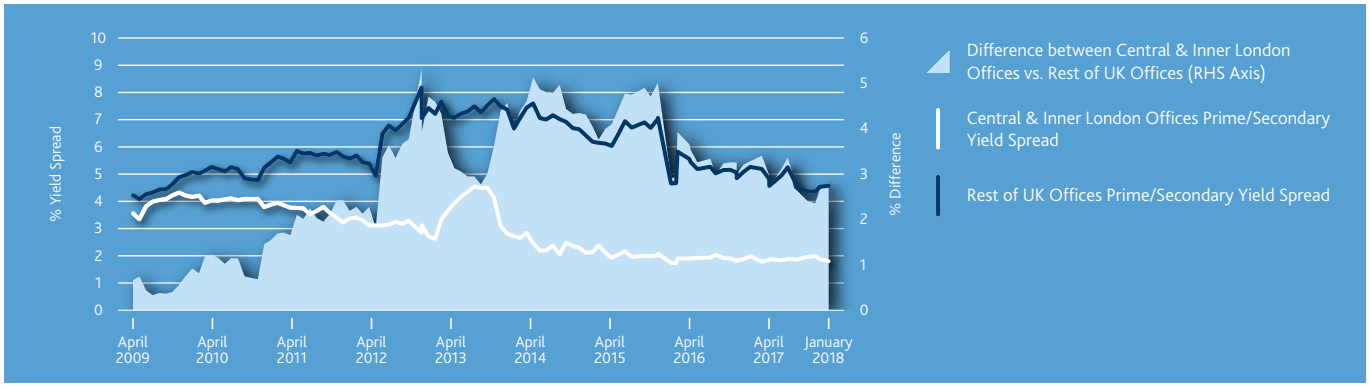


Figure 2: CBRE (February 2018)

Offices vs UK Regions Prime/ Secondary Yield Spread (to January 2018)

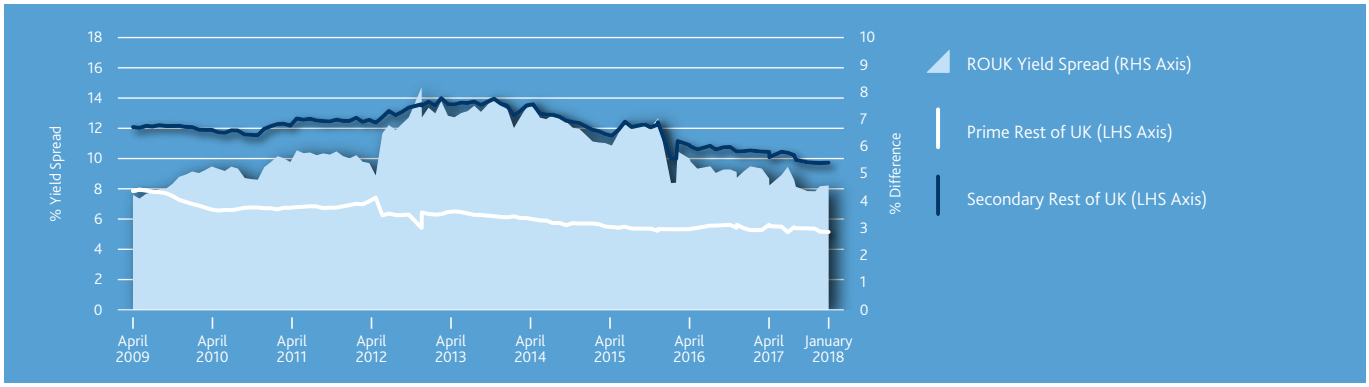


Figure 3: CBRE (February 2018)

Asset and Investment Managers' Report *(continued)*

Occupational Demand in the UK Regional Office Market

Savills estimates that take-up of office space across ten regional office markets[2] reached 10 million sq. ft. in 2017, higher than the 9.6 million sq. ft. recorded in 2016, and 12% above the 10-year average. Occupational demand was driven by the public sector with large Government Property Unit (GPU) deals resulting in the public sector accounting for the highest proportion of total take-up at 22%. Following the public sector, the technology, media & telecoms sector and the business & consumers services sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 19% and 9% respectively. Demand for regional office space also grew within the flexible workspace sector, Cushman & Wakefield expect this trend to continue with flexibility becoming a key driver of leasing activity[3]. A recent forecast by Savills[4] predicts that total office take-up in ten regional office markets will reach 9.5 million sq. ft. in 2018.

According to Cushman & Wakefield, vacancy levels should not see any significant uplift in 2018, particularly within regional cities. The supply of offices in the core regional markets remains low, with Savills research indicating that occupier demand continues to reduce availability, with total availability falling by 2% in 2017 to 30 million sq. ft..

The most recent Deloitte Crane Survey (January 2018), suggests heightened construction activity in certain regional cities (Birmingham, Manchester, Leeds and Belfast); with a total of approximately 4.2m sq. ft. of office space currently under construction. However, although the supply of office stock is likely to increase, a considerable proportion of office buildings currently under construction are already pre-let, therefore, there is likely to remain a shortage of office stock. Despite a rise in the number of developments currently under construction, JLL[4] estimates that only 1.6m sq. ft. of speculative development space that is currently under construction will be delivered across 2018 and 2019 in the big six regional office markets, noting that the lack of development is increasing demand for refurbished office space in regional cities.

Annual Office Take-Up by Region

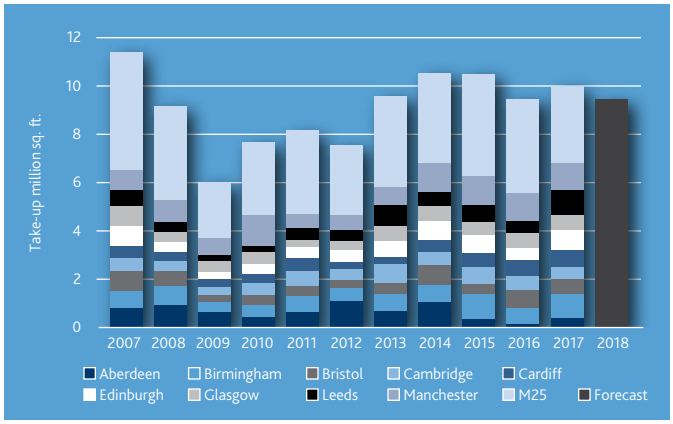


Figure 4: Savills (February 2018)

Annual Office Availability by Region

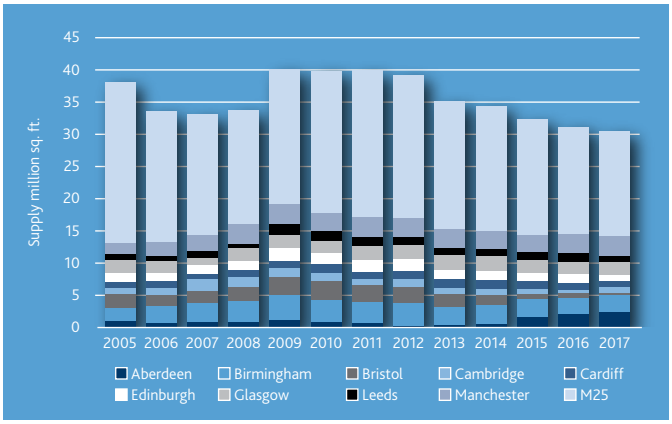


Figure 5: Savills (February 2018)

Availability and Vacancy Rates of Offices in Regional Markets (All Grades)

Figure 6: CoStar (office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (February 2018)

Rental Levels and Vacancy Rates in Secondary Office Properties (Grade B) in UK Regional Markets

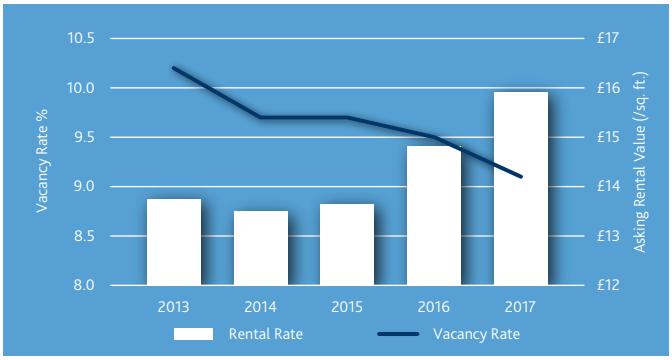


Figure 7: CoStar (office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (February 2018)

[2] Ten regional markets monitored by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, M25
[3] http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-office-snapshot/
[4] http://pdf.euro.savills.co.uk/uk/office-reports/market-watch-uk-regional-office-report---spring-2018.pdf
[5] http://www.jll.co.uk/united-kingdom/en-gb/Research/JLL_Arrested%20Development%20report.pdf?aad08d41-2741-480d-b036-9bb789b435fe

Asset and Investment Managers' Report *(continued)*

Rental Growth in the UK Regional Office Market

Robust leasing activity in 2017 combined with a demand supply imbalance for high quality office stock has placed upward pressure on rents in regional office markets. Research from Savills indicates that prime rental growth in regional markets averaged 3.3% in 2017. Rental growth in regional office markets is set to continue, with Savills forecasting further rental growth of approximately 1.8% in 2018.

According to JLL, prime headline rents in the big six markets has increased by an average of 5% over the last two years. JLL estimates that the development shortfall will drive rental growth with average annual growth over 2017-2021 of 2.2% for the big six markets.

With record levels of take-up across numerous regional markets and the ongoing shortage of prime properties set to continue, the Asset Manager anticipates rental growth for good quality secondary properties should remain well supported throughout 2018.

Regional REIT's Office Assets

Occupancy by value of the Group's regional offices was 83.2% (31 December 2016: 80.5%); occupancy by area was 82.4% (31 December 2016: 82.2%). A like-for-like comparison of the Group's regional offices occupancy by value, 31 December 2017 versus 31 December 2016, shows that occupancy remained constant at 81.5% (31 December 2016: 81.5%). WAULT to first-break was 3.1 years (31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.2 years (31 December 2016: 3.5 years).

Occupier Demand Strengthens in the UK Industrial Market

Take-up in 2017 totalled 26.6 million sq. ft., with 6.8 million sq. ft. taken up in the final quarter of 2017[6]. Occupier demand was particularly strong among companies in the manufacturing sector accounting for one third of total take-up with research from Colliers[7] indicating that export and domestic demand for goods remained steady, particularly for investment goods. Knight Frank[8] research shows, that similar to 2016, Midlands, London and the South East continued to account for the highest proportions of take-up in 2017.

In terms of development, Savills indicates that 4.4 million sq. ft. of industrial stock currently under construction will complete in 2018. However, JLL[9] research suggests that supply is constraining demand in the industrial market due to very limited supply and continued demand for new speculative development, particularly for units below 100,000 sq. ft.. The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2018.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced annual rental value growth in 2017 of 4.9% according to IPD, which provides evidence of sustained growth. The Investment Property Forum UK Consensus Forecast, February 2018, shows 3.5% and 2.4% average rental growth rates respectively for 2018 and 2019. In comparison, the IPF UK Consensus Forecast predicts that the all property average annual rental value growth expected for 2018 is 0.8%.

Research by Cushman & Wakefield suggests that upward pressure on rents was apparent for both prime and secondary industrial properties. For prime properties, low supply as well as increased construction and land costs resulted in upward pressure on rents for new industrial stock in core markets, whilst limited supply of Grade A space has led to refurbished Grade B space in good locations achieving rental growth in 2017.

Regional REIT's Industrial Assets

Occupancy by value of the Group's industrial sites increased to 87.9% (31 December 2016: 86.2%); occupancy by area also increased to 86.4% (31 December 2016: 85.3%). A like-for-like comparison of the Group's industrial sites occupancy by value, 31 December 2017 versus 31 December 2016, shows that occupancy grew to 88.3% (31 December 2016: 86.4%). WAULT to first-break was 4.1 years (31 December 2016: 3.5 years); like-for-like WAULT to first break was 3.9 years (31 December 2016: 3.6 years).

[6] http://www.cushmanwakefield.com/en/research-and-insight/uk/united-kingdom-industrial-snapshot/
[7] http://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_property_snapshot_2018_02.pdf?la=en-GB
[8] http://content.knightfrank.com/research/802/documents/en/logic-uk-overview-h2-2017-5270.pdf
[9] http://www.jll.co.uk/united-kingdom/en-gb/Research/The_JLL_UK_Industrial_Market_Tracker_Spring_2018.pdf?ef6876a8-909a-42f0-a414-4c9c2ebdfce0

Buildings 2 & 3 HBOS Campus, Aylesbury

Market value (£m)	23.3
Sector	Office
Let by value (%)	76.4%

Asset and Investment Managers' Report *(continued)*

Property Portfolio

As at 31 December 2017, the Group's property portfolio was valued at £737.3m (31 December 2016: £502.4), with contracted rental income of £61.9m (31 December 2016: £44.0m), and an occupancy rate by value of 85.0% (31 December 2016: 82.7%). Occupancy by area amounted to 84.3% (31 December 2016: 83.8%).

On a like-for-like basis, 31 December 2017 versus 31 December 2016, occupancy by value was 84.1% (31 December 2016 83.4%) and occupancy by area was 84.9% (31 December 2016: 84.2%).

There were 164 properties (31 December 2016: 123), in the portfolio, with 1,368 units (31 December 2016: 941) units and 1,026 tenants (31 December 2016: 717), following the acquisition of 53 properties. If the portfolio was fully occupied at Cushman & Wakefield's and Jones Lang LaSalle's view of market rents, the gross rental income would be £73.8m per annum as at 31 December 2017 (31 December 2016: £53.1m).

As at 31 December 2017 the net initial yield on the portfolio was 6.5% (31 December 2016: 6.7%), the equivalent yield was 8.3% (31 December 2016: 8.6%), and the reversionary yield was 9.2% (31 December 2016: 9.5%).

					Occupancy		WAULT to first break	Gross rental income	Net rental income	Average rent		Capital rate	Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	(by value) (%)	(by area) (%)	(yrs)	£m	£m	£psf	ERV £m	£psf	Net initial	Equivalent	Reversionary
Office	95	495.9	67.3	4.02	83.2	82.4	3.1	41.4	34.8	12.50	51.0	123.23	6.5	8.4	9.4
Industrial	38	171.5	23.3	4.25	87.9	86.4	4.1	14.3	11.9	3.90	16.3	40.33	6.5	8.1	8.8
Retail	29	60.0	8.1	0.58	90.5	88.1	4.3	5.4	4.6	10.73	5.7	104.26	7.2	8.1	8.3
Other	2	9.9	1.3	0.12	94.9	61.1	9.6	0.7	0.7	9.54	0.8	80.28	6.6	7.8	7.3
Total	164	737.3	100.0	8.98	85.0	84.3	3.5	61.9	52.0	8.18	73.8	82.14	6.5	8.3	9.2

Property Portfolio by UK Region

					Occupancy		WAULT to first break	Gross rental income	Net rental income	Average rent		Capital rate	Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	(by value) (%)	(by area) (%)	(yrs)	£m	£m	£psf	ERV £m	£psf	Net initial	Equivalent	Reversionary
Scotland	45	164.9	22.4	2.73	85.7	81.8	3.5	15.9	13.2	7.13	18.6	60.41	7.5	9.3	10.6
South East	30	198.9	27.0	1.51	92.5	92.2	2.9	16.2	14.6	11.57	17.8	131.30	6.7	7.3	8.0
North East	24	95.6	13.0	1.41	78.6	84.3	3.3	7.2	5.3	6.04	9.6	67.72	5.3	8.7	9.5
Midlands	32	111.9	15.2	1.33	89.3	89.5	3.1	9.9	9.2	8.35	10.2	84.21	7.5	8.0	8.3
North West	18	82.2	11.2	1.16	79.7	78.6	5.5	6.2	4.8	6.84	8.6	71.04	5.4	8.8	9.5
South West	12	57.4	7.8	0.45	68.5	73.9	3.1	4.3	3.4	12.96	6.5	128.88	5.3	8.4	10.1
Wales	3	26.4	3.6	0.39	89.3	83.1	5.8	2.2	1.5	6.91	2.4	68.05	5.4	7.9	8.4
Total	164	737.3	100.0	8.98	85.0	84.3	3.5	61.9	52.0	8.18	73.8	82.14	6.5	8.3	9.2

Tables may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Investments (market value) as at 31 December 2017

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Let by value (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Bath Street	Office	Barclays Bank Plc, University of Glasgow	32.4	4.4	157,525	87.4	87.1	2.5	3.5
Genesis Business Park, Woking	Office	McCarthy & Stone Retirement Lifestyles Ltd, Wood Group Mustang, Oracle Corporation UK Ltd	24.7	3.3	99,613	100.0	100.0	1.6	3.2
Juniper Park, Southfield industrial Estate, Fenton Way	Industrial	A Share & Sons Ltd, Schenker Ltd, Vanguard Logistics Services Ltd	23.8	3.2	277,228	98.4	97.4	2.0	1.6
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	The Equitable Life Assurance Society, Scottish Widows Ltd	23.3	3.2	146,936	73.9	76.4	1.8	4.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Cummins Ltd, Balfour Beatty WorkSmart Ltd, Thomson Pettie Ltd	19.7	2.7	686,940	89.6	88.6	2.3	1.8
Hampshire Corporate Park, Chandlers Ford	Office	The Royal Bank of Scotland Plc, Aviva Health UK Ltd	16.4	2.2	85,422	99.2	99.5	1.4	2.7
One and Two Newstead Court	Office	E.ON UK Plc	15.9	2.2	146,262	100.0	100.0	1.4	2.6
Columbus House, Coventry	Office	TUI Northern Europe Ltd	14.6	2.0	53,253	100.0	100.0	1.4	6.0
Road 4 Winsford Industrial Estate	Industrial	Jiffy Packaging Ltd	14.4	2.0	246,209	100.0	100.0	0.9	16.8
Turnford Place, Cheshunt	Office	Countryside Properties (UK) Ltd, Pulse Healthcare Ltd, Poupart Ltd	14.3	1.9	59,176	99.5	100.0	1.1	3.4
Ashby Park, Ashby De La Zouch	Office	Hill Rom UK Ltd, Ceva Logistics Ltd, Alstom UK Ltd	13.5	1.8	91,752	96.6	95.7	1.0	3.0
The Point, Glasgow	Industrial	The University of Glasgow, Screwfix Direct Ltd, Howden Joinery Properties Ltd	13.4	1.8	169,190	94.1	100.0	1.0	5.7
9 Portland Street, Manchester	Office	New College Manchester Ltd, Mott MacDonald Ltd	12.5	1.7	54,959	100.0	96.9	0.8	3.4
Arena Point, Leeds	Office	The Foundation for Credit Counselling, JD Wetherspoon Plc, Expotel Hotel Reservations Ltd	12.4	1.7	82,498	88.5	84.9	0.7	2.2
1-4 Llansamlet Retail Park, Nantyffin Rd, Swansea	Retail	Steinhoff UK Group Property Ltd, Wren Living Ltd, A Share & Sons Ltd	12.0	1.6	71,615	100.0	100.0	1.1	5.1
Total			263.2	35.7	2,428,578	93.5	93.5	21.0	3.9

Table may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Tenants (share of rental income) as at 31 December 2017

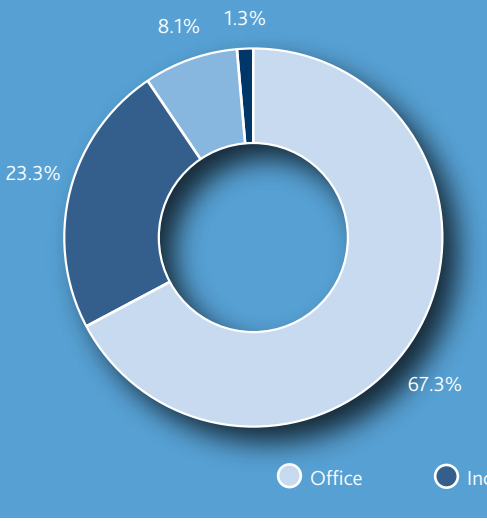
Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	3.9	78,044	2.6
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	2.6	146,262	2.3
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	6.0	53,253	2.2
Scottish Widows Limited	Buildings 3 HBOS Campus, Aylesbury	Financial and insurance activities	3.9	80,103	2.2
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	16.8	246,209	1.5
Sec of State for Communities & Local Govt	Sheldon Court, Solihull Bennett House, Hanley Oakland House, Manchester	Public Sector	0.2	74,886	1.4
Fluor Limited	Brennan House, Farnborough	Construction	1.4	29,707	1.2
The Secretary of State for Transport	St Brendans Court, Bristol Festival Court, Glasgow	Public Sector	2.5	55,586	1.1
A Share & Sons Ltd	1-4 Llansamlet Retail Park, Swansea Juniper Park, Basildon	Wholesale and retail trade	6.4	75,791	1.1
Lloyds Bank Plc	Victory House, Chatham	Financial and insurance activities	0.4	48,372	1.1
Aviva Health UK Ltd	Hampshire Corporate Park, Eastleigh	Financial and insurance activities	1.0	42,612	1.1
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Public Sector	2.3	51,914	1.0
Entserv UK	Birchwood Park, Warrington	Information and communication	3.0	50,549	1.0
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	3.5	66,436	1.0
The Logic Group Holdings Ltd	Waterfront Business Park, Fleet	Information and communication	3.8	30,342	1.0
Total			4.1	1,130,066	21.8

Table may not sum due to rounding.

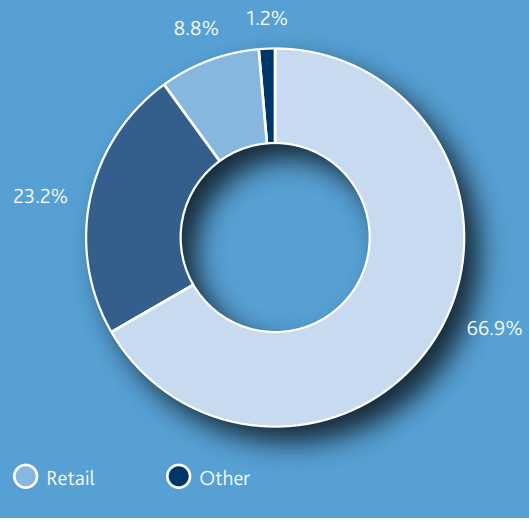
Asset and Investment Managers' Report *(continued)*

Property Portfolio Sector and Region Splits by Valuation and Income

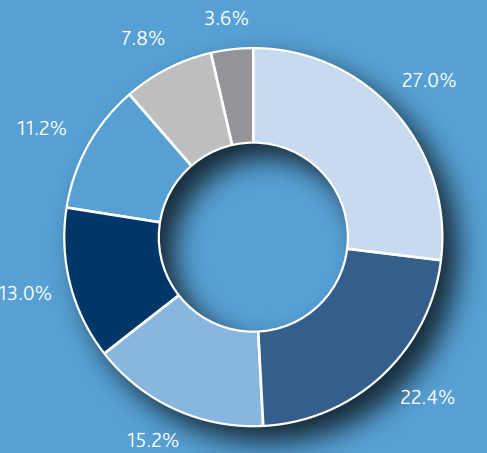
Sector split by valuation 2017



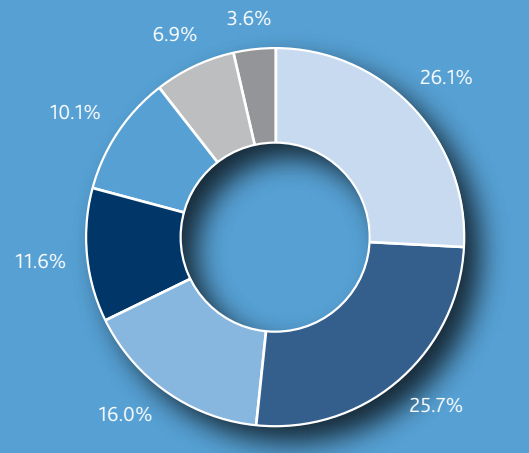
Sector split by income 2017



Regional split by valuation 2017



Regional split by income 2017



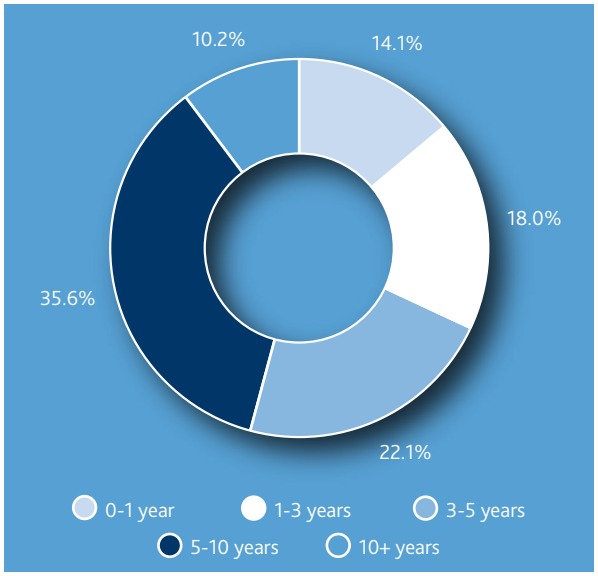
Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

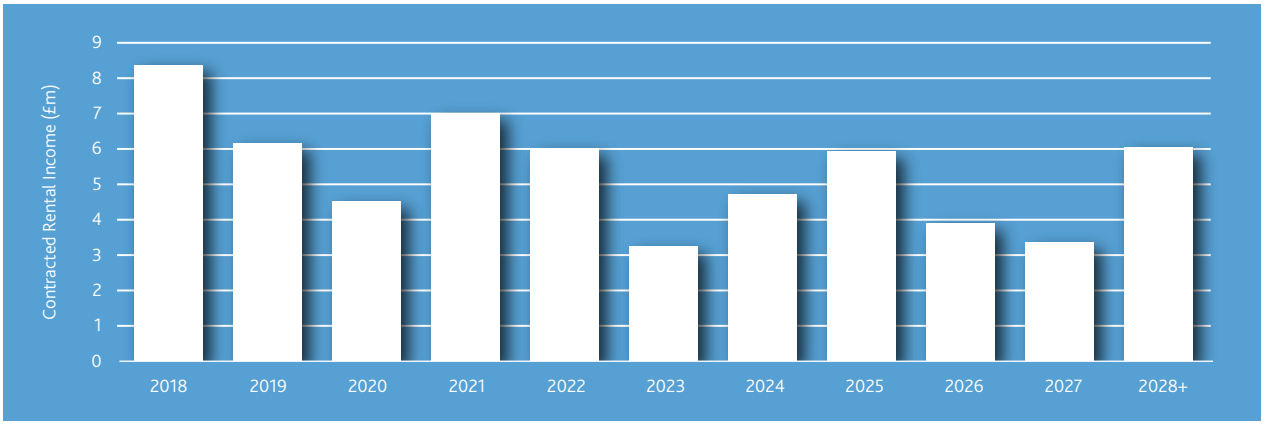
Lease Expiry Profile

The WAULT on the portfolio is 5.4 years (2016: 5.2 years); WAULT to first break is 3.5 years (2016: 3.6 years). As at 31 December 2017, 14.1% (2016: 15.2%) of income was leases which will expire within 1 year, 18.0% (2016: 22.5%) between 1 and 3 years, 22.1% (2016: 19.2%) between 3 and 5 years and 45.8% (2016: 43.1%) after 5 years.

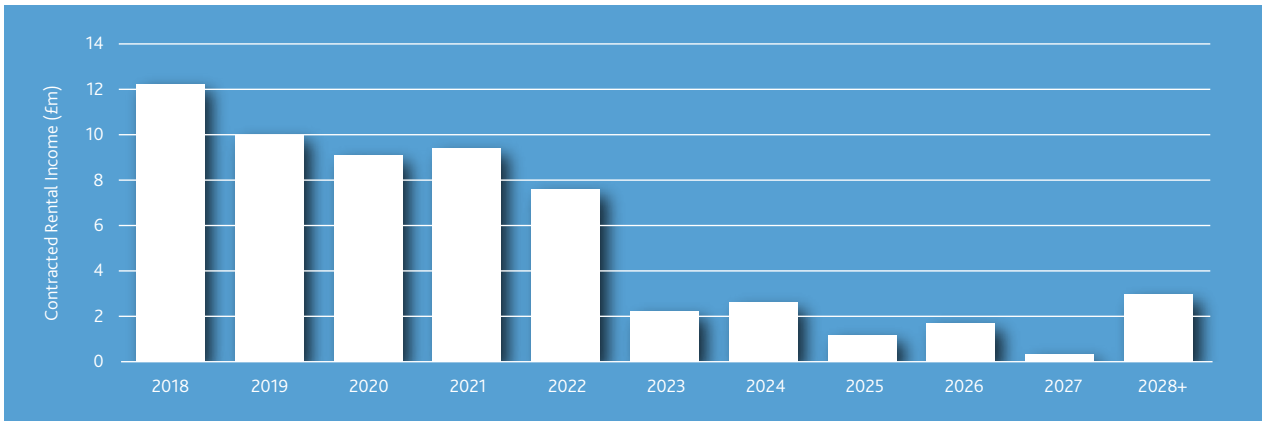
Lease expiry income profile



Lease expiry income profile by year



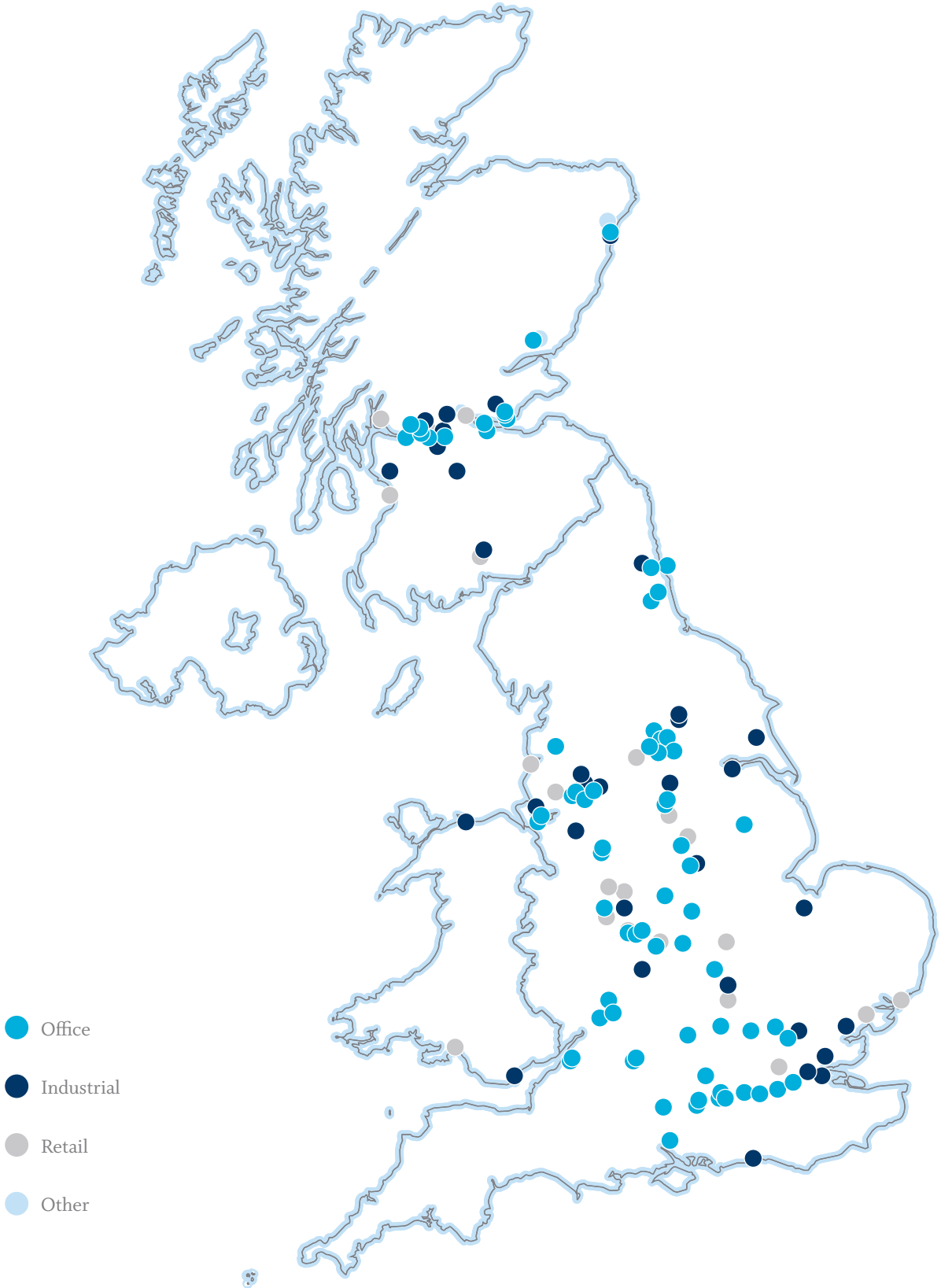
Lease expiry to first break income profile by year



Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

UK Property Locations as at 31 December 2017



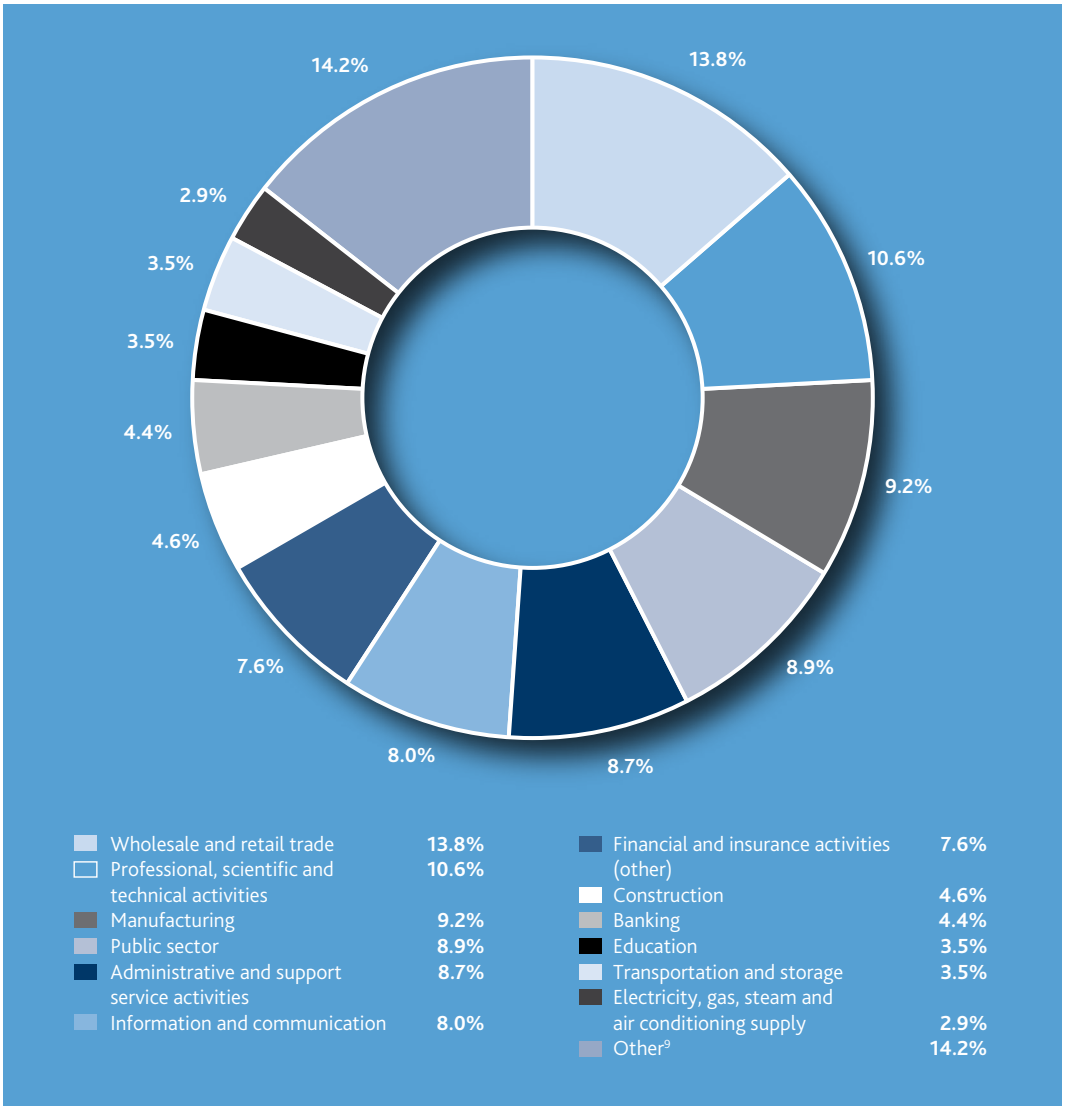
Asset and Investment Managers' Report *(continued)*

Tenants by Standard Industrial Classification as at 31 December 2017

As at 31 December 2017, 13.8% of income was from tenants in the wholesale and retail trade sector (2016: 13.7%), 10.6% from the professional, scientific and technical activities sector (2016: 11.4%), 9.2% from the manufacturing (2016: 11.7%), 8.9% from the public sector (2016: 10.2%) and 8.7% from the administrative and support service activities sector (2016: 7.0%). The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 31 December 2017, the largest being 2.6%.

Tenants by SIC Codes
(% of gross rent)



Charts may not sum due to rounding.

[9] Other – human health and social work activities; real estate activities; arts, entertainment and recreation; accommodation and food service activities; other service activities; mining and quarrying; public administration and defence; compulsory social security; activities of extraterritorial organisations and bodies; water supply, sewerage, waste management and remediation activities; residential; and others that are not elsewhere classified.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office

Tay House, Glasgow

Market value (£m)	32.4
Sector	Office
Annualised gross rental (£m)	2.49
Lettable area (Sq. Ft.)	157,525
Anchor tenants	Barclays Bank Plc, University of Glasgow
Let by area (%)	87.4%
Let by value (%)	87.1%
WAULT (years) (to first break)	7.4 (3.5)

- **Secure Income** – Barclays leases re-geared in December 2015, securing income until October 2021 at the earliest
- **Ongoing Asset Management** – continue with the marketing of the first floor against the background of limited supply of large open plan refurbished floor plates with the Glasgow city centre market. Explore potential of increasing Regus' Spaces occupation.
- **Asset Management Initiatives** – Early discussions commenced as to the possibility of removing University of Glasgow break option in September 2019

Genesis Business Park, Woking

Market value (£m)	24.7
Sector	Office
Annualised gross rental (£m)	1.65
Lettable area (Sq. Ft.)	99,613
Anchor tenants	McCarthy & Stone Retirement Lifestyles Ltd, Wood Group Mustang, Oracle Corporation UK Ltd
Let by area (%)	100.0%
Let by value (%)	100.0%
WAULT (years) (to first break)	6.1 (3.2)

- **Established Business Park** – Located in strong South East office market
- **Improving Rental Tone** – Letting of part of ground floor in Unit 1 to Wick Hill Limited at £22.50/sq. ft.
- **Asset Management Initiatives** – Let balance of refurbished space. Seek to improve WAULT by removal of future break options

Buildings 2 & 3 HBOS Campus, Aylesbury

Market value (£m)	23.3
Sector	Office
Annualised gross rental (£m)	1.77
Lettable area (Sq. Ft.)	146,936
Anchor tenants	The Equitable Life Assurance Society, Scottish Widows Limited
Let by area (%)	73.9%
Let by value (%)	76.4%
WAULT (years) (to first break)	5.1 (4.2)

- **Adding Value** – Gross capital expenditure of c.£3.3m is aimed at providing Grade A office accommodation. The assessment of dilapidations with Scottish Widows is nearing completion and is anticipated to be an improved settlement to that originally forecast on acquisition
- **Continued Letting** – First floor of Building 2 let to Agria Pet Insurance Limited from February 2018 on a 10-year term at headline rent of £235,000. This followed new leases to the Equitable Life in 2016. Encouraging demand from prospective tenants for space in the Aylesbury area with prospects for ongoing growth in estimated rental value

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Hampshire Corporate Park, Eastleigh

Market value (£m)	16.4
Sector	Office
Annualised gross rental (£m)	1.41
Lettable area (Sq. Ft.)	85,422
Anchor tenants	The Royal Bank of Scotland Plc, Aviva Health UK Ltd
Let by area (%)	99.2%
Let by value (%)	99.5%
WAULT (years) (to first break)	4.2 (2.7)

- **Successful Refurbishment** – Interior and exterior refurbishment of Hampshire House. By advance programming and marketing, the void period for the building was limited to only five-months whilst the works were ongoing
- **Asset Management Initiatives** – Immediate opportunity is a re-gear of Aviva's Chilworth House lease in December 2018 or, if Aviva exit, seek to capitalise on strong occupier demand

One and Two Newstead Court, Annesley

Market value (£m)	15.9
Sector	Office
Annualised gross rental (£m)	1.44
Lettable area (Sq. Ft.)	146,262
Anchor tenants	E.ON UK Plc
Let by area (%)	100.0%
Let by value (%)	100.0%
WAULT (years) (to first break)	7.6 (2.6)

- **High Quality Assets** – Two modern office pavilions in an established business park
- **Fully Let** – New leases agreed with E.ON on both buildings until April 2025, with a review and tenant break options in May 2020. The renegotiated lease of Building 1 attained a 10% improvement in the rental rate

Columbus House, Coventry

Market value (£m)	14.6
Sector	Office
Annualised gross rental (£m)	1.38
Lettable area (Sq. Ft.)	53,253
Anchor tenants	TUI Northern Europe Ltd
Let by area (%)	100.0%
Let by value (%)	100.0%
WAULT (years) (to first break)	6.0 (6.0)

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

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Turnford Place, Cheshunt

Market value (£m)	14.3
Sector	Office
Annualised gross rental (£m)	1.07
Lettable area (Sq. Ft.)	59,176
Anchor tenants	Countryside Properties (UK) Ltd, Pulse Healthcare Ltd, Poupart Ltd
Let by area (%)	99.5%
Let by value (%)	100.0%
WAULT (years) (to first break)	7.6 (3.4)

- **Asset Management Initiatives** – Seek to improve WAULT by removal of tenant break options and improve rental income following the letting of Block A, First Floor at £22 per sq. ft. headline rent
- **Alternative Uses** – Explore possibility of potential future alternative uses given proximity to adjoining hotel and strong residential market

Ashby Park, Ashby De La Zouch

Market value (£m)	13.5
Sector	Office
Annualised gross rental (£m)	1.02
Lettable area (Sq. Ft.)	91,752
Anchor tenants	Hill Rom UK Ltd, Ceva Logistics Ltd, Alstom UK Ltd
Let by area (%)	96.6%
Let by value (%)	95.7%
WAULT (years) (to first break)	4.4 (3.0)

- **Following Acquisition** – Dilapidations on the space vacated by Alstom agreed. Jigsaw Solutions exercised their July 2017 break but re-geared lease on increased space
- **Asset Management Initiatives** – Seek to re-let vacant space within Ceva House and re-gear the lease with Ceva Logistics

4 Portland Street, Manchester

Market value (£m)	12.5
Sector	Office
Annualised gross rental (£m)	0.76
Lettable area (Sq. Ft.)	54,959
Anchor tenants	New College Manchester Ltd, Mott MacDonald Ltd
Let by area (%)	100.0%
Let by value (%)	96.9%
WAULT (years) (to first break)	4.8 (3.4)

- **Action Taken** – Completed legacy issues from previous developer's refurbishment. Building now fully let and improved rental level – now set at £19.50/sq. ft.
- **Asset Management Initiatives** – Opportunity to secure re-gears and rent reviews at increased rental levels

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Office *(continued)*

Arena Point, Leeds

Market value (£m)	12.4
Sector	Office
Annualised gross rental (£m)	0.73
Lettable area (Sq. Ft.)	82,498
Anchor tenants	The Foundation for Credit Counselling, JD Wetherspoon Plc, Expotel Hotel Reservations Ltd
Let by area (%)	88.5%
Let by value (%)	84.9%
WAULT (years) (to first break)	5.4 (2.2)

- **Three Phase Refurbishment** – Installation of new high-level illuminated signage to highlight the property as a landmark location in the cityscape. Phase 1 refurbishment of foyer, basement amenity area and 6th & 7th floors completed July 2017. Phase 2 refurbishment of 4th & 5th floors completed and third phase of refurbishment to 1st, 2nd & 3rd floors planned
- **Post-refurbishment Lettings** – 6th & 7th floors let to Interserve at £12.50/sq. ft. and remaining shell ground floor office space refurbishment completed February 2018 and let to Kier Construction on a 2-year lease as a site office for nearby project
- **Local Area Development** – Sale contract exchanged with Unite Students for sale of podium area subject to satisfactory planning consent being obtained – potential £10.5m plus receipt with 5% non-refundable deposit received

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Top 15 Properties by Sector: Industrial

Juniper Park, Basildon

Market value (£m)	23.8
Sector	Industrial
Annualised gross rental (£m)	2.00
Lettable area (Sq. Ft.)	277,228
Anchor tenants	A Share & Sons Ltd, Schenker Ltd, Vanguard Logistics Services Ltd
Let by area (%)	98.4%
Let by value (%)	97.4%
WAULT (years) (to first break)	2.9 (1.6)

- **Diversified Income** – Multi-let to 10 tenants on 13 leases
- **Major Letting Secured** – Letting of previously void Unit 1A (84,475 sq. ft.) to SCS completed in September 2017. 10-year lease with tenant break option at year 5 – average rent for years 1-5 of £328,035 pa; rent thereafter £508,423 pa
- **Asset Management Initiatives** – Various initiatives ongoing with respect to re-gearing or renewal of leases with existing tenants

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Industrial *(continued)*

Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.7
Sector	Industrial
Annualised gross rental (£m)	2.29
Lettable area (Sq. Ft.)	686,940
Anchor tenants	Cummins Ltd, Balfour Beatty WorkSmart Ltd, Thomson Pettie Ltd
Let by area (%)	89.6%
Let by value (%)	88.6%
WAULT (years) (to first break)	2.8 (1.8)

- **Retaining Asset** – Decision to retain the asset based on stronger rental growth prospects for the estate
- **Lease Extensions** – Terms agreed with Bunzl UK Limited to extend their leases at Napier Road to March 2030 subject to tenant break options in 2025 at a combined annual headline rent of £165,000
- **Unit Sales** – Sale of two units at Wardpark South which does not form part of main estate holding and the sale of two vacant blocks, totalling 18,863 sq. ft., adjacent to the Wardpark Film Studio

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	14.4
Sector	Industrial
Annualised gross rental (£m)	0.93
Lettable area (Sq. Ft.)	246,209
Anchor tenants	Jiffy Packaging Ltd
Let by area (%)	100.0%
Let by value (%)	100.0%
WAULT (years) (to first break)	16.8 (16.8)

- **Long-lease Term** – Let to Jiffy Packaging Limited until 2034
- **Business plan** – seek to sell re-geared low-yielding long lease

The Point, Glasgow

Market value (£m)	13.4
Sector	Industrial
Annualised gross rental (£m)	0.96
Lettable area (Sq. Ft.)	169,190
Anchor tenants	The University Glasgow, Screwfix Direct Ltd, Howden Joinery Properties Ltd
Let by area (%)	94.1%
Let by value (%)	100.0%
WAULT (years) (to first break)	9.5 (5.7)

- **Improved Rental Tone** – 17% uplift achieved on See Woo review as of February 2016 Lease of Unit 8 to The University Glasgow extended for 10 years from January 2018 (subject to tenant break option in 2023) at £7.00/sq. ft. Rent review of Unit 5 also settled at £7.00/sq. ft. from February 2018
- **Strong Investment Market** – Explore potential of selling investment into strong market having improved the rental tone

Asset and Investment Managers' Report *(continued)*

Top 15 Properties by Sector: Other (Retail)

1-4 Llansamlet Retail Park, Swansea

Market value (£m)	12.0
Sector	Retail
Annualised gross rental (£m)	1.10
Lettable area (Sq. Ft.)	71,615
Anchor tenants	Steinhoff UK Group Property Ltd, Wren Living Ltd, A Share & Sons Ltd
Let by area (%)	100.0%
Let by value (%)	100.0%
WAULT (years) (to first break)	8.0 (5.1)

- **Modern Retail Warehouse Park** – Fully let retail park in prime location adjacent to the M4 motorway and a large Tesco Extra with tenants including Harveys, Wren Living and Halfords. Last remaining vacant unit was let to Tapi Carpets in early 2017
- **Drive-thru Development** – Planning consent has been obtained for a drive-thru unit and conditional terms, including a 20-year lease, have been agreed with an international fast food operator
- **Asset Management Initiatives** – Decision to retain for an interim period to obtain maximum value on disposal

Asset and Investment Managers' Report *(continued)*

Environmental Matters

The Asset Manager currently has five main aspects in its management of the environmental impact of the portfolio:

- An independent environmental report is required for all potential acquisitions which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination.
- The process of development and refurbishment projects considers the choice of materials used to avoid health hazards or damage to the environment.
- Ongoing risk examinations of the activities of current and incoming tenants is carried out by way of site inspections to identify and prevent pollution.
- All sites are visited at least annually with material evident environmental issues reported to the Board.
- All new leases seek to commit occupiers to environmental regulations.

Improving Resource Management at our Assets

In order to reduce energy consumption both in landlords' areas and the tenants' demise, the Asset Manager needs to work closely with tenants. The Asset Manager engages with tenants on resource consumption issues where the Asset Manager has responsibility for the payment of the supply. It has also engaged an energy consultant to advise on energy efficiencies. Energy improvements are always considered when repair or refurbishment programmes are undertaken.

Developments and Refurbishments

Development and refurbishments projects are subcontracted. The Asset Manager monitors the work directly and with project managers on larger projects, to ensure they are in accordance with relevant guidelines and laws. All subcontractors are assessed to ensure that they have sufficient resources to meet legal requirements.

Energy Performance Certificate ("EPC") Ratings and Implications

For commercial properties located in England and Wales, Minimum Energy Efficiency Standards Regulations (MEES) make it unlawful from 1 April 2018 to let buildings with an EPC rating lower than E.

Regulations for non-domestic buildings in Scotland are materially different in approach. No minimum EPC requirement is set for lettings but owners of buildings with a floor area greater than 1,000 square meters are currently obliged to carry out a Section 63 Action Plan to identify where energy efficiency improvements can be made and either carry out such works or exhibit a Display Energy Certificate.

We have completed an exercise to review all properties to ensure we have a record of their EPC status and to allow us to plan any specific works that might be required to improve any current F or G rated property to an EPC category of E or higher.

In total, F & G EPC ratings currently apply to 29 units across seven assets. The present day cost of carrying out works to directly allow re-assessment of the EPC to E or higher is estimated at £175,000. In practice, this will be spread over a number of years as leases end and when re-letting events occur. In addition, an element of the costs would, in any event, be included in wider dilapidation and refurbishment project works undertaken prior to re-letting.

Asset and Investment Managers' Report *(continued)*

Case Studies

Building A/B St James Court

- Building A – improvement from 'D' (81 points) to 'B' (46 points)
- Building B – improvement from 'E' (103 points) to 'B' (46 points)

Description of refurbishment:

Building A and B St James Court, Almondsbury are two large commercial offices constructed in 1992 in an established business park situated adjacent to the M4/M5 interchange in Bristol. Building A is a three storey 30,000ft² property whilst Building B is a two storey 18,000ft² property. Both buildings are of the same construction and comprise pitched trussed rafter roofs with an artificial slate covering, concrete block cavity walls and double glazed powder coated aluminium framed windows and doors. Internally, both buildings were fitted with a gas fired heating system with an external chiller for cooling, a centralised gas boiler for hot water and fluorescent light fittings. Both buildings were extensively refurbished both externally and internally to a 'Cat A' standard in 2016. The refurbishment works included the installation of a new zoned refrigerant based VRF heating and cooling system, electric point of use water heaters, energy efficient LED lighting and new machine-room-less passenger lifts. Following the above refurbishment works, the Energy Performance Rating for the buildings were greatly improved from a Grade D (81 points) to a Grade B (46 points) for Building A and from a Grade E (103 points) to a Grade B (46 points) for Building B.

800 Aztec West

- Original EPC rating: 'E' (120 points)
- New EPC rating: TBC but expected to be a 'B' rating

Description of refurbishment:

Building 800, Aztec West is a large commercial office constructed in the 1980's in an established business park situated adjacent to the M4/M5 interchange in Bristol. The building is a three storey and provides circa 73,000ft² of lettable office space. The building construction comprises a concrete encased steel frame with a flat roof covering, cavity brickwork walls, composite cladding and double glazed powder coated aluminium framed windows and doors. Internally, the building was fitted with an old VAV heating and cooling system, a centralised gas boiler for hot water and fluorescent light fittings. The building was extensively refurbished both externally and internally to a 'Cat A' standard in 2017/18. Externally, the refurbishment works included a new bituminous felt roof covering with new 120mm PUR insulation, new feature double glazed reception, new composite external cladding and new double glazed powder coated aluminium framed windows and doors. Internally, the refurbishment works included a new feature reception and staircase, new core corridors and lobbies, new toilet accommodation and a new shower block. The building services were completely refurbished to include new energy efficient LED lighting throughout, new VRV heating / cooling system with heat recovery, a new ventilation system and electric point of use water heaters. The refurbishment works are currently still onsite (due for completion in April 2018) but the Energy Performance Rating for the building is expected to be greatly improved from a Grade E (120 points) to a Grade B.

Hampshire House, Templars Way, Chandler's Ford, Eastleigh SO53 3RY

- Original EPC rating: 'C' (69 points)
- New EPC rating: 'B' (48 points)

Description of refurbishment:

London Scottish Properties Asset Management Limited embarked on works to prepare NatWest House (now Hampshire House) for re-letting in December 2016 with works completing in April 2017. The works entailed the strip out of existing fixtures and fittings and replacement of Mechanical, Electrical and Plumbing (MEP) installations with new highly efficient, modern specification equipment.

The works called for the installation of 4-pipe VRV/VRF HVAC systems designed to a ratio of one person per eight sq. m. (beyond typical BCO standards). In addition, the existing fluorescent lights were replaced by occupancy sensor controlled Hilclare Seville highly efficient LED modular lighting luminaires with high-transmission polycarbonate diffusers meeting with BSEN 60598.

The project greatly improved the overall efficiency of the areas subject to works with the pre-existing EPC from 2012 improved from C69 to B48. Typical offices newly constructed in 2018 from the ground upwards would be anticipated to reach an EPC standard of B28, so the rating for an existing building being classified at B48 far exceeds expectations by comparison and shows a real return on investment. Typical building stock of similar type have borderline C/D ratings so from a marketing perspective, the EPC classification provides an opportunity to set the building apart from competitor properties.

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	14.4
Sector	Industrial
Let by value (%)	100.0%

Asset and Investment Managers' Report *(continued)*

Net Asset Value

In the year to 31 December 2017, the EPRA Net Asset Value ("NAV") of the Group rose to £395.7m from £293.2m as at 31 December 2016, which equates to a decrease in diluted NAV of 1 pence per share ("pps") to 105.9pps (31 December 2016: 106.9pps). For the 2017 calendar year the Company has declared dividends amounting to 7.85pps.

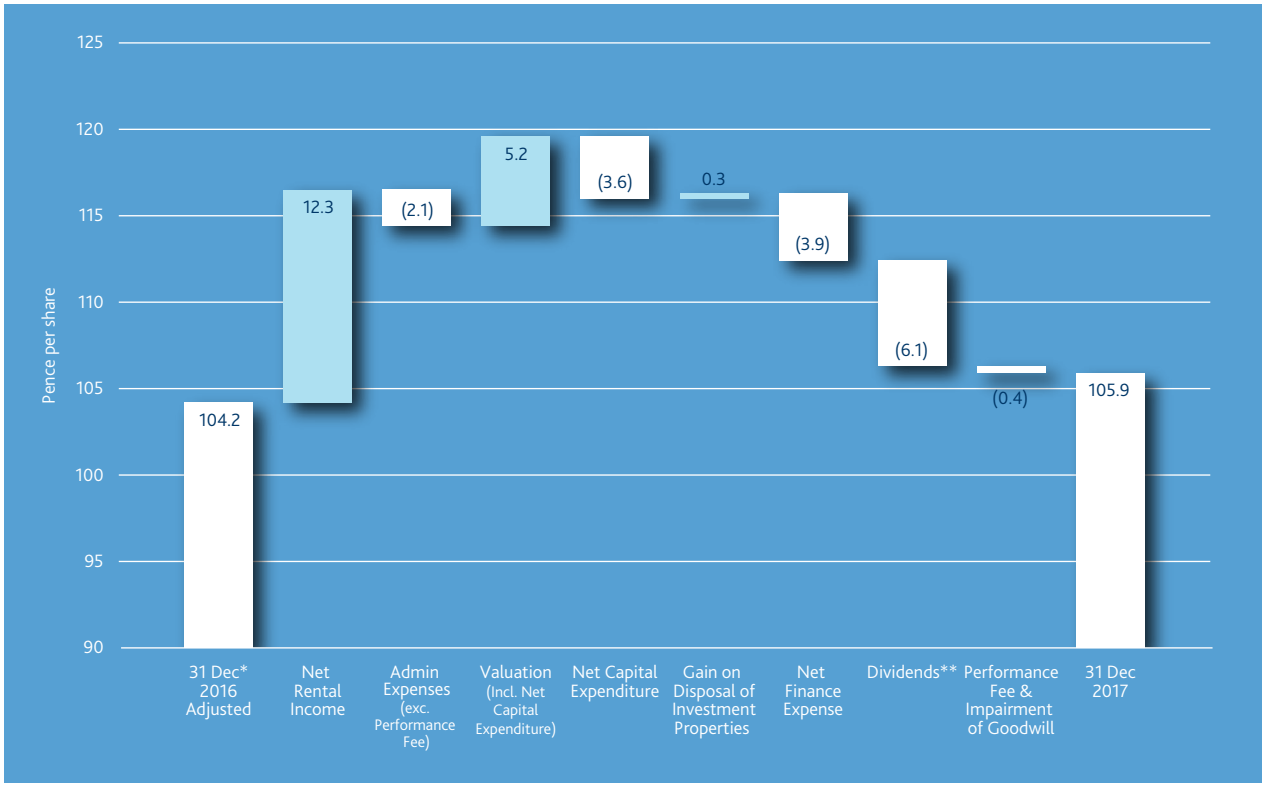
The EPRA NAV increase of some £102.5m since 31 December 2016 is predominately from the issuance of two tranches of new equity and the revaluation of the investment property portfolio.

On 24 March 2017, 26,326,644 ordinary shares were issued, at an adjusted EPRA NAV of 106.347pps, with the assumption of some £105m of borrowings, in consideration for the acquisition of c. £129m excluding transaction costs, of investment properties from The Conygar Investment Company PLC ("Conygar").

On 21 December 2017, 72,277,228 ordinary shares were issued at 101pps, pursuant to a capital raise of gross proceeds of £73.0m. As announced on the 27 December 2017, some of the funds were deployed on 22 December 2017 acquiring two portfolios in aggregate for £88.3m, excluding transaction costs, the associated borrowing amounted to some £35.7m.

In the 12 months to 31 December 2017, the Group completed property acquisitions of £228.1m, before costs and gross, including transaction costs, of £231.3m (31 December 2016: £133.6m, gross £140.7m). In the period net disposals amounted to £16.9m, and gross, excluding transaction costs, £17.4m (31 December 2016: £44.9m, gross £45.9m). Net capital expenditure amounted to £13.4m (31 December 2016 £9.1m), after dilapidations gross capital expenditure was £14.8m (31 December 2016 £12.4m).

EPRA Net Asset Value – diluted Bridge 2017



* Opening year ending 2017 adjusted for 26,326,644 and 72,277,228 shares issued in the period.

** The 26,326,644 shares issued in March 2017 did not qualify for the dividend of 2.4pence per share declared on 23 February 2017. The 72,277,228 shares issued pursuant to the Capital Raise which completed in December 2017 did not qualify for any dividend paid in 2017 calendar year.

Asset and Investment Managers' Report *(continued)*

The diluted EPRA NAV per share decreased to 105.9pps (31 December 2016: 106.9pps). The EPRA NAV is reconciled in the table below.

	Year ending 2017 £m	Year ending 2017 Pence per Share
Opening EPRA NAV*	389.2	104.2
Net rental income	45.8	12.3
Administration and other expenses	(9.4)	(2.5)
Gain on the disposal of investment properties	1.2	0.3
Change in the fair value of investment properties	5.9	1.6
EPRA NAV after Operating profit	432.8	115.8
Finance expense	(14.5)	(3.9)
Impairment of Goodwill	(0.6)	(0.1)
EPRA NAV before Dividends paid and dilution	417.7	111.8
Dividends paid**	(22.8)	(6.1)
Performance Fee Shares	0.8	0.2
Closing EPRA NAV – diluted	395.7	105.9

* Opening year ending 2017 adjusted for 26,326,644 and 72,277,228 shares issued in the period.

**The 26,326,644 shares issued in March 2017 did not qualify for the dividend of 2.4 pence per share declared on 23 February 2017. The 72,277,228 shares issued pursuant to the Capital Raise which completed in December 2017 did not qualify for any dividend paid in 2017 calendar year.

Table may not sum due to rounding

Income Statement

Operating profit before exceptional items and gains and losses on property assets and other investments for the year ended 31 December 2017 amounted to £36.4m (31 December 2016: £29.9m). Profit after finance items and before taxation was £28.7m (31 December 2016: £13.4m). 2017 included a full rent roll for properties held as at 31 December 2016, plus the partial rent roll for properties acquired during 2017.

Rental income amounted to £52.3m (31 December 2016: £43.0m), the increase was primarily the result of the enlarged investment property portfolio as a result of the following acquisitions: Conygar portfolio, Woodlands Court, Equinox North, and on 27 December 2017 the acquisition of two portfolios.

Currently more than 80% of the rental income is collected within 28 days of the due date and bad debts in the period were £0.5m (31 December 2016: minimal).

The EPRA cost ratio was 29.7% (31 December 2016: 29.6%), adjusting for ground rent. The minimal movement in the cost ratio is a reflection of increased non-recoverable property costs, which are offset by costs trending down due to the scale of the business and the Company registering for VAT. The allowable VAT recovery will amount to £0.8m for 2015 and 2016, and £0.3m for 2017. Non recoverable property costs were impacted due to the refurbishment programmes. Administrative expenses included an accrued performance fee of £1.6m.

Finance expense increased due to the increased amount of debt and the refinancing during the period. The increase debt reflects the portfolio acquisition in March 2017, with the assumption of £69.4m of bank borrowing and some £35.7m of Zero Dividend Preference shares ("ZDP"); and the £35.7m of additional borrowings in relation to the acquisitions in December 2017. On the 12 December 2017, a new 10-year borrowing facility was agreed, replacing five existing debt facilities and extending the weighted average maturity to 6.0 years. The associated fees amounted to £2.5m.

The Company is a member of the Association of Investment Companies ("AIC"). In accordance with the AIC Code of Corporate Governance, the ongoing charges for the year ending 31 December 2017 were 4.5% (31 December 2016: 4.2%). The total return from 6 November 2015 to 31 December 2017 was 19.9%, an annualised rate of 8.8%.

Asset and Investment Managers' Report *(continued)*

Dividend

In relation to the period 1 January 2017 to 31 December 2017, the Company declared dividends totalling 7.85pps (2016: 7.65pps). Since the end of the period, the Company has declared a dividend for the fourth quarter of 2017 of 2.45pps.

Period Covered	Announcement Date	Ex Date	Record Date	Payment Date	Pence per Share
1 Jan 2016 to 31 Mar 2016	27 May 2016	9 Jun 2016	10 Jun 2016	8 Jul 2016	1.75p
1 Apr 2016 to 30 Jun 2016	1 Sep 2016	8 Sep 2016	9 Sep 2016	7 Oct 2016	1.75p
1 Jul 2016 to 30 Sep 2016	17 Nov 2016	24 Nov 2016	25 Nov 2016	22 Dec 2016	1.75p
1 Oct 2016 to 31 Dec 2016	23 Feb 2017	2 Mar 2017	3 Mar 2017	13 Apr 2017	2.40p
1 Jan 2017 to 31 Mar 2017	25 May 2017	8 Jun 2017	9 Jun 2017	14 Jul 2017	1.80p
1 Apr 2017 to 30 Jun 2017	31 Aug 2017	7 Sep 2017	8 Sep 2017	13 Oct 2017	1.80p
1 Jul 2017 to 30 Sep 2017	14 Nov 2017	23 Nov 2017	24 Nov 2017	22 Dec 2017	1.80p
1 Oct 2017 to 31 Dec 2017	22 Feb 2018	1 Mar 2018	2 Mar 2017	12 Apr 2018	2.45p

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2-to-10 years, with a weighted average maturity of 6.0 years (31 December 2016: 2.9 years).

The Group's borrowing facilities are with ICG Longbow Ltd., Royal Bank of Scotland, HSBC, Santander UK, Scottish Widows Ltd. and Aviva Investors Real Estate Finance and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing at 31 December 2017 amounted to £339.1m (31 December 2016: £220.1m) (before unamortised debt issuance costs). Bank facilities with Lloyds Banking Group and HSBC were acquired with the purchase of the Conygar property portfolio in late March of 2017, totalling £69.4m. In December 2017, the Scottish Widows Ltd. and Aviva Investors Real Estate Finance 10 year £165m facility replaced five existing secured debt facilities and increased the average maturity of the Group.

At 31 December 2017, the Group's cash and cash equivalent balances amounted to £44.6m (31 December 2016: £16.2m), which includes proceeds from the December 2017 capital raise not deployed at the year-end.

The Group's net loan-to-value ratio stands at 45.0% (31 December 2016: 40.6%) before unamortised costs. This has been managed down from the c.49% in the aftermath of the acquisition of investment properties from Conygar, in late March 2017. The Board targets a Group net loan-to-value ratio of 40%, with a maximum limit of 50%.

The Managers continue to monitor the borrowing requirements of the Group.

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross Loan to Value** (%)	Annual Interest Rate	
ICG Longbow Ltd	£65,000	£65,000	Aug-19	44.6%	5.00%	Fixed
Royal Bank of Scotland	£19,336	£17,376	Dec-20	40.0%	2.00%	over 3mth £ LIBOR
HSBC	£20,998	£20,998	Dec-21	53.2%	2.15%	over 3mth £ LIBOR
Santander UK	£70,700	£70,700	Nov-22	43.4%	2.15%	over 3mth £ LIBOR
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	£165,000	£165,000	Dec-27	48.9%	3.28%	Fixed
	£341,034	£339,074				
Zero Dividend Preference Shares	£39,879	£37,389	Jan-19	N/A	6.50%	Fixed
	£380,913	£376,463				

* Before unamortised debt issue costs

** Based on Cushman and Wakefield and Jones Lang LaSalle property valuations

Asset and Investment Managers' Report *(continued)*

As at 31 December 2017, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio, net debt to ordinary shareholders' equity (diluted), of the Group was 84.5% as at 31 December 2017 (31 December 2016: 69.9%). The increase is predominantly a result of the borrowings acquired during 2017.

Interest cover stands at 3.2 times (31 December 2016: 3.8 times) including the ZDP, and 3.8 times excluding the ZDP (acquired March 2017).

Hedging

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

	31 December 2017 %	31 December 2016 %
Borrowings interest rate hedged (Incl. ZDP)	89.8	106.5
Thereof:		
Fixed	71.0	29.5
Swap	9.4	41.3
Cap	9.4	35.7
WACD[1]	3.8	3.7
WACD – Excluding the ZDPs[2]	3.5	3.7

[1] Weighted Average Cost of Debt – Weighted Average Effective Interest Rate including the cost of hedging

[2] Zero Dividend Preference Shares which were assumed on 24 March 2017

Tax

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

On 9 January 2018, the Company registered for VAT purposes in England. Following developments in case law, HMRC have updated their policy and have published new guidance on the circumstances in which VAT can be recovered. In accordance with the new guidelines, and in consultation with the Company's advisors, the Company has registered for VAT and intends to recover VAT which it incurs in the future as well as that which it has incurred since November 2015, when it first became active.

At 31 December 2017, the Group's taxation charge amounted to £1.6m, which comprised £1.4m of deferred tax for the potential future sale of a property held by Hamilton Hill Estates Ltd., and £0.2m of income tax for revenue generated outside the REIT regime.

Subsequent Events after the Reporting Period

On 1 February 2018, the Company announced the appointment of Frances Daley as a Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

Tay House, Glasgow

Market value (£m)	32.4
Sector	Office
Let by value (%)	87.1%

Principal Risks and Uncertainties

The Board acknowledges that it faces a number of risks which could impact its ability to achieve its strategy. While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks. The Board and the Audit Committee robustly reviews the risk management plan on a bi-annual basis.

The Prospectus issued in December 2017 (available from the Company's website: www.regionalreit.com) includes details of what the Group considers to be the key principal risks faced. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate these.

Key to risk trend «» No change ⌃ Trend up ⌄ Trend down

Strategic Risks		
Potential impact	Mitigation	Movement in the period «»
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	An annual review of the investment strategy. A defined investment appraisal process. Acquire portfolios which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties.	The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	Only acquiring office and industrial properties, in the UK and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway.	The Group continues to purchase properties in the UK outside the M25 motorway.
	No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's investment property value at the time of investment.	Tay House is the highest valued property which equates to 4.4% of the Group's investment properties.
	No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.	The Group's largest single tenant exposure is 2.6% of gross rental income.
	Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	No speculative construction was undertaken in the year.
	The value of the assets is protected by an active asset management programme, which is regularly reviewed against the business plan for each property.	The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.

Principal Risks and Uncertainties *(continued)*

Economic and Political Risk		
Potential impact	Mitigation	Movement in the period ⏫
Significant political events, including the decision to leave the EU, and the triggering of Article 50 of the Lisbon Treaty on the 29 March 2017 could impact the health of the UK economy, resulting in borrowing constraints, change in demand by tenants for suitable properties and the quality of the tenants.	The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.
Bank reference interest rates may be set to rise accompanying higher inflation.	Policy of hedging at least 90% of variable interest rate borrowings. Borrowings are currently provided by a range of institutions with targeted staggered maturities. Funding options are constantly reviewed with an emphasis on lengthening the maturity of borrowings	Continued adherence to the hedging policy and the increased weighted average duration of debt.

Tenant Risk		
Potential impact	Mitigation	Movement in the period ⏪⏩
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	An active asset management programme. Diversified portfolio of properties let, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the UK.	The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 1,026 as at 31 December 2017.
A high concentration of lease term maturity and/or break options.	The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. There is a focus on securing early renewals and increased lease period.	The WAULT to first break as at 31 December 2017 was 3.5 years. The largest tenant is 2.6% of the gross rental income.
	The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents	The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents

Financial and Tax Change Risk		
Potential impact	Mitigation	Movement in the period ⏪⏩
Changes to the UK REIT and non – REIT regimes, tax and financial legislation.	The REIT and non-REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.	Advice is received from a number of corporate advisors and the Group adapts to changes as required.

Principal Risks and Uncertainties *(continued)*

Operational Risk		
Potential impact	Mitigation	Movement in the period «»
Business disruption could impinge on the normal operations of the Group.	The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group.	Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.
	An annual due diligence exercise is carried out on all principal vendors.	Annual due diligence visits were undertaken with the Company's principal vendors.
	As an externally managed Company, there is a continued reliance on the Asset and Investment Managers.	Both the Asset and Investment Manager are viable long-term concerns.
	All properties undergo an annual comprehensive fire risk assessment to ensure correct cladding or construction materials are in place. Close relationships maintained with Health and Safety Executive.	The Asset Manager remains vigilant to changes in Health and Safety regulations.

Accounting, Legal, and Regulatory, including Environmental Risk		
Potential impact	Mitigation	Movement in the period «»
Changes to the accounting legal and/ or regulatory legislation could result in changes to current operating processes.	Robust processes are in place to ensure adherence to accounting, tax, legal, regulatory requirements, and the Listing Rules. All contracts are reviewed by the Group's legal advisors. The Administrator, Sub-Administrator, in its capacity as Group accountant and the Company Secretary attend all Board meetings and provide advice to the Board as required. All compliance issues are raised with the Financial Advisor. Property acquisitions undergo a rigorous due diligence process, including an environmental assessment. The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required. The Company Secretary continues to attend all Board meetings and advise on the Listing Rules in conjunction with the Financial Advisor.

On behalf of the Board

Kevin McGrath

Chairman and Independent Non-Executive Director

21 March 2018

Turnford Place, Cheshunt

Market value (£m)	14.3
Sector	Office
Let by value (%)	100.0%

Management Arrangements

Asset Manager

London & Scottish Investments Limited ("LSI") were appointed as the Asset Manager to provide asset management services to the Company (and Regional Commercial Midco Limited ("Midco") and the Jersey limited companies which hold the properties directly) with effect from the Company's shares being admitted to trading on the London Stock Exchange on 6 November 2015.

Under the Asset Management Agreement, the Asset Manager is responsible for the day-to-day asset management of the Property Portfolio, subject to the Investment Objective of the Company and its Investment Policy (as set out on page 14) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the real estate assets of the Company.

Notice of termination of the Asset Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If a notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated earlier with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager or by the Investment Manager.

The Company or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board, the Asset Manager and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Property Manager

London and Scottish Property Asset Management Limited has been appointed to manage the day-to-day property management of each property within the Portfolio. A Property Management fee of 4%, based upon the gross rental yield, is charged per annum.

Investment Manager and Alternative Investment Fund Manager

The Company appointed Toscafund Asset Management LLP ("Tosca") as the Company's Investment Manager (and to provide certain related services to Midco and the Jersey limited companies which hold property directly). The Investment Manager is responsible for the day to day management of the Company's investments, subject to the investment objective and the investment policy of the Company. The Investment Manager is the Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

Notice of termination of the Investment Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5-years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

Management Arrangements *(continued)*

Management and Performance Fees

The Investment Manager and the Asset Manager are each entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the Company's Net Asset Value ("NAV"), reducing to 0.9% on NAV over £500,000,000. The fee shall be payable in cash quarterly in arrears.

In addition 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 Total Shareholder Returns in excess of the annual Hurdle Rate of 8% for the relevant Performance Period. Total Shareholder Returns 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. The initial Performance Period runs from 6 November 2015 to 31 December 2018. Subsequent Performance Periods will be annual, from 1 January to 31 December.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark, which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially for the period ending 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-85 of the IPO Prospectus, published on 3 November 2015.

Continuing Appointment of Asset Manager and Investment Manager

The Management Engagement and Remuneration Committee ("MERC") recommended to the Board that the continued appointment of the Managers on the terms of their respective agreements be approved and the Directors agreed with this recommendation. Further details can be found in the MERC Report on page 79.

Administrator

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining Company's records and statutory registers, and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Link Alternative Fund Administrators Limited as Sub-Administrator. An annual fee of £127,000 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

The Administration Agreement is for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Company Secretary

The Company appointed Link Company Matters Limited (formerly Capita Secretarial Services Limited) to provide company secretarial services to the Company pursuant to a Company Secretarial Services Agreement. This agreement will automatically renew for 12 month periods unless notice of termination is served by either party at least six months prior to the end of each period.

Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.7
Sector	Industrial
Let by value (%)	88.6%

Board of Directors

Kevin McGrath DL OBE

(Chairman and Independent Non-Executive Director – appointed 16 October 2015)

Kevin McGrath is a chartered surveyor who has worked in the property industry for over 30 years. He is a member of the Royal Institute of Chartered Surveyors, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a trustee of a number of charities.

Kevin is chairman of M&M Property Asset Management and the non-executive chairman of INTCAS, a technology and support service company that assist education institutions from across the world to attract, recruit and manage international students in a safe, compliant and cost efficient way. Kevin was previously managing director and senior adviser of F&C REIT Asset Management and prior to that, he was a founding equity partner in REIT Asset Management, having previously worked as a senior investment surveyor with Hermes Investment Management.

William Eason

(Senior Independent Non-Executive Director – appointed 16 October 2015)

William ("Bill") Eason was previously head of charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a member of the London Stock Exchange in 1976. Bill was chief investment officer at Laing & Cruickshank Investment Management and is a former chairman of Henderson High Income Trust plc.

Bill is currently a director of Henderson International Income Trust plc, The European Investment Trust plc and of Institutional Protection Services Ltd. He is an Associate of the Society of Investment Professionals and a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles Bill has acted as a governor of Henley Management School and is currently a trustee of Marshall's Charity, The Gordon Foundation, and the John Hampden Fund. He is also a business fellow of Gray's Inn.

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Daniel Taylor

(Independent Non-Executive Director – appointed 16 October 2015)

Daniel ("Dan") Taylor is the founder and chief executive officer of Westchester Capital Limited, an investment and advisory firm, specialising in real estate. He currently holds the role as managing partner of Bourne Financial Ltd, a privately held serviced office business based in London, in which Westchester Capital is a principal investor.

From 2011 to 2015, Dan was chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK's second largest serviced office provider until the sale of the business to Regus plc.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He has active registered status with the Financial Conduct Authority ("FCA") as an investment manager (CF30) and CF1-Director and has held the following controlled functions at authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; and CF27-Investment Management.

Board of Directors *(continued)*

Stephen Inglis

(Non-Executive Director – appointed 16 October 2015)

Stephen Inglis is the chief executive officer and co-founder of the Asset Manager. He has over 30 years' experience in the commercial property market. He has responsibility for all property functions within the Asset Manager's structure, from investment management to asset and property management.

The majority of his experience is in the investment and development sectors, having worked for several international property consultants in Glasgow and London.

In his current role, Stephen has, since June 2013, acquired or sold over 300 assets in deals totalling more than £850 million. He was instrumental in establishing, equity raising and investing both Tosca Property Fund I and Tosca Property Fund II and the subsequent IPO of Regional REIT.

Stephen has, since 1991, been a member of the Royal Institution of Chartered Surveyors and is a member of the Investment Property Forum.

Timothy Bee

(Non-Executive Director – appointed 7 July 2017)

Timothy ("Tim") Bee was appointed a Non-Executive Director in place of Martin McKay on 7 July 2017. Tim Bee is the chief legal counsel of the Investment Manager. Tim joined Tosca in May 2014 having previously been a corporate partner at two leading London-based law firms. He qualified as a solicitor in 1988 and has extensive experience in mergers and acquisitions, equity capital markets and financial services.

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Frances Daley

(Independent Non-Executive Director – appointed 1 February 2018)

Frances Daley is a chartered accountant who qualified with a predecessor firm to EY, spending nine years in corporate finance, followed by 18 years in various chief financial officer roles. From 2007 to 2012 she was group finance director of the private equity backed Lifeways Group, the UK's largest provider of specialist support to adults with learning disabilities and mental health needs. Frances is a non-executive director of Henderson Opportunities Trust Plc and chair of Baring Emerging Europe Plc. She is also chair of Haven House Children's Hospice and James Allen's Girls' School.

Report of the Directors

The Directors of Regional REIT are pleased to present their report and the consolidated audited financial statements of the Company and the Group for the year ended 31 December 2017.

In accordance with the Listing Rules and the Disclosure, Guidance and Transparency Rules, the reports within the Corporate Governance section of the Annual Report and Accounts should be read in conjunction with one another, and the Strategic Report. As permitted, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 10 to 53) as the Board considers them to be of strategic importance.

Principal Activity

The Company has been incorporated for the purpose of investment in, holding and managing commercial property investments, or debt portfolios secured on such properties, which are located predominately in the regional centres of the UK outside the M25 motorway.

Status

The Company was incorporated in Guernsey, Channel Islands under the Companies (Guernsey) Law, 2008, as amended (the "Law") 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. It is a member of the Association of Investment Companies ("AIC").

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails the Company to pay an annual fee of £1,200.

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax. In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

On 9 January 2018, the Company registered for VAT purposes in England. Following developments in case law, HMRC have updated their policy and have published new guidance on the circumstances in which VAT can be recovered. In accordance with the new guidelines, and in consultation with the Company's advisors, the Company has registered for VAT and intends to recover VAT which it incurs in the future as well as that which it has incurred since November 2015, when it first became active.

The allowable VAT recovery will amount to £0.8m for 2015 and 2016, and £0.3m for 2017.

Corporate Governance Statement

The Corporate Governance Statement is set out on pages 64 to 74 and forms part of this report by reference.

The Directors are committed to establishing and maintaining high standards of corporate governance, in line with best practice. The Board works closely with the Company Secretary in this regard. The Board is accountable to Shareholders for the governance of the Group's affairs.

The Directors have prepared a statement on how the principles and recommendations of the AIC Corporate Governance Code have been applied. This statement may be found on pages 65 to 71 and forms part of this report by reference.

Directors

The Directors of the Company were in office during the whole of the year ended 31 December 2017, with the exception of Tim Bee, who was appointed on 7 July 2017. Frances Daley was appointed on 1 February 2018.

The full biographies of the Directors can be found on pages 54 and 55. Tim Bee and Frances Daley will stand for election at the forthcoming Annual General Meeting ("AGM") on Thursday, 17 May 2018 in accordance with the Company's Articles of Incorporation (the "Articles") and the AIC Code of Corporate Governance.

In accordance with the Company's Articles, all the other Directors will stand for re-election at the forthcoming AGM.

The Directors ensure that they maintain their continuing professional development requirements in accordance with the requirements of their respective professions as well as receiving briefings from the Company Secretary and other advisors on a regular basis.

Diversity

The Board of Directors of the Company comprises of five males and one female.

The Board recognises the importance and benefits of improving the gender balance of the Board and notwithstanding that gender diversity was a consideration throughout the recent selection process in respect of the appointment of a new Non-Executive Director, the Board does not consider that it would be appropriate to set diversity targets as all Board appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Directors and Officers Liability Insurance

Directors and Officers Liability insurance is maintained through the Investment Manager's own insurance policy. Save for the indemnity provisions in the Articles, there are no qualifying third party indemnity provisions in force.

Report of the Directors *(continued)*

Directors

The beneficial interests of the Directors of the Company are set out in the below table.

	At 31 December 2017		At 21 March 2018	
Director	Number of Ordinary Shares	% Interest in share capital	Number of Ordinary Shares	% Interest in share capital
Daniel Taylor	350,000	0.09	350,000	0.09
William Eason	200,000	0.05	200,000	0.05
Stephen Inglis	752,549	0.20	752,549	0.20
Kevin McGrath*	297,030	0.07	297,030	0.07
Tim Bee**	150,000	0.04	150,000	0.04
Frances Daley	–	–	–	–

* Held by his minor children.
** Held by his spouse.

Share Capital

As at 31 December 2017, the Company's total issued share capital was 372,821,136 ordinary shares (31 December 2016: 274,217,264). All of the Company's ordinary shares are listed on the premium listing segment of the London Stock Exchange and each ordinary share carries one vote.

There is only one class of ordinary shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2016: none) are currently in issue.

Issue of Shares

On 24 March 2017, the Company issued 26,326,644 new ordinary shares in aggregate to Topp Holdings Limited and Conygar Properties Limited, which are both wholly owned subsidiaries of The Conygar Investment Company PLC ("Conygar"), in part settlement of the acquisition of 31 mixed-use property assets geographically spread across the regions of England and Wales. The total number of shares in issue as at 31 March 2017 was 300,543,908.

Capital Raise and Further Issue of Shares

On 4 December 2017, the Company proposed a firm placing, placing, open offer, excess open offer and offer for subscription at 101 pence per share (the "Capital Raise"). On 21 December 2017, the Company issued 72,277,228 new ordinary shares at 101 pence per share, raising, in aggregate gross proceeds of £73m. The total number of shares in issue as at 31 December 2017 was 372,821,136.

Disapplication of Pre-emption Rights

At the 2017 AGM the Company received authority to allot shares for cash on a non pre-emptive basis up to 10% of the Company's issued share capital as at 12 April 2017.

These authorities were updated at the Extraordinary General Meeting ("EGM") held on 19 December 2017 and will expire at the conclusion of the 2018 AGM. Resolutions will be proposed at the 2018 AGM to renew the Company's authority to issue shares for cash on a non pre-emptive basis. These authorities will be sought in accordance with the Pre-Emption Group's Statement of Principles.

At the EGM held on 19 December 2017, the Company was granted additional authority by its Shareholders to issue i) a maximum number of 123,762,375 shares for cash on a non pre-emptive basis in connection with the capital raise; and (ii) an additional 10% of the enlarged share capital for cash on a non pre-emptive basis. As stated above, this latter authority will expire at the end of the 2018 AGM.

The Company completed the Capital Raise and 72,277,228 new ordinary shares were issued and admitted to trading on 21 December 2017.

Purchase of Own Shares

No shares have been bought back in the year. The latest authority for the Company to purchase its own ordinary shares was granted to the Directors at the Company's last AGM on 25 May 2017 and expires on the date of the next AGM. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming AGM on 17 May 2018.

Report of the Directors *(continued)*

Restrictions on the Transfer of Shares

Subject to the Articles, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his ordinary shares in any manner which is permitted by the Law or in any other manner which is from time to time approved by the Board.

If any Ordinary Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a "Non-Qualified Holder" (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Ordinary Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, (i) the person will be deemed, upon the expiration of such 30 days, to have forfeited his Ordinary Shares or (ii) if the Board in its absolute discretion so determines, the Company may dispose of the Ordinary Shares at the best price reasonably obtainable and pay the net proceeds of such a disposal to the former holder.

A Non-Qualifying Holder is defined as any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may:

- cause the Company's assets to be deemed "plan assets" for the purposes of the US Internal Revenue Code of 1986 (as amended), or US Employee Retirement Income Security Act of 1974 (as amended);
- cause the Company to be required to register as an "investment company" under the US Investment Company Act 1940;
- cause the Company or any of its securities to be required under the US Exchange Act, the US Securities Act or any similar legislation;
- cause the Company not being considered a "Foreign Private Issuer", as such term is defined in rule 3b-4(c) under the US Exchange Act;
- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Company being disqualified from issuing securities pursuant to Rule 506 of Regulation D under the US Securities Act;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under US Internal Revenue Code of 1986 (as amended), Section 708;
- result in a person holding ordinary shares in violation of the transfer restrictions put forth in any prospectus published by the Company from time to time; or
- cause the Company to be a "controlled foreign corporation" for the purposes of Section 957 of the US Internal Revenue Code of 1986, (as amended), or may cause the Company to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Company within formation that it requires in order to comply with its obligations under exchange of information agreements.

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Substantial Shareholdings

Information on major interests in shares provided to the Company under the Disclosure Guidance and Transparency Rules of the UK Listing Authority is published via a Regulatory Information Service and on the Company's website.

The Company has received notification of the following disclosable interests in the voting rights of the Company:

	At 31 December 2017		At 21 March 2018	
Shareholder	Number of Ordinary shares notified	% Interest in share capital	Number of Ordinary shares notified	% Interest in share capital
Toscafund Asset Management LLP	27,154,198	7.28	27,154,198	7.28
The Conygar Investment Company Plc	26,326,644	7.06	26,326,644	7.06
Old Mutual Plc	15,129,686	4.06	15,129,686	4.06
Johnson Tosc LLC	14,692,745	3.94	14,692,745	3.94

The disclosure thresholds for such a non-UK issuer (in accordance with Disclosure Guidance & Transparency Rule 5) are 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

Report of the Directors *(continued)*

Dividends

The Directors maintain a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' view on the outlook for sustainable recurring earnings, subject to compliance with REIT status requirements. The Directors intend to reinvest proceeds from disposals of assets in accordance with the Company's Investment Policy.

During 2017 the Company declared three quarterly dividends, each of 1.80 pence per share. A dividend of 2.45 pence per share for the year ended 31 December 2017 was declared on 22 February 2018. This dividend will be paid on 12 April 2018 to Shareholders on the register at the close of business on 2 March 2018. The ex-dividend date will be 1 March 2018.

Shareholders are not required to vote on the payment of a dividend under the Law at the Company's AGM scheduled to be held on 17 May 2018. Given the requirement to distribute at least 90% of qualifying property rental business income, it is not thought that this adversely impacts Shareholders' rights.

At the time of the IPO, the Company's stated Investment Objective was to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway. The Company intends to continue to pursue a progressive dividend policy and its quarterly dividends provide a source of regular income for Shareholders, thus improving their cashflow return profile.

- For the purpose of determining the profits available for a dividend distribution the Company continues to choose to treat all of its net income from the Property Related Business as qualifying property income, notwithstanding that the Company accounts for both property income and interest income.
- The payment and level of dividends will always remain subject to the Company's performance, its financial position, the business outlook and to market conditions.
- It is the Company's intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution requirement.
- The Board will resolve to declare any dividends at an appropriate time after the end of the relevant quarter dates, being 31 March, 30 June, 30 September and 31 December. The dividends will be paid approximately one month after being declared. Pursuant to the Law, Shareholders are not required to approve the payment of any dividend.

In order to maintain REIT status, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute at least 90% of the income profits (broadly, calculated using normal tax rules) of the Group to the extent that they are derived from the Property Related Business of the Group (other than any Property Related Business carried on outside the UK by non-UK tax resident members of the Group).

The Company has the ability, by ordinary resolution, to offer Shareholders the right to elect to receive further ordinary shares, credited as fully paid, instead of cash in respect of all or any part of any dividend (a scrip dividend). At the current time, and following a consultation with Shareholders, it is not the Directors' intention to offer a scrip dividend option.

Relations with Shareholders

Communication with Shareholders remains of critical importance to the Board, who believe that understanding the views of shareholders is a key factor in the Group's strategic direction and successful development of the business.

The Company places considerable emphasis on maintaining an open dialogue with shareholders, and in particular institutions and wealth managers. It has a regular schedule of announcements and additional announcements as required. In addition, meeting are held with institutional shareholders, private shareholders, wealth managers, and sell-side equity analysts to present the Group's financial and operational results and to discuss the strategy and business model, as well as the UK regional commercial property market. The Company also encourages investors and analysts to utilise its on-line facilities and communications and has developed comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

During the year, the Company undertook a successful capital raise of £73m. The fundraising structure allowed current Shareholders to maintain or increase their current holding percentage and new institutions to purchase material tranches of the offering. The capital raise received strong support from existing and new shareholders.

The Board receives a regular investor relations report summarising shareholder contact, sell-side analysts' research, media coverage, and share price movement. In addition, the Board receives feedback from its Broker on Shareholder issues.

Shareholders are encouraged to attend and vote at the Company's AGM which provides a forum for communication with both private and institutional Shareholders alike. The Board makes itself available at the AGM to answer Shareholder questions. The Chairman, and as necessary all other members of the Board, are also available to meet with Shareholders throughout the year.

Report of the Directors *(continued)*

The Group's Annual Report and Accounts is despatched to all Shareholders by post at least 20 working days before the AGM, accompanied by the details of the resolutions to be proposed and the notice of the AGM. Shareholders are able to lodge their votes via the CREST system or by returning the proxy card sent with the Annual Report. Details of the number of proxy votes for, against and withheld for each resolution will be disclosed at the meeting and in the AGM RNS announcement.

The Annual Report, notice of AGM, and the proposed resolutions, and the interim results and all other announcements by the Group, are made available on the Group's website. In addition Shareholders, and any other interested parties, can register for email alerts of the Group's announcements.

The Group will consider a number ways of building on its engagement with Shareholders, sell-side analysts and potential investors in the course of 2018.

Financial Risk Management

The principal risks and uncertainties faced by the Company and Group and the Company's policies for managing these risks are set out on pages 46 to 48.

The principal financial risks relating to financial instruments and details of the risk mitigation factors relating to financial instruments are set out in note 29.

Going Concern

The Board confirm that it has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these Financial Statements were approved.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Financial Statements on a going concern basis.

Viability Statement

The Directors have assessed the prospects of the Group and future viability over a three-year period from year end, being longer than the 12 months required by the 'Going Concern' provision.

The Board confirms that it has a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the next three years, taking account of the risks as set out in the Chairman's Statement and the Principal Risks and Uncertainties Report.

During 2017, the Board in conjunction with the Audit Committee, carried out a robust assessment of the Principal Risks and Uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the three-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believe that the Group is well placed to manage its Principal Risks and Uncertainties successfully, taking into account the current and economic and political environment.

The Board chose to conduct the review for a three-year period based upon the Group's detailed budget covering a rolling three-year period; and the WAULT of 3.5 years to first-break, which allows the forecast to include the re-letting and rent reversions arising from tenancy reviews. The Group's weighted average debt to maturity was 6.0 years as at 31 December 2017.

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

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

Corporate, Social and Environmental Responsibility

Corporate responsibility covers many different aspects of business. The Company has no direct social or community responsibilities but the environmental impact of our properties is important to the Group. Although the Company is not required by statute to provide reporting on its environmental impact and, as a REIT with no employees, the Company's own direct environmental impact is minimal, the Board considers the environmental impact of the Group to be an important issue to be monitored by the Asset Manager, who is responsible for the management of the properties on behalf of the Company. Further details can be found on pages 37 and 38.

Auditor

RSM UK Audit LLP were appointed as auditor to the Company on listing on 6 November 2015. RSM UK Audit LLP ("RSM") has expressed its willingness to continue in office as Auditor to the Company and resolutions for its re-appointment and for the Directors to determine its remuneration will be proposed at the forthcoming AGM.

Report of the Directors *(continued)*

Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor are aware of that information.

Listing Rules Disclosures

Listing Rule 9.8.4R requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4 with the exception of the details of any contract of significance in which a Director is or was materially interested. The details of the Agreements with the Asset Manager and Investment Manager are set out on pages 50 and 51.

Subsequent Events

Details of significant subsequent events are set out on page 43.

Annual General Meeting

The Company's AGM will be held on Thursday, 17 May 2018, at the offices of the Company's solicitors, Macfarlanes LLP, 20 Cursitor Street, London EC4A 1LT.

The notice of AGM, which sets out the resolutions to be proposed, together with an explanation of the resolutions proposed, accompanies this Annual Report and can also be found on the Company's website at (www.regionalreit.com).

The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its Shareholders as a whole and will be voting in favour of all resolutions with their own shares.

The AGM is the Company's principal forum for communication with Shareholders. The Chairman of the Board and the Chairmen of the Committees, together with the other Directors, will be available to answer Shareholders' questions at the AGM.

The Directors look forward to meeting Shareholders at the AGM.

For and on behalf of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Ashby Park, Ashby De La Zouch

Market value (£m)	13.5
Sector	Office
Let by value (%)	95.7%

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements in accordance with applicable law and regulations.

The Companies (Guernsey) Law 2008, as amended (the "Law") requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority ("FCA") to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company's Financial Statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the Group's and the Company's affairs at the end of the financial period and of the profit or loss of the Group and the Company for that period and are required by IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company.

In preparing the Group and the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state that the Financial Statements have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group's and the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the requirements of the Law and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

Each of the Directors, whose names and functions are listed on pages 54 and 55 confirms that to the best of each person's knowledge:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group and the undertakings included in the consolidation taken as a whole;
- The Asset and Investment Managers' Report include a fair review of the development and performance of the business and the position of the Company and Group and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and
- The Annual Report and Accounts, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Company's and Group's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 21 March 2018 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

The Company is committed to maintaining high standards of corporate governance, which meet the statutory and regulatory requirements for companies listed in the UK. The Board is accountable to the Shareholders for the governance of the Group's affairs. This section of the Annual Report sets out the principles of corporate governance that the Board has adopted and their compliance with the codes of corporate governance that they have chosen to adopt.

The Listing Rules and the Disclosure Guidance and Transparency Rules ("Disclosure Rules") of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject.

As a member of the Association of Investment Companies ("AIC"), the Board has agreed to comply with the AIC Code of Corporate Governance (the "AIC Code"), published in July 2016, by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") published by the AIC in July 2016, except as set out below. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules. Details of the Company's compliance with the AIC Code is set out within this statement.

The Guernsey Financial Services Commission's ("GFSC") "Finance Sector Code of Corporate Governance" (the "GFSC Code"), updated and published in February 2016, applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk. A copy of the GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

The Directors recognise the value of the AIC Code and believe that reporting against the principles and recommendations of the AIC Code, and by reference the AIC Guide will provide shareholders with better information. Accordingly, the Company has taken appropriate measures to ensure that the Company complies with the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company's position, being an externally managed investment company. In particular, all of the Company's day-to-day functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported on these provisions.

Corporate Governance Statement *(continued)*

The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections, covering:

1. The Board;
2. Board Meetings and the relationship with the Investment Manager; and
3. Shareholder Communications.

The Board

AIC Code	Principle	Compliance Statement
1	The Chairman should be independent	The Chairman, Kevin McGrath, was independent of the Asset and Investment Managers at the time of his appointment and remains so. The Chairman has not been employed by either of the Managers in the five-years prior to his appointment, nor did he act as advisor to either Manager in that period and he does not hold any other directorship of an investment company managed by the Asset Manager or the Investment Manager. There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third party service providers. The AIC Code recommends that the Board should appoint one of the independent Directors as a Senior Independent Director. The Senior Independent Director is available to shareholders for communication as well as providing a sounding board for the Chairman and to review the performance of the Chairman. The Board recognises the importance of strong corporate governance and shareholder relations. William Eason was appointed as Senior Independent Non-Executive Director with effect from 1 December 2016.
2	The independence of Directors	The Board consists of six Non-Executive Directors; four Independent Directors (Kevin McGrath, Frances Daley (appointed 1 February 2018), William Eason and Daniel Taylor) who are each independent of the Asset and Investment Manager's; and two Non-Independent Directors (Stephen Inglis and Tim Bee (appointed 7 July 2017)) who sit on the Board and report on the activities of the Asset Manager and Investment Manager respectively. Mr Eason and Ms Daley are directors of separate companies managed by investment manager Janus Henderson. This has been considered by the Board, which is satisfied that they are demonstrably independent and that their independence as Directors of the Company is not affected. The independence of the Directors is important to the Company in maintaining good governance. The independence of each Director is assessed as part of the annual evaluation process. Having assessed the performance and independence of each Director, the Board is satisfied that all Directors, including Stephen Inglis and Tim Bee bring strong independent oversight and continue to demonstrate independence in judgement and character.
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance	All Directors submit themselves for annual re-election by shareholders at the Annual General Meeting ("AGM") of the Company. The individual performance of each Director is evaluated annually by the Chairman. The Senior Independent Director evaluated the performance of the Chairman. The recommendations made to shareholders to vote in favour of the re-election of all Directors at the AGM are based on the outcome of the Board evaluation process. Following this year's evaluation, the Chairman concluded that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time. He therefore recommends the election of Frances Daley and Tim Bee and the re-election of the remaining Directors at the forthcoming AGM.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
4	The Board should have a policy on tenure, which is disclosable in the annual report	Each Director has a signed letter of appointment which formalises the terms of their engagement as a Director of the Company. These letters detail an initial three-year appointment, but each Director may be invited by the Board to serve for an additional period, if both the individual Director and the Board believes this is in the interest of the Company, having taken into account the independence of the Director. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, there is no limit on the overall length of service of any of the Directors. The Board does not believe that length of service on a wholly non-executive board has a bearing on independence. An individual Director's experience and continuity of Board membership can significantly enhance the effectiveness of the Board as a whole.
5	There should be full disclosure of information about the Board	The biographical details for each Director are set out on pages 54 and 55 of this Report and demonstrate the wide range of skills, knowledge and experience they bring to the Board. Details of the Board's Committees and composition are set out in the Terms of Reference which are available on the Company's website at: http://www.regionalreit.com/~/media/Files/R/Regional-Reit/documents/audit-committee.pdf http://www.regionalreit.com/about-us/board-committees/management-engagement-and-remuneration-committee The Audit Committee report is set out on pages 76 to 78 of this Report. The Audit Committee membership comprises all the Independent Directors. The Chairman is a member of the Audit Committee but does not chair it. The Management, Engagement and Remuneration Committee ("MERC") report is set out on page 79 of this Report. The MERC membership comprises all the Independent Directors. Whilst not in compliance with the AIC's recommendation, due to the size and nature of the Company, the Board feels that it is appropriate for the Chairman of the Board to also Chair the MERC, with the caveat that the Chairman's own remuneration is set by the other Independent Directors. The Board will monitor the committee structure and will carry out a regular review as part of the annual Board evaluation process. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and he is responsible for ensuring that all Directors receive accurate, timely and clear information. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic matters.
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company	The Board considers that, as it is comprised of a majority of Non-Executive Directors and given the size of the Company, it is not appropriate to establish a Nomination Committee. The experience, skills and knowledge of the Directors is detailed in the biographies of the Directors, set out on pages 54 and 55 of this Report. The Board believes that diversity of experience and approach amongst board members is of great importance. It has agreed that while the benefits of diversity, including gender, will be taken into account in respect of Board appointments, the overriding priority should be appointment on merit, therefore no measurable targets in relation to Board diversity will currently be set.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors	It is the Board's policy to evaluate the performance of the Board, Board Committees and individual Directors through an assessment process on an annual basis. The independence of each Director is also considered as part of this process. The performance of the Chairman is evaluated by the other Directors on an annual basis, under the leadership of the Senior Independent Director. The Board carried out an evaluation of performance during 2017 by way of questionnaires specifically designed to assess the strengths and weakness of the Board and its Committees. The questionnaires were completed by each Director and the assessment covers the functioning of the Board as a whole and a similar review of the effectiveness of the Board Committees and the individual performance of the Directors is undertaken. The performance of the Chairman was also evaluated by way of questionnaires. Details of the evaluation for 2017 are shown on page 73.
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent	Details on the Directors' remuneration is contained in the Directors' Remuneration Report on page 80 of this Report. The MERC annually reviews the fees paid to the Directors (and will compare these with its peer group and the REIT industry generally), taking into account the level of commitment and responsibility of each Board member. As all of the Directors are non-executive and the Chairman is independent from the Managers, the Board considers that it is acceptable for the Chairman of the Company to chair MERC meetings, however when the MERC discusses Directors' fees he is excluded from setting his own remuneration.
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report	The Company does not utilise a separate Nomination Committee as this function is carried out by the Board. It is not thought appropriate given the size and nature of the Board. The Independent Directors would be expected to lead the process of the appointment of any new Director to the Board. The recruitment process for the appointment of Frances Daley was led by the Independent Directors.
10	Directors should be offered relevant training and induction	New Directors receive a full induction pack containing key information and governance documents from the Company Secretary when they are appointed. They will also be given key information on the Company's regulatory and statutory requirements as they arise. In addition they will be offered a tailored induction programme with the Asset and Investment Managers, which covers the investment portfolio and the Managers' approach to investment. Frances Daley was appointed as a Non-Executive Director of the Company and as a member of the Audit Committee on 1 February 2018. Frances received a tailored induction training programme throughout the first month of her appointment. It was designed to give her a comprehensive overview of the Company, including its business and strategic aims and its governance structure. She also met with the Company Secretary and will visit some of the Company's properties in 2018. All Directors will continue to receive periodic relevant training and updates as necessary from the Company Secretary, legal advisors and other service providers to enhance and refresh their knowledge. The annual board evaluation process provides Directors with an opportunity to identify any training or development requirements. The Directors have access to the advice and services of the Company Secretary through its appointed representative.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
11	The Chairman (and the Board) should be brought into the process of structuring a new launch as soon at an early stage	Principle 11 applies to the launch of new investment companies and is, therefore, not applicable to the Company.
12	Boards and managers should operate in a supportive, co-operative and open environment	Formal Board meetings provide important forums for the Directors and key members of the Managers' teams to interact and for Directors to receive reports and provide challenge to both the Asset Manager and Investment Manager. Representatives of the Asset and Investment Managers are appointed to the Board, which facilitates communication between them and the Board and supplements the regular reporting to the Directors at Board meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants. Interaction between the Board and the Asset and Investment Managers is not restricted to Board meetings. Between meetings the Managers update the Board on developments and respond to queries and requests by Directors as they arise. In addition, informal meetings take place regularly between the Directors and the Asset and Investment Managers. Senior members of the Asset Manager's and Investment Manager's teams are also invited to the Board's annual strategy meeting.
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues	At each meeting, the Board receives a report on the performance of the Group from the Asset Manager and Investment Manager. The Board is responsible for establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments and the level of permitted gearing and borrowings. The Investment Management Agreement with the Investment Manager sets out restrictions on the activities of the Investment Manager without Board approval. The Board, at its regular meetings, undertakes reviews of key investment and financial data, analyses of asset allocation, peer group information, the economy generally, transactions and performance comparisons, share price and net asset value performance. It also receives an update from the Asset Manager on property market conditions and trends, movements compared to previous quarters, yields on properties within the portfolio, lease lengths and letting activity, including estimated rental values and vacant properties. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information and through the Company Secretary ensures that each service provider reports to the Board as required.
14	Boards should give sufficient attention to overall strategy	The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis. The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager	The MERC meet at least once annually to review the overall performance of the Asset Manager and Investment Manager and considers both the appropriateness of the Asset Manager's and Investment Manager's appointments and the contractual arrangements (including the structure and level of remuneration) with the Asset Manager and Investment Manager, as well as other contractual arrangements. The Audit Committee reviews the Asset Manager and Investment Manager compliance and control systems in operation insofar as they relate to the affairs of the Company. The Audit Committee further reviews the arrangements with, and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.
16	The Board should agree policies with the manager covering key operational issues	The Master Asset Management Agreement between the Company and the Asset Manager sets out the limits of the Asset Manager's authority, beyond which Board approval is required, for example an acquisition or sale of any portfolio property, the value of which exceeds £15 million. The Master Investment Management and Services Agreement between the Company and the Investment Manager sets out the limits of the Investment Manager's authority, beyond which Board approval is required. Representatives of each of the Asset Manager and the Investment Manager attend each meeting of the Board to address questions on operational issues and specific matters and to seek approval for specific transactions which are required to be referred to the Board. The Board has retained responsibility for matters such as Board membership, gearing and share buy-backs.
17	Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it	The Company's share price is monitored continually by the Investment Manager on a daily basis and is considered at each Board meeting. The Investment Manager also circulates an investor relations bulletin to the Board via email on a monthly basis. This bulletin contains, amongst other information, the share price discount or premium. At each Board meeting the Board considers the discount or premium to NAV and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the longer term.
18	The Board should monitor and evaluate other service providers	On the Company's behalf, the Investment Manager monitors the performance and systems and controls employed by the third-party service providers. The MERC reviews the performance and cost of the Company's third-party service providers and considers the recommendations from the Investment Manager. The Board ultimately considers if a provider should be replaced.

Corporate Governance 54 - 87

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
19	The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's view to Shareholders	The Board believes that the maintenance of good relations with its shareholders is important for the long-term prospects of the Company. The AGM is the Company's principal forum for communication with Shareholders and Directors are available to answer Shareholders' questions at the meeting. The Board receives feedback on the views of Shareholders from its corporate broker. Through this process the Board seeks to monitor the views of Shareholders and to ensure an effective communication programme. The Asset Manager holds regular discussions with major Shareholders, the feedback of which is provided to and greatly valued by the Board. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office address. The Notice of Meeting sets out the business of the meeting. The Asset Manager will make a presentation to Shareholders covering the investment performance and strategy of the Company at the forthcoming AGM. The Directors welcome the view of all Shareholders.
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues if the Asset Manager or Investment Manager is asked to act as spokesperson.	All substantive communications regarding any major corporate matters are discussed by the Board taking into account representations from the Asset and Investment Managers and, as appropriate, the Auditor, Legal Advisers, the Broker and Company Secretary. Formal Board approval of any substantive communication is required.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
21	The Board should ensure that Shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the Shares	The Board aims to provide Shareholders with a full understanding of the Company's investment objective, policy and activities, its performance and the principal risks by means of the Annual Report and Half-Year Reports. The Board believes that sufficient information is available to Shareholders to understand the risk: reward balance to which they are exposed by holding Shares in the Company. The publication of the Key Information Document, on the Company's website, which is prepared by the Investment Manager provides the nature and key risks of the Company to Shareholders. Details of the Principal Risks and their management are set out on pages 46 to 48. The Investment Objective and Policy is set out on page 14. The performance of the Company and that of the Asset Manager and Investment Manager is discussed in the Chairman's Statement and the Asset and Investment Managers' Report on pages 10 to 45. The performance of the Asset Manager and Investment Manager is considered on an annual basis by the MERC. Details of the MERC's review of the performance by the Asset and Investment Managers' are set out on page 51. Details of the Performance Fees payable to the Asset and Investment Managers are set out on page 51. The ongoing charge is disclosed on page 41. The going concern and viability statements of the Group are set out on page 60. The full list of the property portfolio of the Group is available on the Company's website. The Top 15 properties are shown on pages 31 to 36. There is a formal set of matters reserved for decision by the Board which, together with the terms of the Master Asset Management Agreement and Master Investment Management Agreement, limits the decision making of the Asset Manager and the Investment Manager. As the Company only invests in property, it is not relevant for the Board to determine the Investment Manager's remit regarding voting and corporate governance issues in respect of any investee companies. Details of the Group's borrowings are set out on pages 42 and 43 and in the notes to the accounts. Details of the Company's banking covenants are disclosed in note 23.

Corporate Governance *(continued)*

Annual General Meeting ("AGM")

Notice of the Company's AGM and an explanation of the resolutions contained in the notice will be circulated separately.

Details of proxy votes received in respect of each resolution will be published on the Company's website.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's Shareholders as a whole. The Board recommends unanimously to Shareholders that they vote in favour of each of the resolutions.

The Board of Directors

The Board consists entirely of Non-Executive Directors and has no employees. Biographical details of the Directors of the Company who held office during the period are shown on pages 54 and 55.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision-making. The Directors possess a wide range of business expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs.

None of the Directors have a service contract, but letters of appointment setting out the terms of their appointment are in place. Directors are not entitled to any compensation for loss of office. Copies of the letters of appointment are available for inspection at the Company's registered office address and will be made available for up to 15 minutes prior of the start of the AGM.

Chairman and Senior Independent Director

The Chairman, Kevin McGrath, is deemed by his fellow Board members to be independent and have no conflicting relationships. He considers himself to have sufficient time to commit to the Company's affairs.

William Eason was appointed as the Senior Independent Director on 1 December 2016 . He provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman.

Induction of New Directors

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing key information about the Company, its processes and procedures. New appointees have the opportunity of meeting representatives of the Asset and Investment Managers and the audit partner.

Board Diversity and Appointment of New Director

The Board acknowledges the benefits of greater diversity, including gender and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

The Board does not feel that it would be appropriate to set diversity targets as all appointments must be made on merit and objective criteria. However, gender and diversity generally will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each Board vacancy. The Board has established the following measurable objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Long lists of potential non-executive directors will always include diverse candidates of appropriate merit.
- The Board will only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

In accordance with the above policy and following the Board evaluation process and the departure of Mr McKay from the Board, the Directors determined that it would be appropriate to appoint an additional Director to the Board to complement the existing skills and experience of the other Directors. Following a short listing process led by the independent Directors, Frances Daley was appointed as a Director of the Company with effect from 1 February 2018. No executive search firm or open advertising was used by the Board in connection with the appointment as the Board were satisfied that the short list of candidates put together by the Independent Directors provided sufficiently diverse and qualified candidates with appropriate experience to bring to the Board. Frances was an ideal match to the Board's requirements for an individual with a background in finance and significant board experience.

Directors' Tenure

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

Directors' Re-Election

Subject to the Articles, at each AGM of the Company, all Directors will retire from office and each Director may offer himself for election or re-election by the Shareholders. If they are elected or re-elected they will treated as continuing in office throughout. If they are not elected or re-elected, they shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in their place or when a resolution to elect or re-elect the Director is put to the meeting and lost.

Corporate Governance *(continued)*

Board Operation

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 December 2017, the number of scheduled Board meetings attended by each Director were as follows:

	Scheduled Board Meetings	
Director	Number entitled to attend	Number attended
Kevin McGrath	5	5
William Eason	5	5
Daniel Taylor	5	4
Stephen Inglis	5	5
Tim Bee	2	1

Additional Board meetings were also held as required during the year, including to deal with transactions and other specific events such as acquisitions, dividends, equity raises and debt financings and were attended by those Directors available at the time.

The Board follow a formal agenda, which is approved by the Chairman and circulated by the Company Secretary in advance of the meeting to all the Directors and other attendees. A typical agenda includes a review of investment performance, investment opportunities, the Company's financial performance, updates on investor relations and specific regulatory or governance matters. Representatives of the Company's advisors are invited to attend Board meetings from time to time, particularly the Company's valuers, brokers and lawyers.

The Board meet once a year for a whole day to review and focus on the Company's strategy.

Conflicts of Interest

The Company's Articles permit a Director to act in a situation where a Director has disclosed the nature and extent of an interest that conflicts, or may possibly conflict, with the interests of the Group in accordance with the Law.

The Board has established a formal process whereby actual and potential conflicts of interests are considered by the Directors who have no interest in the matter, who then decide whether to authorise the conflict and any conditions to be attached to such authorisations.

The Directors are able to impose limits or conditions when giving authorisation, if they think this is appropriate in the circumstances. A register of potential conflicts is maintained by the Company Secretary and is reviewed at each Board meeting to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

Board Evaluation

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. Given the relatively short history of the Company and to allow sufficient time for the individual Directors to develop and settle into their roles, the Board agreed that the use of an external evaluation service provider was not necessary at this stage.

The Directors have therefore opted to undertake an internal performance evaluation by way of questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its committees. The questionnaires are also intended to analyse the focus of Board meetings and assess whether they are appropriate, or if any additional information may be required to facilitate Board discussions. The results of the Board evaluation process were reviewed and discussed by the Board as a whole.

As a result of the evaluation, the Board considers that all the current Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company. The Board further concluded that the Chairman remained independent and his performance was satisfactory, with strong leadership capability.

Board Committees

The Board has two Committees in operation and has delegated certain responsibilities to its Audit Committee and its Management, Engagement and Remuneration Committee. Given the size of the Company, it is not felt appropriate for the Company to have a separate Nomination Committee or Remuneration Committee.

The Board has established formal terms of reference for each of the Committees which are available on the Company's website.

Audit Committee

Throughout 2017, the Audit Committee comprised the three Independent Directors and is chaired by William Eason. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman. Frances Daley was appointed as a member of the Audit Committee on 1 February 2018.

All members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates. The Board is also satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

No individual who is not a member of the Audit Committee is entitled to attend or to vote at its meetings, but the Audit Committee may invite anyone to attend the meetings and representatives of the external auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 76 to 78.

Corporate Governance *(continued)*

Management Engagement and Remuneration Committee ("MERC")

Throughout 2017, the MERC comprised the three Independent Directors and is chaired by Kevin McGrath who is also the Chairman of the Company. Frances Daley was appointed as a member of the MERC on 1 February 2018.

Although no individual who is not a member of the MERC is entitled to attend and vote on matters at its meetings, the committee may invite anyone to attend at its discretion. A Management, Engagement and Remuneration Committee Report is set out on page 79.

Internal Control Review and Management of Risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness, ensuring that risk management and control processes are embedded in day-to-day operations.

The Board has established an ongoing process for identifying, evaluating and managing significant risks with the aim of helping to safeguard the Company's assets. The Board exercises its oversight of financial, reporting, compliance, operational and overall risks by relying on regular reporting on performance and other management information from the Asset Manager and Investment Manager. These procedures are designed to manage rather than eliminate risk. The Board manages risks as set out below:

- The Board, through the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Company's third-party service providers;
- The responsibilities for the investment management, asset management, accountancy and depository functions are segregated and the procedures of the third-party service providers are designed to safeguard the Company's assets;
- The Board is kept regularly updated by the Asset and Investment Managers outside of scheduled Board meetings and each manager provides reports at each meeting of the Board; and
- Under the terms of the Asset Management Agreement between the Company and the Asset Manager, Board level approval is required for purchases of property exceeding £15m in value and for disposals exceeding £5m in value.

Regular risk assessments and reviews of internal controls are undertaken in the context of the Company's overall investment objective by the Board, through the Audit Committee.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk register is reviewed by the Audit Committee as appropriate and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 46 to 48.

The Board reviews financial information produced by the Investment Manager and the Sub-Administrator on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the material third party is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit Chairman on behalf of the audit committee.

Taking into account the principal risks provide on pages 46 to 48 and the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of Board, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Group; and have reviewed the effectiveness of the risk management and internal control systems and no significant failings were identified; and
- have reviewed the effectiveness of the risk management and internal controls systems and no significant failings were identified.

By order of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Genesis Business Park, Woking

Market value (£m)	24.7
Sector	Office
Let by value (%)	100.0%

Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 December 2017.

The Committee is a Board Committee with governance responsibilities that include the oversight of financial disclosures and corporate reporting and it is therefore important that the Committee operates effectively and efficiently.

Since the year-end, Frances Daley has been appointed as a member of the Audit Committee, with effect from 1 February 2018. I am confident that the Committee members collectively have a broad range of financial, commercial and property sector expertise that enables them to provide oversight of both financial and risk matters, and to advise the Board accordingly.

Role of the Audit Committee

The principal duties of the Audit Committee are:

Financial Reporting

- to monitor the integrity of the half-yearly, full year financial statements and preliminary results announcement of the Company;
- to report to the Board on any significant financial reporting issue and judgments having regard to any matters communicated to it by the Auditor;
- as requested by the Board, to review the contents of the Annual Report and Accounts and advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides shareholders with sufficient information to assess the Company's performance, business model and strategy;

Risk Management and Control

- to keep under review the adequacy of the Company's third-party's internal controls and risk management systems;
- to review the Company's procedures for detecting fraud and for the Managers to raise concerns (in confidence) about potential financial wrongdoing;
- review the Company's risk register, including significant and emerging risks;

External Audit

- to manage the relationship with the Company's external Auditor, including reviewing the Auditor's remuneration, independence and performance and making recommendations to the Board as appropriate;
- to review the policy on the engagement of the Auditor to supply non-audit services;

Audit Committee Report *(continued)*

- to safeguard the Auditor's independence and objectivity; and
- to regularly review the need for an internal audit function.

External Property Valuation

- to review the quality and appropriateness of the half-yearly and full year external valuations of the Group's property portfolio; and

Other

- review the Committee's terms of reference and performance effectiveness.

The Audit Committee is to meet at least twice annually and its quorum is two members. It reports and makes recommendations to the Board, after each meeting.

Matters considered by the Audit Committee in the year

There are at least two scheduled Audit Committee meetings per year, however, during 2017, the Audit Committee met on four occasions and twice post the year end.

	Scheduled Audit Committee Meetings	
Member	Number of meetings entitled to attend	Number attended
William Eason (Chairman)	2	2
Kevin McGrath	2	2
Daniel Taylor	2	2

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- reviewed financial results;
- agreed the audit plan with the Auditor, including the principal areas of focus, and agreed the audit fee;
- reviewed the annual and half-year valuation reports from Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield) and Jones Lang LaSalle Incorporated ("JLL");
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the provision of non-audit services by the Auditor;
- reviewed the independence of the Auditor; and
- reviewed the Group's Financial Statements and advised the Board accordingly.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix. The Company's principal risks can be found on pages 46 to 48.

The Administrator and the Investment Manager update the Audit Committee on changes to accounting policies, legislation and best practice and areas of significant judgment by the Investment Manager.

Significant Matters considered by the Audit Committee in the year

The Group made the purchase of several properties during the year, held via special purpose vehicles ("SPVs"). The Audit Committee considered the accounting treatment of the acquisitions of these SPVs, specifically whether these acquisitions were classed as the acquisition of a business under IFRS3. The Administrator and the Investment Manager provided advice to the Audit Committee in this regard. The Audit Committee was satisfied that these acquisitions were to be treated as a group of assets and liabilities rather than a business combination. The Auditor concurred with the conclusion reached by the Audit Committee.

Property Portfolio Valuation

The Audit Committee recognises that the valuation of the properties within the Company's portfolio is central to the Company's business and that errors could have a material impact on the Company's net asset value. Properties are independently valued by specialist third party service providers, Cushman & Wakefield and JLL. JLL valued the properties that were acquired from Conygar.

The valuations are prepared in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance–Applications and United Kingdom Valuation Standards contained within the RICS Valuation-Professional Standards 2014. The valuations are compliant with International Valuation Standards.

The Asset Manager has held open discussions with the valuers throughout the year on the valuation process to discuss and challenge various elements of the property valuations. The Auditor also has direct access to them as part of the audit process.

Since the year end, the Audit Committee has reviewed the valuation reports and has discussed these reports with the Asset Manager. At the half-year the Audit Committee discussed the half-year valuation with Cushman & Wakefield. The Audit Committee met with JLL in February 2018 to discuss the valuation as at 31 December 2017 to ensure it was properly conducted and could be fully supported. The Audit Committee were satisfied with the valuation reports.

Audit Committee Report *(continued)*

The performance of the valuers are assessed on an annual basis by the Management, Engagement and Remuneration Committee ("MERC"), as set out in their report on page 79.

External Audit Process

Each year, the Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, undertakes a detailed review of the audit plan and the audit results report and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year just ended.

Each year, the Audit Committee meet with the Auditor before the interim and annual results are prepared, to discuss the scope to the audit plan. They further meet with the Auditor to discuss the findings of the external audit and consider and evaluate any findings.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit Fees and Non-Audit Services

An audit fee of £70,000 has been agreed in respect of the audit of the Company for the year ended 31 December 2017 (31 December 2016: £63,250). The Group's audit fees for the year ended 31 December 2017 totalled £348,000 (31 December 2016: £219,000).

In order to help safeguard the external Auditor's independence and objectivity, the Audit Committee has a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance and such approval will not be granted in circumstances where it's considered that the nature or cost of the work could interfere with the external Auditor's independence.

The cost of non-audit services provided by the Auditor to the Company for the financial year ended 31 December 2017 was £122,998 (31 December 2016: £112,000). These services related to work undertaken by RSM Corporate Finance LLP, a separate corporate body to that of the Auditor (RSM UK Audit LLP) in respect of corporate finance services.

Deloitte LLP have been engaged to advise on all ongoing taxation matters.

Independence and Objectivity of the Auditor

RSM UK Audit LLP ("RSM") has been auditor to the Company since listing on 6 November 2015, during which time Mr Euan Banks, Partner at RSM, has been the audit partner on the audit. No tender for the audit of the Company has been undertaken. In evaluating RSM's performance, the Audit Committee considered the effectiveness of the audit process, quality of delivery, staff expertise, audit fees and the Auditor's independence, along with matters raised during the audit. The Audit Committee received confirmation from RSM that they maintain appropriate internal safeguards in line with applicable professional standards.

In accordance with new requirements relating to the appointment of auditors, the Company will need to conduct an audit tender no later than for the accounting period beginning 1 January 2026.

Having considered the Auditor's independence in respect of the year ended 31 December 2017, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

Review of Auditor Appointment

Following consideration of the performance of the Auditor, the service provided during the year and a review of their independence and objectivity, the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Company's external independent auditor.

Internal Audit

The Audit Committee has determined that there is no need for an internal audit function given the limited size and complexity of the Company and its business.

Committee Effectiveness

During the year, the Board carried out an internally facilitated evaluation of its performance and that of its Committees. This evaluation confirmed that the Audit Committee continued to operate at a high standard.

William Eason
Audit Committee Chairman
21 March 2018

Management, Engagement and Remuneration Committee Report

I am pleased to present the Management, Engagement and Remuneration Committee Report for the year ended 31 December 2017.

Role of the Management, Engagement and Remuneration Committee ("MERC")

The principal duties of the MERC are:

- to have responsibility for setting the remuneration policy for all Directors and the Company Chairman;
- to monitor the level and structure of remuneration of the Directors, Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the third party service providers; and
- within the terms of the agreed policy and in consultation with the Chairman, to determine the total individual remuneration package of each Director and the Managers, including bonuses, incentive payments and share options or other share awards.

No individual is to be involved in discussions about his/her own remuneration. The MERC reports, and makes recommendations, to the Board after each meeting. The MERC is to meet at least once annually and its quorum is two members.

Activities during the year

The MERC met once during the year and twice post year-end. The MERC considered the appointment and remuneration of Frances Daley and recommended her appointment to the Board. It also met to consider the continued appointment and remuneration of the Investment Manager and Asset Manager and the continued appointment of all of the Company's corporate advisers and principal services providers. The MERC also considered the remuneration of the independent non-executive Directors.

	Scheduled MERC Meetings	
Member	Number of meetings entitled to attend	Number attended
Kevin McGrath (Chairman)	1	1
Bill Eason	1	1
Daniel Taylor	1	1

Having assessed the performance, quality of service and additional added value given by the Managers' and the Company's service providers, the MERC was satisfied with their performance and recommended to the Board, the continuing appointment of both the Asset Manager and Investment Manager and their remuneration, details of which are set out on pages 50 and 51. The MERC recommended that all service providers should be retained.

On the basis of the assessment under taken by the MERC, the Board was satisfied with the performance of the Asset Manager and Investment Manager and their ability to support the Company's Investment Objective, and agreed that the continued appointment of both the Asset Manager and Investment Manager, on the terms agreed, was in the best interests of the Company and its shareholders as a whole. The Board was satisfied that the Company was benefiting from added value in respect of the services it procures and also agreed that all service providers should be retained.

Further details of the Directors' remuneration can be found in the Remuneration Report on page 80.

Remuneration Report

Directors' Remuneration

All Directors act in a non-executive capacity and the level of remuneration has been set to reflect the experience of the Board as a whole, determined with reference to comparable organisations and appointments. The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine).

The fees per annum of each of the Directors are as follows:

Director	Position	Annual Fee
Kevin McGrath	Chairman and Chairman of the Management, Engagement & Remuneration Committee	£70,000
William Eason	Independent non-executive Director, Senior Independent Director and Chairman of the Audit Committee	£50,000
Daniel Taylor	Independent non-executive Director	£50,000
Frances Daley	Independent non-executive Director	£50,000
Stephen Inglis	Non-Executive Director	–
Tim Bee	Non-Executive Director	–

Kevin McGrath receives no additional remuneration for his role as Chairman of the Management, Engagement & Remuneration Committee.

William Eason receives no additional remuneration for his role as Chairman of the Audit Committee or as Senior Independent Non-Executive Director.

Stephen Inglis received no remuneration from the Company due to his position as Chief Executive Officer of the Asset Manager.

Tim Bee received no remuneration from the Company due to his position as Chief Legal Counsel of the Investment Manager.

The Directors may be paid all reasonable travel, hotel and other out-of-pocket expenses properly incurred by them in attending Board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director.

In respect of Directors' remuneration, the MERC considered the level of activity of the Company, market rates generally and took into account the time commitment and responsibilities of each Director.

Additional Remuneration

There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. The Directors do not receive pension benefits, long-term incentive schemes or share options or any other non-statutory benefits.

No element of the Directors' remuneration is related to performance.

Payment for Loss of Office

No payment has been made to any former Director for loss of office.

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The Board will consider the engagement of remuneration consultants in the future if it is thought appropriate or desirable to do so.

Total Director Remuneration

The following amounts were paid to the Directors as fees for their services during the year:

Director	Fees paid to 31 December 2017	Fees paid to 31 December 2016
Kevin McGrath	£70,000	£70,000
William Eason	£50,000	£50,000
Daniel Taylor	£50,000	£50,000
Stephen Inglis	–	–
Tim Bee*	–	n/a
Martin McKay**	–	–
Aggregate:	£170,000	£170,000

* Appointed on 7 July 2017
** Resigned on 7 July 2017

No additional remuneration was paid to the Directors during the year.

Frances Daley will be paid £50,000 per annum for her services as a Director.

The Director fees will not be increased for 2018.

Remuneration of the Asset Manager and Investment Manager

The fees payable to the Asset Manager and the Investment Manager are detailed in note 34 to the Accounts. Details of the contractual relationship between the Company and both Managers' are set out in the Report of the Directors.

By order of the Board

Kevin McGrath
Chairman and MERC Chairman
21 March 2018

Hampshire Corporate Park, Eastleigh

Market value (£m)	16.4
Sector	Office
Let by value (%)	99.5%

Independent Auditor's Report to the Members of Regional REIT Limited

Opinion

We have audited the financial statements of Regional REIT Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated and Company Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity and Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit and the parent company's profit for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of the Companies (Guernsey) Law 2008 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties held by the group

This is detailed in the Audit Committee report on pages 76 to 78; the significant accounting judgements and estimates on pages 98 to 101; significant accounting policies on page 102 and note 14 to the Financial Statements on pages 112 and 113.

The group owns or controls through a portfolio of Special Purpose Vehicles (SPV's) a portfolio of investment properties which include industrial, office and retail. The total value of the portfolio at 31 December 2017 was £737.3 million (2016: £502.4 million). These properties are spread across the UK with a wide geographical spread.

Independent Auditor's Report to the Members of Regional REIT Limited *(continued)*

The Directors' assessment of the value of the investment properties at the year end date, is considered a key audit matter due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity and complexity of the valuation process.

The valuation is carried out by external valuers, Jones Lang LaSalle and Cushman & Wakefield in line with the methodology set out in note 14.

We audited the independent valuations of investment properties to ensure they had been prepared on a consistent basis for all properties and in accordance with RICs standards and are considered to be appropriate and correctly recorded in the Financial Statements in line with Accounting Standards.

We assessed both external valuers qualifications and expertise and considered their terms of engagement, we also considered their objectivity and any other existing relationships with the group and concluded that there was no evidence that either valuers objectivity had been compromised.

We reviewed the Top 20 properties by value, along with considering those additional properties where the valuation moved by more than £500,000 or where the current tenant profile seemed to contradict the movement in valuation. We discussed and challenged these large properties and significant movements with the valuer, who demonstrated a detailed knowledge of each property, the geographical location, the tenant status and the overall asset desirability. We tested the inputs used by the valuer and ensured these reflected the correct inputs for a sample of properties.

Asset acquisition

This is detailed in the Audit Committee report on pages 76 to 78 and the significant accounting judgements and estimates on pages 99 to 101.

During the year the Company has made three significant acquisitions. All of these acquisitions have been treated as asset acquisitions as in the directors view they do not constitute business combinations under the requirements of IFRS 3. This judgement by the Directors is a key audit matter due to the fact the acquisitions are significant to the business, meaning that the wrong judgements in initial accounting could lead to a material mis-statement in the financial statements.

We have audited the papers prepared by management with regards to the acquisitions of portfolios noted above. Our audit work did not identify any issues with the directors' conclusion that the acquisitions represent asset acquisitions and not business combinations, having considered the requirements of IFRS 3. We have considered the disclosures in the accounts and conclude that adequate disclosure has been made for a user to fully understand the nature and the way these acquisitions have been dealt with and that the key judgements and the basis for concluding have been fully disclosed in the financial statements.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £6.5 million, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £150,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit scope covered 100% of group revenue, group profit and total group assets, and was performed to the materiality levels set out above. The key audit matters were as noted above.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 81, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard. In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

Independent Auditor's Report to the Members of Regional REIT Limited *(continued)*

- **Fair, balanced and understandable set out on page 63** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 76 to 78** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the AIC Code set out on page 64 to 71** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the AIC Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the AIC Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the parent company financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the group and parent company to fraud and other irregularities, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description, which is located on page 86, forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board on 6 November 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement is three years, covering the years ending 31 December 2015 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Independent Auditor's Report to the Members of Regional REIT Limited *(continued)*

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP, Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
21 March 2018

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Appendix: Auditor's responsibilities for the audit of the financial Statements

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Arena Point, Leeds

Market value (£m)	12.4
Sector	Office
Let by value (%)	84.9%

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Continuing Operations			
Revenue			
Rental income	5a	52,349	42,994
Non-recoverable property costs	6	(6,502)	(4,866)
Net rental income		45,847	38,128
Administrative and other expenses	7	(9,429)	(8,217)
Operating profit before gains and losses on property assets and other investments		36,418	29,911
Gain on disposal of investment properties	14	1,234	518
Change in fair value of investment properties	14	5,893	(6,751)
Operating profit		43,545	23,678
Finance income	9	215	193
Finance expense	10	(14,728)	(8,822)
Impairment of goodwill	16	(557)	(557)
Net movement in fair value of derivative financial instruments	25	217	(1,097)
Profit before tax		28,692	13,395
Taxation	11	(1,632)	23
Total comprehensive income for the year (attributable to owners of the parent company)		27,060	13,418

Total comprehensive income arises from continuing operations.

Earnings per share – basic	12	9.1p	4.9p
Earnings per share – diluted	12	9.1p	4.9p
EPRA earnings per share – basic	12	8.1p	7.7p
EPRA earnings per share – diluted	12	8.1p	7.7p
Company specific adjusted earnings per share – basic	12	8.6p	7.8p
Company specific adjusted earnings per share – diluted	12	8.6p	7.8p

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Investment properties	14	737,330	502,425
Goodwill	16	1,672	2,229
Non-current receivables on lease surrender	17a	–	206
Non-current receivables on tenant loan	17b	1,926	1,541
		740,928	506,401
Current assets			
Trade and other receivables	18	21,947	11,375
Cash and cash equivalents	19	44,640	16,199
		66,587	27,574
Total assets		807,515	533,975
Liabilities			
Current liabilities			
Trade and other payables	20	(26,941)	(14,601)
Deferred income	21	(12,667)	(8,022)
Taxation liabilities	22	(2,636)	(662)
Bank and loan borrowings	23	(400)	–
		(42,644)	(23,285)
Non-current liabilities			
Bank and loan borrowings	23	(333,981)	(217,442)
Zero dividend preference shares	24	(37,239)	–
Derivative financial instruments	25	(752)	(1,513)
		(371,972)	(218,955)
Total liabilities		(414,616)	(242,240)
Net assets		392,899	291,735
Equity			
Stated capital	26	370,318	274,217
Retained earnings		22,581	17,518
Total equity attributable to owners of the parent		392,899	291,735
Net assets per share – basic	27	105.4p	106.4p
Net assets per share – diluted	27	105.1p	106.3p
EPRA net assets per share – basic	27	106.1p	106.9p
EPRA net assets per share – diluted	27	105.9p	106.9p

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

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 21 March 2018 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Attributable to owners of the parent Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017		274,217	17,518	291,735
Total comprehensive income		–	27,060	27,060
Share based payments	34	–	814	814
Issue of share capital	26	98,687	–	98,687
Share issue costs	26	(2,586)	–	(2,586)
Dividends paid	13	–	(22,811)	(22,811)
Balance at 31 December 2017		370,318	22,581	392,899

For the year ended December 2016

	Notes	Attributable to owners of the parent Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		–	13,418	13,418
Share based payments	34	–	115	115
Dividends paid	13	–	(17,139)	(17,139)
Balance at 31 December 2016		274,217	17,518	291,735

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Profit for the year before taxation	28,692	13,395
– Change in fair value of investment properties	(5,893)	6,751
– Change in fair value of financial derivative instruments	(217)	1,097
– Gain on disposal of investment properties	(1,234)	(518)
Impairment of goodwill	557	557
Finance income	(215)	(193)
Finance expense	14,728	8,822
Share based payments	814	115
Increase in trade and other receivables	(5,479)	(716)
Increase in trade and other payables	8,617	9
(Decrease)/increase in deferred income	(119)	2,115
Cash generated from operations	40,251	31,434
Financial income	988	988
Finance costs	(10,155)	(7,614)
Taxation paid	(236)	(1,715)
Net cash flow generated from operating activities	30,848	23,093
Investing activities		
Purchase of investment properties	(25,188)	(144,143)
Sale of investment properties	16,921	44,857
Interest received	25	60
Acquisition of subsidiaries, net of cash acquired	(51,866)	(5,573)
Net cash flow used in investing activities	(60,108)	(104,799)
Financing activities		
Proceeds from the issue of shares	72,654	–
Share issue costs	(1,398)	–
Dividends paid	(23,321)	(15,723)
Net costs paid on the disposal of derivatives	(441)	–
Bank borrowings advanced	179,540	107,762
Bank borrowings repaid	(165,619)	(16,345)
Bank borrowing costs paid	(3,714)	(1,744)
Net cash flow generated from financing activities	57,701	73,950
Net increase/(decrease) in cash and cash equivalents	28,441	(7,756)
Cash and cash equivalents at the start of the year	16,199	23,955
Cash and cash equivalents at the end of the year	44,640	16,199

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

Company Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Revenue			
Amounts charged to group entities	5b	920	837
Administrative and other expenses	7	(2,765)	(3,343)
Operating loss		(1,845)	(2,506)
Finance income	9	25,635	19,061
Profit before tax		23,790	16,555
Taxation	11	–	–
Total comprehensive income for the year (attributable to equity shareholders)		23,790	16,555

Total comprehensive income arises from continuing operations.

Earnings per share – basic	12	8.0p	6.0p
Earnings per share – diluted	12	8.0p	6.0p

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

Company Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Investment in subsidiaries	15	351,461	274,286
		351,461	274,286
Current assets			
Trade and other receivables	18	2,303	870
Cash and cash equivalents	19	20,336	65
		22,639	935
Total assets		374,100	275,221
Liabilities			
Current liabilities			
Trade and other payables	20	(3,304)	(2,319)
Total liabilities		(3,304)	(2,319)
Net assets		370,796	272,902
Equity			
Stated capital	26	370,318	274,217
Retained earnings/Accumulated losses		478	(1,315)
Total equity		370,796	272,902
Net assets per share – basic	27	99.5p	99.5p
Net assets per share – diluted	27	99.2p	99.5p

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

These financial statements were approved by the Board of Directors and authorised for issue on 21 March 2018 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
21 March 2018

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Company Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Stated capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2017		274,217	(1,315)	272,902
Total comprehensive income		–	23,790	23,790
Share based payments	34	–	814	814
Issue of share capital	26	98,687	–	98,687
Share issue costs	26	(2,586)	–	(2,586)
Dividends paid	13	–	(22,811)	(22,811)
Balance at 31 December 2017		370,318	478	370,796

For the year ended 31 December 2016

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2016		274,217	(846)	273,371
Total comprehensive income		–	16,555	16,555
Share based payments	34	–	115	115
Dividends paid	13	–	(17,139)	(17,139)
Balance at 31 December 2016		274,217	(1,315)	272,902

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

Company Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Profit for the year before taxation	23,790	16,555
Share based payments	323	46
Increase in trade and other receivables	(913)	(867)
Increase in trade and other payables and deferred income	310	35
Net cash flow generated from operating activities	23,510	15,769
Investing activities		
Acquisition of subsidiaries	(51,000)	–
Net cash flow used in investing activities	(51,000)	–
Financing activities		
Proceeds from the issue of shares	72,654	–
Share issue costs	(1,398)	–
Dividends paid	(23,321)	(15,723)
Amounts paid on behalf of group companies	(174)	–
Net cash flow generated from/(used in) financing activities	47,761	(15,723)
Net increase in cash and cash equivalents for the year	20,271	46
Cash and cash equivalents at the start of the year	65	19
Cash and cash equivalents at the end of the year	20,336	65

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

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Notes to the Financial Statements

For the year ended 31 December 2017

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2017 comprise the results of the Company and its subsidiaries (together constituting "the Group") and, together with the Company's financial statements, were approved by the Board and authorised for issue on 21 March 2018.

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

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

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

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

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

2. Basis of preparation

The Group's Consolidated and Company financial statements (together constituting "the financial statements") have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA (previously the Financial Services Authority ("FSA")) and with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB and as adopted by the European Union ("EU"), in accordance with Article 4 of the IAS Regulations and the Law.

The Group's 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 Company's financial statements have been prepared on a historical cost basis.

2.1. Functional and presentation currency

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

2.2. Going concern

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

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts. Regional REIT ZDP PLC zero dividend preference shares mature on 9 January 2019. The Board of Directors are currently considering refinancing options. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for a period of not less than 12 months from approval of these financial statements. The Directors have satisfied themselves that the Group and the Company has adequate financial resources to continue in operational existence for the foreseeable future.

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

2.3. Business combinations

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

2. Basis of preparation *(continued)*

2.4. New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2017 have had an impact on the financial statements as follows:

Amendments to IAS 7 'Statement of Cash Flows', is effective for annual reporting periods beginning on or after 1 January 2017. The amendments require the disclosure of cash and non-cash changes in liabilities arising from financing activities.

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

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements. These are:

IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Other changes include changes to the model for impairments from "expected loss" to "incurred loss".

The Group anticipates the main impact on the financial statements will be some minor additional disclosures and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group does not anticipate there will be any impact on the financial statements because the Group's rental contacts are outside the scope of the standard. The Group intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

Amendment to IFRS 2, 'Classification and measurement of share-based payment transactions', is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 2 are intended to eliminate diversity in practice in three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The Group does not anticipate there will be a significant impact on the financial statements of the amendments to IFRS 2 and intends to adopt them no later than the accounting period beginning on or after 1 January 2018.

Amendment to IAS 40, "Investment Property", is effective for annual periods beginning on or after 1 January 2018. The amendment states that an entity shall transfer a property to or from investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, most leased assets are capitalised as "right-to-use-assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. This is a significant change for the lessee, however IFRS 16 substantially carries forward existing lessor accounting from IAS 17.

The Group has yet to assess the full impact of IFRS 16 and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2019.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £737,330,000 (31 December 2016: £502,425,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 14.

3.1.2. Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £752,000 (31 December 2016: £1,513,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £1,672,000 (31 December 2016: £2,229,000).

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

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

3.2.1. Operating lease contracts – the Group as lessor

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

3.2.2. Performance Fee

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.2. Critical judgements in applying the Group's accounting policies *(continued)*

3.2.2. Performance Fee (continued)

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no performance fee is ultimately due. Further details are disclosed in note 34.

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

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 28 subsidiaries (the "Credential Sub Group") by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement which means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 15.

3.4. Acquisition of subsidiary companies by the issue of share capital

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

The Directors considered whether this acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities.

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

The acquisition consisted of a portfolio of investment properties and existing leases with multiple tenants over varying periods however there was little in the way of processes acquired. It was therefore concluded the acquisition did not meet the criteria for the acquisition of a business as outlined IFRS 3 above. Furthermore, as the consideration for the acquisition was in the form of the issue of Ordinary Shares, the accounting treatment follows the rules outlined in IFRS 2 share-based payments as detailed below.

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.4. Acquisition of subsidiary companies by the issue of share capital *(continued)*

- The liability to Zero Dividend Preference ("ZDP") shareholders is determined by the fair value of the ZDP shares at completion of the acquisition on 24 March 2017. Whilst these preference shares, listed on the London Stock Exchange, had a price of £1.24 per share at that date, the Directors do not consider that this value is an appropriate amount to base the fair value calculation because there was no intention for the ZDP shares to be acquired on the open market. It is intended that the ZDP shares will exist for the full term of the obligation, and thus, the Directors consider that the accrued capital value is the best estimate of the fair value of this liability. This is equivalent to amortised cost as calculated in the books of Regional REIT ZDP PLC excluding the unamortised issue costs concerning the original issue.
- Bank loans have been valued at net present value based on the discounting of future cash flows.

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

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

3.5. Acquisition of subsidiary companies for cash consideration

On 22 December 2017 the Group made two further corporate acquisitions. Consideration was in the form of cash paid to the vendors. With both acquisitions, new bank borrowings were taken out at completion to replace the borrowings and shareholder loans held within those companies prior to acquisition.

As part of the purchase transactions an amount was received for rental guarantees and top ups representing funds equivalent to the loss of income from properties purchased where a rent free is in place. The Directors consider that this amount does not form part of the consideration but should be treated within the accounts of the companies acquired as both an asset (being the cash received) and a liability (deferred income). The deferred income should be released to income over the remainder of the rent free periods.

The Directors considered whether this acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities. The acquisition consisted of a portfolio of investment properties and existing leases with multiple tenants over varying periods however there was little in the way of processes acquired. It was concluded the acquisition did not meet the criteria for the acquisition of a business as outlined IFRS 3. The Group has followed the following accounting treatment. Assets and liabilities acquired are recognised at their fair value and transaction costs of the acquisition are allocated to the individual identifiable assets and liabilities at the date of purchase. In practice, costs associated with the issue of bank loans have been allocated to bank loans and the remainder of costs have been allocated to investment properties.

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

- Investment property is measured at fair value at 8 November 2017, as valued by an independent valuer. The Directors consider that the fair value at the date of acquisition is not materially different.
- Debtor balances are measured at the amounts actually recoverable.
- Debtor balances where there are no recoverable amounts, for example prepayments and amounts arising from rent smoothing and lease incentives, give future benefits to the Group through enhanced lease terms and services not yet consumed. The fair value of these amounts is taken as being the value recorded in the accounts of the Companies being acquired, being the best estimate of their worth.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.5. Acquisition of subsidiary companies for cash consideration *(continued)*

- Bank balances are measured at the balance held in the bank accounts.
- Creditor balances are measured at the amounts actually payable.
- Deferred income representing rental income, rent guarantees and top ups received by the companies acquired. The Directors consider that these amounts have a fair value which is the value of the amount received in advance.
- Bank loans taken out at completion have been recognised at the principal issued which on the point of issue is fair value.

Based on the assumptions above the total fair value of the assets and liabilities acquired under the acquisition was £53,089,000. The table below shows the fair value of assets and liabilities acquired.

	Fair Value at Acquisition £'000
Investment properties acquired	88,250
Trade and other receivables	4,081
Cash and cash equivalents	1,093
Deferred income, trade and other payables	(5,177)
Bank and loan borrowings	(35,695)
Bank loan issue costs paid at completion	537
Total	53,089

The figures above are based on the accounting records available at the completion date. Revised accounting records prepared by the vendors to the completion date have recently been received. The figures for current assets and liabilities (trade and other receivables, cash and cash equivalents and deferred income and trade payables) have been reviewed and are not significantly different to those disclosed above.

Income and expenditure relating to the companies acquired has been forecasted for the period from acquisition to 31 December 2017 and included within the Consolidated Statement of Comprehensive Income. The current assets and liabilities of the companies acquired have been forecasted forward to 31 December 2017 based on the value of the assets listed above and the forecasted income and expenditure movements. The forecasted assets and liabilities of the companies acquired are included in the Consolidated Statement of Financial Position.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2016 and have been consistently applied for the year ended 31 December 2017. There are no significant changes apart from new disclosures in note 28 to the financial statements arising from accounting standards effective for the first time.

4.1. Basis of consolidation

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

4.2. Subsidiaries

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.2 Subsidiaries *(continued)*

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

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

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

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

At Company level, the investments in subsidiary companies are included in the Statement of Financial Position at cost less impairment.

4.2.1. Disposal of subsidiaries

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

4.3. Segmental information

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

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

4.4. Investment property

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

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.5. Goodwill

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

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

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

4.6. Derivative financial instruments

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

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

4.7. Financial assets

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for maturities of greater than twelve months from the end of the reporting period.

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

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

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value, being carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written-off when identified. Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

4.9. Cash and cash equivalents

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

4.10. Trade payables

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.11. Bank and other borrowings

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

4.12. Zero Dividend Preference Shares

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

4.13. Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.14. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental income in the Group's Consolidated Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

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

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

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

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

4.15. Non recoverable property costs - service and management charges

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

4.16. Interest income

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

4.17. Dividend income

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

4.18. Finance costs

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

4. Summary of significant accounting policies *(continued)*

4.19. Taxation

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

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

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

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

4.20. Deferred tax

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

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

The current rate of UK Corporation Tax is 19%. Reductions in UK Corporation Tax have been enacted, reducing the rate to and 18% with effect from 1 April 2020. It has been enacted that the rate will be further reduced to 17% from 1 April 2020.

4.21. Stated capital

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

4.22. Share based payments

The Group has entered into Performance Fee arrangements with the Asset Manager and Investment Manager which depend on the growth in the net asset value of the Group exceeding a Hurdle Rate of return over a Performance Period. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a share–based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to Equity reserves.

Where the Company has an obligation to issue shares under the Performance Fee arrangements and the Performance Fee cost is recognised in a subsidiary company, the Company should recognise an increase in the investment of the subsidiary and the obligation to settle shares, where this arises, should be credited to equity.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

5. Revenue

5a. Rental income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Rental income – freehold property	44,505	36,233
Rental income – long leasehold property	7,844	6,761
Total	52,349	42,994

5b. Amounts charged to group entities

Amounts charged to group entities of £920,000 (31 December 2016: £837,000) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non-recoverable property costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Other property expenses and irrecoverable costs	6,502	4,866
Total	6,502	4,866

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

7. Administrative and other expenses

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Investment management fees	1,732	1,651
Property management fees	1,972	1,698
Performance fees	1,610	249
Asset management fees	1,739	1,675
Directors' remuneration (see note 8)	190	186
Administration fees	702	530
Legal and professional fees	1,493	1,687
Marketing and promotion	68	63
Other administrative costs (including bad debts)	689	63
Bank charges	28	24
VAT recoverable for previous periods	(794)	–
VAT recoverable deducted from comparative expenses above	–	391
Total	9,429	8,217
Company		
Investment management fees	1,386	1,320
Performance fees	633	110
Directors' remuneration (see note 8)	190	186
Administration fees	215	210
Legal and professional fees	1,007	1,024
Marketing and promotion	66	63
Other administrative costs	62	39
VAT recoverable for previous periods	(794)	–
VAT recoverable deducted from comparative expenses above	–	391
Total	2,765	3,343

The Company has registered for VAT and is recovering VAT where applicable incurred since launch. Previously expenses for the Company were shown gross of VAT costs. Expenses are now shown net of VAT recoverable and comparative figures have been reanalysed to be shown net of VAT.

The number of persons employed by the Group and Company in the year was 5, being the Directors, whose remuneration is set out in note 8.

Services provided by the Company's auditor and its associates

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Audit of the consolidated and parent company financial statements	70	63
Audit related services in respect of the half year financial statements	30	25
Audit of the subsidiaries for their respective periods of account	140	131
Fees associated with share issue	108	–
Total	348	219

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

8. Directors' remuneration

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group & Company		
Directors' fees	170	170
Employers National Insurance contributions	20	16
Total	190	186

9. Finance income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Interest income	25	60
Other finance income	–	(99)
Unwinding of the discount on financial assets	190	232
Total	215	193
Company		
Group dividend income received	25,635	19,061
Total	25,635	19,061

10. Finance expense

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Interest payable on bank borrowings	9,550	7,821
Accrued capital entitlement on ZDP shares	1,769	–
Amortisation of loan arrangement fees	722	1,001
Amortisation of ZDP share acquisition costs	114	–
Break costs associated with refinancing	605	–
Loan arrangement fees recognised early due to refinancing	1,968	–
Total	14,728	8,822

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

11. Taxation

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Income tax charge/(credit)	208	(36)
Increase in deferred tax creditor	1,424	13
Total	1,632	(23)

The current tax charge/(credit) is reduced by the UK REIT tax exemptions. The Tax credit is due to the release of a historic accrual. The tax charge/(credit) for the year can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group		
Profit before taxation	28,692	13,395
UK Corporation tax rate	19.25%	20%
Theoretical tax at UK Corporation tax rate	5,523	2,679
Effects of:		
Revaluation loss/(gain) on investment properties	(1,134)	1,350
Permanent differences	461	(3,601)
Profits from the tax exempt business	(4,642)	–
Deferred tax movement	1,424	–
Utilisation of losses brought forward	–	14
Taxation losses and other timing differences	–	(343)
Prior year adjustment	–	(122)
Total	1,632	(23)

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

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

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

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

11. Taxation *(continued)*

Company		
Profit/(loss) before taxation	23,790	16,555
UK Corporation tax rate	19.25%	20%
Theoretical tax at UK Corporation tax rate	4,580	3,311
Effects of:		
Permanent differences	(4,580)	(3,311)
Total	–	–

12. Earnings per share

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary shares. As detailed in note 34, an estimate of Performance Fee for the period from commencement of trading to 31 December 2017 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the Performance Fee period is from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the fee charge will be based on the EPRA NAV as at 31 December 2018.

Group

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	27,060	13,418
Adjustments to remove:		
Changes in value of investment properties	(5,893)	6,751
Changes in fair value of interest rate derivatives and financial assets	(407)	865
Gain on disposal of investment property	(1,234)	(518)
Impairment of goodwill	557	557
Deferred tax charge	1,424	–
Close out costs on borrowings and derivatives	2,507	–
EPRA Net profit attributable to Ordinary Shareholders	24,014	21,073
Add performance fee	1,610	249
Company specific adjusted earnings figure	25,624	21,322
Weighted average number of Ordinary Shares	296,807,647	274,217,264
Dilutive instruments	875,752	107,729
Adjusted weighted average number of Ordinary Shares	297,683,399	274,324,993
Earnings per share – basic	9.1p	4.9p
Earnings per share – diluted	9.1p	4.9p
EPRA Earnings per share – basic	8.1p	7.7p
EPRA Earnings per share – diluted	8.1p	7.7p
Company specific adjusted earnings per share – basic	8.6p	7.8p
Company specific adjusted earnings per share – diluted	8.6p	7.8p

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

12. Earnings per share *(continued)*

Company

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	23,790	16,555
Weighted average number of Ordinary Shares	296,807,647	274,217,264
Dilutive instruments	875,752	107,729
Adjusted weighted average number of Ordinary Shares	297,683,399	274,324,993
Earnings per share – basic	8.0p	6.0p
Earnings per share – diluted	8.0p	6.0p

13. Dividends

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Group and Company		
Dividend of 2.40 (2016: 1.00) pence per Ordinary share for the period 1 October 2016 – 31 December 2016	6,581	2,742
Dividend of 1.80 (2016: 1.75) pence per Ordinary share for the period 1 January 2017 – 31 March 2017	5,410	4,799
Dividend of 1.80 (2016: 1.75) pence per Ordinary share for the period 1 April 2017 – 30 June 2017)	5,410	4,799
Dividend of 1.80 (2016: 1.75) pence per Ordinary share (for the period 1 July 2017 – 30 September 2017)	5,410	4,799
	22,811	17,139

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

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

On 31 August 2017 the Company announced a dividend of 1.80 pence per share in respect of the period 1 April 2017 to 30 June 2017. The dividend payment was made on 13 October 2017 to shareholders on the register as at 8 September 2017.

On 14 November 2017 the Company announced a dividend of 1.80 pence per share in respect of the period 1 July 2017 to 30 September 2017. The dividend payment was made on 22 December 2017 to shareholders on the register as at 24 November 2017.

On 22 February 2018 the Company announced a dividend of 2.45 pence per share in respect of the period 1 October 2017 to 31 December 2017. The dividend will be paid on 12 April 2018 to shareholders on the register as at 2 March 2018. The financial statements do not reflect this dividend.

The Board intends to peruse a progressive dividend policy and continue to pay quarterly dividends.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

14. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, and Jones Lang LaSalle, Chartered Surveyors who are both accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

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

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

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2017			
Valuation at 1 January 2017	424,310	78,115	502,425
Property additions – acquisitions	212,332	18,994	231,326
Property additions – subsequent expenditure	12,444	929	13,373
Property disposals	(16,921)	–	(16,921)
Gain on the disposal of investment properties	1,234	–	1,234
Change in fair value during the year	3,201	2,692	5,893
Valuation at 31 December 2017	**636,600**	**100,730**	**737,330**
Movement in investment properties for the year ended 31 December 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions– acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the period	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016	**424,310**	**78,115**	**502,425**

The historic cost of the properties is £628,723,000 (31 December 2016: £488,104,000).

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

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2017	737,330	–	–	737,330
31 December 2016	502,425	–	502,425	–

The hierarchy levels are defined in note 25.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

14. Investment properties *(continued)*

It has been determined that the entire investment properties portfolio should be classified under the level 3 category and the assets have been transferred to level 3 at the beginning of the year. The table below shows the movement in the year on the level 3 category:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Balance at the start of the year	–	–
Assets transferred from level 2	502,425	–
Additions	244,699	–
Disposals	(16,921)	–
Gain on the disposal of investment properties	1,234	–
Change in fair value during the year	5,893	–
Balance at the end of the year	737,330	–

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

The current volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2017, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. With greater volatility in the global financial system, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more stable market.

Techniques used for valuing investment properties

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

Valuation technique: market comparable method

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

Observable Input: Market Rental

The rent at which space could be let in the market conditions prevailing at the date of valuation range: £2,860- £3,092,125 per annum (2016: £3,100 - £3,119,381 per annum).

Observable Input: Rental growth

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

Observable Input: net initial yield

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0%-29.94 % (2016: 0.28%-29.23%).

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries

	31 December 2017 £'000	31 December 2016 £'000
Company		
Cost at start of year	274,286	274,217
Acquisitions of subsidiaries during the year	98,686	69
Disposal of subsidiaries during the year	(21,511)	–
Cost at end of year	351,461	274,286

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

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

	Country of incorporation	Ownership %
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Bristol Ltd	Jersey	100%
RR Eureka SARL	Luxembourg	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (South) Limited	Jersey	100%
RR Range Limited	Jersey	100%
RR Sea Dundee Ltd.	United Kingdom	100%
RR Sea Hannover Street Ltd.	United Kingdom	100%
RR Sea Lamont I Ltd	Jersey	100%
RR Sea Lamont II Ltd	Jersey	100%
RR Sea Lamont III Ltd	Jersey	100%
RR Sea St. Helens Ltd.	United Kingdom	100%
RR Sea Stafford Ltd.	United Kingdom	100%
RR Sea Strand Limited	United Kingdom	100%
RR Sea TAPP Ltd	Guernsey	100%
RR Sea TOPP Bletchley Ltd	Guernsey	100%
RR Sea TOPP I Ltd	Guernsey	100%
RR UK (Central) Limited	Jersey	100%
RR UK (Cheshunt) Limited	Jersey	100%
RR UK (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Regional REIT ZDP PLC	United Kingdom	100%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

	Country of incorporation	Ownership %
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Rosalind Ltd	Jersey	100%
Tosca Scotland Limited	Jersey	100%
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Portland Street Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund South Gyle Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%

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

By virtue of the Amended and Restated Call Option Agreement, dated 3 November 2015, the Directors consider that the Group has control of Credential Investment Holdings Limited and its 28 subsidiaries ("the Credential Group").

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

Under this option, the Group may acquire any of the properties held by the Credential Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice is obliged to convey its title within one month after receipt of the option notice. The option may be exercised in whole by serving one option notice in respect of all the remaining relevant assets or on any number of occasions by servicing any number of separate option notices.

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

The companies which make up the Credential Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	Ownership %
Castlestream Limited	United Kingdom	100%
Caststop Limited	United Kingdom	100%
Credential (Baillieston) Limited	United Kingdom	100%
Credential (Greenock) Limited	United Kingdom	100%
Credential (Peterborough) Limited	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%
Credential Bath Street Limited	United Kingdom	100%
Credential Charring Cross Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Investment Holdings Limited	United Kingdom	100%
Credential Muirhouse Limited	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Credential SHOP Limited	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
Douglas Shelf Seven Limited	United Kingdom	100%
Dumbarton Road Limited	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
London & Scottish Property Management Limited	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Squeeze Newco 2 Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

15. Investment in subsidiaries *(continued)*

Business Combinations

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

During the year there were several subsidiary company acquisitions that took place in order for the Group to acquire the investment property owned by that company. These acquisition have not been treated as a business combinations. For further details please refer to the Group's basis of preparation note 3.4.

16. Goodwill

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	2,229	2,786
Impairment	(557)	(557)
At end of year	1,672	2,229

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

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

17. Non-current receivables

17a. Non-current receivables on lease surrender premium

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	1,004	1,760
Movement in year	(988)	(988)
Unwinding of discount	190	232
At end of year	206	1,004
Asset due within 1 year	206	798
Asset due after 1 year	–	206
	206	1,004

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

17. Non-current receivables *(continued)*

17b. Non-current receivables on tenant loans

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	1,926	–
Amounts loaned in the year	–	1,926
At end of year	1,926	1,926
Asset due within 1 year	–	385
Asset due after 1 year	1,926	1,541
	1,926	1,926

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

18. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Group		
Gross amount receivable from tenants	8,171	4,384
Less provision for impairment	(1,033)	(258)
Net amount receivable from tenants	7,138	4,126
Current receivables – surrender premium (note 17a)	206	798
Current receivables – tenant loans (note 17b)	–	385
Other receivables	4,715	2,487
Prepayments	9,888	3,579
	21,947	11,375

	31 December 2017 £'000	31 December 2016 £'000
Company		
Other debtors	1,113	837
VAT recoverable	1,143	–
Prepayments	47	33
	2,303	870

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

18. Trade and other receivables *(continued)*

The aged analysis of trade receivables that are past due but not impaired was as follows:

	31 December 2017 £'000	31 December 2016 £'000
Current	6,662	1,176
< 30 days	264	1,692
30-60 days	859	806
> 60 days	1,959	710
	9,744	4,384
Less provision for impairment	(1,033)	(258)
	8,711	4,126

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

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

Provision for impairment of trade receivables movement as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
At start of year	258	228
Provision for impairment in the year	607	184
Upon acquisition of subsidiary companies	225	–
Receivables written off as uncollectable	–	(7)
Unused provision reversed	(57)	(147)
At end of year	1,033	258

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

19. Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Group		
Cash held at bank	33,433	10,850
Restricted cash held at bank	11,207	5,349
At end of year	44,640	16,199

	31 December 2017 £'000	31 December 2016 £'000
Company		
Cash held at bank	20,336	65
At end of year	20,336	65

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

19. Cash and cash equivalents *(continued)*

Restricted cash balances of the Group comprise:

- £2,499,000 (2016: £2,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £4,198,000 (2016: £4,025,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £2,144,000 (2016: £1,322,000) of funds which represent tenants' rental deposits.
- £1,957,000 (2016: £nil) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain conditions are met. The restricted funds arose on net proceeds held in relation to rental guarantees given by the seller of properties purchased by the Group. These funds can only be withheld by the lender and used to repay outstanding loans in the event of a default. £414,000 of this balance will be released to free cash before 31 March 2018.
- £409,000 (2016: £nil) of funds held in blocked rent accounts which are controlled by one of the Group's lenders and will be released to free cash post year end without restriction.

All restricted cash balances will be available before 31 March 2018.

20. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Group		
Withholding tax due on dividends paid	906	1,416
Trade payables	3,739	3,381
Other payables	9,493	5,164
Value added tax	298	1,136
Accruals of incidental costs for fund raise and acquisitions	2,593	–
Accruals	9,912	3,504
At end of year	26,941	14,601

	31 December 2017 £'000	31 December 2016 £'000
Company		
Withholding tax due on dividends paid	906	1,416
Accruals of incidental costs for fund raise	1,187	–
Accruals	1,211	903
At end of year	3,304	2,319

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

22. Taxation liabilities

	31 December 2017 £'000	31 December 2016 £'000
Group		
Income tax	586	36
Deferred tax	2,050	626
	2,636	662
The movement on Deferred tax liability is shown below:		
At start of year	626	612
Deferred tax on the valuation of investment properties	1,424	14
At end of year	2,050	626

23. Bank and loan borrowings

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. Any associated fees in arranging the bank borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Bank borrowings drawn at start of year	220,060	128,643
Bank borrowings drawn	284,633	107,762
Bank borrowings repaid	(165,619)	(16,345)
Bank borrowings drawn at end of year	339,074	220,060
Less: unamortised costs at start of year	(2,618)	(1,875)
Less: loan issue costs incurred in the year	(4,765)	(1,744)
Add: loan issue costs amortised in the year	2,690	1,001
At end of year	334,381	217,442
Maturity of bank borrowings		
Repayable within 1 year	400	–
Repayable between 1 to 2 years	65,400	58,960
Repayable between 2 to 5 years	108,274	161,100
Repayable after more than 5 year	165,000	–
Unamortised loan issue costs	(4,693)	(2,618)
	334,381	217,442

During the year, the Group assumed new loan facilities which were held in the group of subsidiary companies acquired from The Conygar Investment Company PLC. As detailed in note 24 the Group also has 30,000,000 ZDP shares in issue.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

23. Bank and loan borrowings *(continued)*

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

Lender	Original Facility £'000	Outstanding Debt** £'000	Maturity Date	Gross Loan to Value*** %	Annual Interest rate	Amortisation
ICG Longbow Ltd	65,000	65,000	Aug '19	44.6	5.00% pa for term	none
Royal Bank of Scotland	19,336	17,376	Dec '20	40.0	2.00% over 3mth £ LIBOR	MP
HSBC*	20,998	20,998	Dec '21	53.2	2.15% over 3mth £ LIBOR	MP
Santander UK	70,700	70,700	Nov '22	43.4	2.15% over 3mth £ LIBOR	MP
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	48.9	3.28% pa for term	MP
Total bank borrowings	341,034	339,074				
ZDP Shares	39,879	37,389	Jan '19	n/a	6.5% pa to maturity	none
Total	380,913	376,463				

LIBOR = London Interbank Offered Rate (Sterling)
MP = Mandatory prepayment

* Acquired upon the acquisition of the SPV companies from The Conygar Investment Company PLC
** Before unamortised debt issue costs
*** Based upon Cushman & Wakefield and Jones Lang LaSalle property valuations

The weighted average term to maturity of the Group's debt at the period end was 6.0 years (31 December 2016: 2.9 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.7% (31 December 2016: 3.3%).

The Group weighted average interest rate, including the ZDP shares and hedging costs at the period end amounted to 3.8% pa (31 December 2016: 3.7% pa).

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

As shown in note 26, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. The Group's exposure to interest rate volatility is minimal.

24. Zero dividend preference shares

	31 December 2017 £'000	31 December 2016 £'000
Fair value arising on the acquisition of subsidiaries	35,620	–
Acquisition costs	(264)	–
Amortisation of acquisition costs	114	–
Accrued capital entitlement	1,769	–
At end of year	37,239	–

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

24. Zero dividend preference shares *(continued)*

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

During the period, the Group accrued £1,769,000 (31 December 2016: £nil) of additional capital payable. The total amount repayable at maturity will be £39,879,269.

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

25. Derivative financial instruments

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

	31 December 2017 £'000	31 December 2016 £'000
Group		
Fair value at start of year	(1,513)	(416)
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	103	–
Net costs of disposing of derivative financial instruments	441	–
Revaluation in the year	217	(1,097)
Fair value at end of year	(752)	(1,513)

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.

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	Interest cost per annum	Notional Amount £'000	Rate %
ICG Longbow Ltd	65,000	65,000	Aug '19	5.00% pa for term	n/a	n/a
Royal Bank of Scotland	19,336	17,376	Dec '20	2.00% over 3mth £ LIBOR	nil	nil
HSBC*	20,998	20,998	Dec '21	2.15% over 3mth £ LIBOR	nil	nil
Santander UK	70,700	70,700	Nov '22	2.15% over 3mth £ LIBOR	Swap 35,350 Cap 35,350	1.605% 1.605%
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	Dec '27	3.28% pa for term	nil	nil
Total	341,034	339,074				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2017, the swap notional arrangements were £35.35m (31 December 2016: £90.8m).

The Group weighted average effective interest rate of 3.5% (31 December 2016: 3.7%) inclusive of hedging costs but excluding the ZDP.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

25. Derivative financial instruments *(continued)*

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end the total proportion of hedged debt equated to 88.5% (31 December 2016: 106.5%), as shown below. The minimal under-hedge remains under review.

	31 December 2017 £'000	31 December 2016 £'000
Total bank borrowings	339,074	220,060
Notional value of interest rate caps and swaps	70,700	169,441
Value of fixed rate debts	230,000	65,000
	300,700	234,441
Proportion of hedged debt	88.7%	106.5%

Fair value hierarchy

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

The different levels are defined as follows.

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

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

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

For assets and liabilities that are recognised in the 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.

Interest rate derivatives	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2017	(752)	–	(752)	–
31 December 2016	(1,513)	–	(1,513)	–

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

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

26. Stated capital

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

Group & Company	31 December 2017 £'000	31 December 2016 £'000
Issued and fully paid shares of no par value		
At start of the year	274,217	274,217
Shares issued 24/03/2017	25,687	–
Shares issued 21/12/2017	73,000	–
Share issue costs	(2,586)	–
At end of the year	370,318	274,217
Number of shares in issue		
At start of the year	274,217,264	274,217,264
Shares issued 24/03/2017	26,326,644	–
Shares issued 21/12/2017	72,277,228	–
At end of the year	372,821,136	274,217,264

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

On 21 December 2017, the Company issued 72,277,228 Ordinary Shares for consideration of £73,000,000.

27. Net asset value per share (NAV)

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

Dilutive instruments relate to the partial settlement of the Performance Fee by the future issue of Ordinary Shares. As detailed in note 34, an estimate Performance Fee for the period from commencement of trading to 31 December 2017 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2017. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the shares issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

27. Net asset value per share (NAV) *(continued)*

Net asset values have been calculated as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	392,899	291,735
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	752	1,513
Deferred tax liability	2,050	–
EPRA net assets	395,701	293,248
Number of Ordinary Shares in issue	372,821,136	274,217,264
Dilutive instruments	875,752	107,729
Adjusted number of Ordinary Shares	373,696,888	274,324,993
Net asset value per share – basic	105.4p	106.4p
Net asset value per share – diluted	105.1p	106.3p
EPRA net asset value per share – basic	106.1p	106.9p
EPRA net asset value per share – diluted	105.9p	106.9p

	31 December 2017 £'000	31 December 2016 £'000
Company		
Net asset value per Company Statement of Financial Position	370,796	272,902
Number of Ordinary Shares in issue	372,821,136	274,217,264
Dilutive instruments	875,752	107,729
Adjusted number of Ordinary Shares	373,696,888	274,324,993
Net asset value per share – basic	99.5p	99.5p
Net asset value per share – diluted	99.2p	99.5p

28. Notes to the Statement of Cash Flows

28.1. Non cash transactions

The Group has accounted for the following non-cash transactions:

- A non cash transaction relating to the acquisition of the subsidiary companies acquired from The Conygar Investment Company PLC by issue of Ordinary shares is detailed in note 3.4.
- The value of Performance fees expensed within the Group where Ordinary shares will be issued for the consideration.

The Company's acquisitions and disposals of subsidiaries are made up of the following non-cash transactions:

- Investment in Regional Commercial Midco Ltd of £25,686,000 associated with the acquisition of the portfolio of companies from The Conygar Investment Company PLC by issue of Ordinary shares is detailed in note 3.4.
- The acquisition of and immediate sale to Regional Commercial Midco Ltd for £21,511,000 of subsidiary companies. This transactions did not involve any cash or result in any gain or loss.
- The value of Performance fees expensed in subsidiary companies where the Company will issue Ordinary shares for the payment of the Performance fee of £489,000.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

28. Notes to the Statement of Cash Flows *(continued)*

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

Group at 31 December 2017	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Derivative financial instruments £'000	Total £'000
Balance at 1 January 2017	217,442	–	1,513	218,955
Changes from financing cash flows:				
Net costs paid on the disposal of derivatives	–	–	(441)	(441)
Bank borrowings advanced	179,540	–	–	179,540
Bank borrowings repaid	(165,619)	–	–	(165,619)
Bank borrowing costs paid	(3,714)	–	–	(3,714)
Total changes from financing cash flows	10,207	–	(441)	9,766
Arising from subsidiary acquisitions	105,093	35,620	(103)	140,610
Costs of subsidiary acquisitions allocated	(1,051)	(264)	–	(1,315)
Amortisation of issue costs	2,690	114	–	2,804
Accrued capital entitlement	–	1,769	–	1,769
Change in fair value	–	–	(217)	(217)
Total other changes	106,732	37,239	(320)	143,651
Balance at 31 December 2017	334,381	37,239	752	372,372
Balances are included in the Statement of financial position as follows:				
Current liabilities	400	–	–	400
Non-current liabilities	333,981	37,239	752	371, 972
Balance at 31 December 2017	334,381	37,239	752	372,372

29. Financial risk management

29.1. Financial instruments

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

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

	31 December 2017		31 December 2016	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Group				
Loans and receivables – measured at amortised cost				
Trade and other receivables	13,985	13,985	9,543	9,543
Cash and short-term deposits	44,640	44,640	16,199	16,199
Financial liabilities – measured at amortised cost				
Trade and other payables	(26,035)	(26,035)	(15,263)	(15,263)
Bank and loan borrowings	(334,381)	(334,381)	(217,442)	(217,442)
Zero dividend preference shares	(37,239)	(38,550)	–	–
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(752)	(752)	(1,513)	(1,513)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

29. Financial risk management *(continued)*

29.1. Financial instruments *(continued)*

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

	31 December 2017		31 December 2016	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Company				
Loans and receivables – measured at amortised cost				
Trade and other receivables	2,256	2,256	837	837
Cash and short-term deposits	20,336	20,336	65	65
Financial liabilities – measured at amortised cost				
Trade and other payables	(2,398)	(2,398)	(2,319)	(2,319)

29.2. Risk management

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

29.3. Market risk

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

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

If interest rates were to increase by the following rates, this would increase the annual interest charge to the Group and thus reduce profits and net assets as follows:

Interest rate increase	Increase to the annual interest charge	
	31 December 2017 £'000	31 December 2016 £'000
0.00%	–	–
0.25%	184	186
0.50%	368	372
0.75%	552	529
1.00%	737	592

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

29. Financial risk management *(continued)*

29.4. Credit risk

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

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

29.5. Credit risk related to trade receivables

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

29.6. Credit risk related to financial instruments and cash deposits

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

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

Bankers	Fitch Ratings
Barclays	A Rating Watch Positive
Royal Bank of Scotland	BBB + Stable
Santander UK	A Rating Watch Positive

29.7. Liquidity risk

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

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

Group at 31 December 2017	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(26,035)	–	–	–	(26,035)
Bank borrowings	(12,019)	(75,599)	(131,712)	(191,793)	(411,123)
Interest rate derivatives	(242)	(242)	(700)	–	(1,184)
Zero dividend preference shares	–	(39,879)	–	–	(39,879)
	(38,296)	(115,720)	(132,412)	(191,793)	(478,221)

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

29. Financial risk management *(continued)*

29.7. Liquidity risk *(continued)*

Group at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(15,263)	–	–	–	(15,263)
Bank borrowings	(7,177)	(66,093)	(164,942)	–	(238,212)
Interest rate derivatives	(884)	(874)	(528)	–	(2,286)
	(23,324)	(66,967)	(165,470)	–	(255,761)

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

Company at 31 December 2017	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(3,304)	–	–	(3,304)

Company at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(2,319)	–	–	(2,319)

30. Capital management

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

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

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

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

Debt will be secured at the asset level subject to the assessment of the optimal financing structure for the Group and having consideration to key metrics including lender diversity, debt type and maturity profile.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

31. Operating leases

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

	31 December 2017 £'000	31 December 2016 £'000
Group		
Receivable within 1 year	49,621	37,229
Receivable between 1 – 2 years	38,678	28,000
Receivable between 2 – 5 years	66,437	50,777
Receivable after 5 years	47,979	34,744
	202,715	150,750

The Group has in excess of 939 operating leases. The number of years remaining on these operating leases varies between 1 and 82 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point a surrender premium will be charged to cover the shortfall in rental income received.

32. Operating lease commitments

Total commitments on operating leases in respect of land and buildings are as follows:

	31 December 2017 £'000	31 December 2016 £'000
Group		
Payable within 1 year	471	485
Payable between 1 – 2 years	471	485
Payable between 2 – 5 years	1,414	1,456
Payable after 5 years	36,001	37,794
	38,357	40,220

33. Segmental information

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

34. Transactions with related parties

Transactions with the Directors

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

	Year ended 31 December 2017 £'000
Kevin McGrath	–
William Eason	10
Daniel Taylor	16
Stephen Inglis	49
Frances Daley	–
Timothy Bee	11
Total	86

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

34. Transactions with related parties *(continued)*

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

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

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

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

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

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Asset management fees charged*	1,739	1,675
Property management fees charged*	1,972	1,698
Performance fees charged	814	115
Total	4,525	3,488

	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding **	1,882	563

* Including irrecoverable VAT charged where appropriate

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

Transactions with the Investment Manager, Toscafund Asset Management LLP

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2017

34. Transactions with related parties *(continued)*

Transactions with the Investment Manager, Toscafund Asset Management LLP (continued)

The Investment Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below. The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Investment management fees charged*	1,732	1,914
Performance fees charged	814	115
Irrecoverable VAT on performance fees charged	(19)	19
Total	2,527	2,048

	31 December 2017 £'000	31 December 2016 £'000
Total fees outstanding**	1,378	609

* Including irrecoverable VAT charged where appropriate

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

Performance Fee

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

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

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

Based on the EPRA NAV of the Group as at 31 December 2017 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2017 was estimated at £1,859,000 (31 December 2016: £249,000). This fee has been accrued in the consolidated financial statements. To reflect the nature of the future payment of the performance fee charge, 50% of the fee, along with the irrecoverable VAT thereon of £nil (31 December 2016: £19,000), has been accrued as a liability totalling £930,000 (31 December 2016: £134,000) and the 50% of the fee which is payable by the issue of Ordinary Shares has been reflected as a share based payment in the consolidated statement of changes in equity.

35. Subsequent events

On 1 February 2018, the Company announced the appointment of Frances Daley as a Non-Executive Director and as a member of the Audit Committee and Management, Engagement and Remuneration Committee.

EPRA Performance Measures

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

EPRA have developed and defined the following performance measures to give transparency, comparability and relevant 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	31 December 2017	31 December 2016
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings	£24,014,000	£21,073,000
		EPRA Earnings per share (basic)	8.1p	7.7p
		EPRA Earnings per share (diluted)	8.1p	7.7p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts.	Adjusted Earnings	£25,624,000	£21,322,000
		EPRA Earnings per share (basic)	8.6p	7.8p
		EPRA Earnings per share (diluted)	8.6p	7.8p
EPRA NAV	Net Asset Value adjusted to include properties and other investment interest at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	EPRA Net Asset Value	£395,701,000	£293,248,000
		EPRA NAV per share (basic)	106.1p	106.9p
		EPRA NAV per share (diluted)	105.9p	106.9p
EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	EPRA NNNAV	£392,899,000	£291,735,000
		EPRA NNNAV per share (basic)	105.4p	106.4p
		EPAR NNNAV per share (diluted)	105.1p	106.3p
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	6.5%	6.7%

EPRA Performance Measures *(continued)*

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2017	31 December 2016
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio.	EPRA Vacancy Rate	15.0%	17.8%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy divided by gross rental income	EPRA Costs Ratio	29.7%	29.6%
		EPRA Costs Ratio (excluding direct vacancy costs)	19.0%	20.3%

Notes to the calculation of EPRA performance measures

1. EPRA Earnings

For calculations, please refer to note 12 to the financial statements

2. EPRA NAV

For calculations please refer to note 27 to the financial statements

3. EPRA NNNAV

This is equivalent to the IFRS NAV and calculations are detailed in note 27 to the financial statements.

4. EPRA Costs Ratios

	31 December 2017 £'000	31 December 2016 £'000
Operating costs	6,502	4,866
Less ground rent	(563)	(490)
Add administrative and other expenses	9,429	8,217
EPRA costs (including direct vacancy costs)	15,368	12,593
Direct vacancy costs	(5,522)	(3,951)
EPRA costs (excluding direct vacancy costs)	9,846	8,642
Gross rental income	52,349	42,994
Less ground rent	(563)	(490)
Gross rental income less ground rents	51,786	42,504
EPRA Cost Ratio (including direct vacancy costs)	29.7%	29.6%
EPRA Cost Ratio (excluding direct vacancy costs)	19.0%	20.3%

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Glossary of Terms

AIF – Alternative Investment Fund.

AIFM – Alternative Investment Fund Manager.

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.

Contracted Rent – annualised rent, adjusting for the inclusion of rent free periods. See also Passing Rent.

Directors – the Directors of the Company whose names are set out on page 54 and 55.

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.

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

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

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

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

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

Gross Rental Income – accounting based rental income under IFRS. When the Group provides lease incentives to its tenants the lease incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is the cash Passing Rent as adjusted for the spreading of these incentives.

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

Group – Regional REIT Limited and its subsidiaries.

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

IPO – Initial Public Offering. The Company's Admission to London Stock Exchange was 6 November 2015.

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

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

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

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

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

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

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

Net Asset Value (NAV) (or Shareholder' 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.

Glossary of Terms *(continued)*

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

Net Initial Yield – (Annualised current passing rent less non-recoverable property expenses, such as empty rates) / (Investment Properties Value). This phrase is regularly used for Triple Net Initial Yield (NNNIY).

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

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

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

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

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

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

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

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

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

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 (NNNIY) – (Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three "nets") / (Investment Properties Value).

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees). The calculation excludes residential leases and development properties where relevant.

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

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

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

AIFMD Disclosure

The Alternative Investment Fund Managers' Directive ("AIFMD"), requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within the Initial Public Offering ("IPO") Prospectus, which can be found on the Group's website at: www.regionalreit.com. There have been no material changes to the disclosures contained within the IPO document since its publication on 3 November 2015.

Management Agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited ("LSI") as Asset Manager and Toscafund Asset Management LLP ("Toscafund" or the "AIFM") as Investment Manager. LSI and Toscafund each receive half of an annual management fee on a scaled rate of 1.1 % of the European Public Real Estate Association ("EPRA") net asset value (NAV) up to £500 million and 0.9% above £500 million. A Performance Fee will also be paid to LSI and Toscafund.

The investment management agreement between the Company and Toscafund (the "Management Agreement") may be terminated by either party giving 12 months' written notice. No additional compensation is payable to the AIFM on the termination of this agreement other than the fees payable during the notice period.

Toscafund was authorised as an Alternative Investment Fund Manager ("AIFM"), by the UK's Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy ("the Policy"), which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Regional REIT Limited during the period 1 January 2017 to 31 December 2017 was £1,864,542 (2016: £2,338,044).

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM and LSI. The Board, through its Audit Committee and Management Engagement and Remuneration Committee (the "Committees"), has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. This is because of the good performance of the Group and because the remuneration of the AIFM is fair both in absolute terms and compared to that of managers of similar investment companies. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

Risk management by the AIFM

The AIFM has established and maintains a permanent and independent risk management function to ensure that there is a comprehensive and effective risk management policy in place and to monitor compliance with risk limits. The risk policy applicable to the Group covers the risks associated with the management of the investment portfolio and the AIFM reviews and approves the adequacy and effectiveness of the policy on at least an annual basis, including the risk management processes and controls and limits for each risk area. The AIFM sets risk limits that take into account the risk profile of the Group's investment portfolio, as well as its investment objectives and strategy. The AIFM monitors the risk limits, including leverage, and periodically assesses the portfolio's sensitivity to key risks. The AIFM reviews risk limit reports at regular meetings of its risk committee.

Principal risks and uncertainties

The Board considers that the following are the principal risks associated with investing in the Group: investment risk, market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 29 on pages 46 to 48 of the Financial Statements.

AIFMD Disclosure *(continued)*

Leverage

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. The Group has entered into five separate banking facilities during the period, drawing on £339.1 million of secured debt. All available debt facilities have been fully drawn.

Leverage has been measured in terms of the Group's exposure, and is expressed as a ratio of net asset value. The AIFMD requires this ratio to be calculated in accordance with both the Gross Method and the Commitment Method. Details of these methods of calculation can be found by referring to the AIFMD. In summary, these methods express leverage as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. The principal difference between the two methods is that the Commitment Method enables derivative instruments to be netted off to reflect hedging arrangements and the exposure is effectively reduced, while the Gross Method aggregates the exposure.

The AIFMD introduced a requirement for the AIFM to set maximum levels of leverage for the Group. The Company's AIFM has set a maximum limit of 400 for both the Gross and Commitment Methods of calculating leverage.

At 31 December 2017 this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	266	272

In accordance with the AIFMD, any changes to the maximum level of leverage set by the Group will be communicated via the Group's website to the Shareholders.

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Company Information

Directors

Kevin McGrath (Chairman and Independent Non-Executive Director)

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

Daniel Taylor (Independent Non-Executive Director)

Frances Daley (Independent Non-Executive Director)

Stephen Inglis (Non-Executive Director)

Timothy Bee (Non-Executive Director)

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Regional REIT Limited;

ISIN:
GG00BYV2ZQ34

SEDOL:
BYV2ZQ3

Legal Entity Identifier:
549300D8G4NKLRIKBX73

Company Website

www.regionalreit.com

Forthcoming Events

Q1 2018 Trading Update, AGM Statement and Dividend Announcement	17 May 2018
2018 Annual General Meeting	17 May 2018
Q2 2018 Dividend Announcement	31 August 2018
2018 Interim Results Announcement	11 September 2018
Q3 2018 Trading Update and Dividend Announcement	16 November 2018

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

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Shareholder Information

Share Register Enquires:

Phone: 0871 664 0300

Calls cost 12p per minute plus your provider's access charge. If outside the United Kingdom call +44 371 664 0300. Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00–17:30 Monday to Friday (excluding public holidays in England and Wales). For shareholder enquiries please email shareholderenquiries@linkgroup.co.uk.

Dividend History

Period	Announcement Date	Ex-Date	Record Date	Payment Date	Total Dividend Pence per share (pps)
Q4 2017	22 February 2018	1 March 2018	2 March 2018	12 April 2017	2.45pps of which PID: 2.205pps of which non-PID: 0.245pps
Q3 2017	14 November 2017	23 November 2017	24 November 2017	22 December 2017	1.80pps of which PID: 1.62pps of which non-PID:0.18pps
Q2 2017	31 August 2017	7 September 2017	8 September 2017	13 October 2017	1.80pps of which PID: 1.08pps of which non-PID: 0.72pps
Q1 2017	25 May 2017	8 June 2017	9 June 2017	14 July 2017	1.80pps of which PID: 1.26pps of which non-PID: 0.54pps
Q4 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	2.40pps of which PID: 2.1600pps of which non-PID: 0.2400pps
Q3 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	1.75pps of which PID: 1.6345pps of which non-PID: 0.1155pps
Q2 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	1.75pps of which PID: 1.5013pps of which non-PID: 0.2487pps
Q1 2016	27 May 2016	9 June 2016	10 June 2016	8 July 2016	1.75pps of which PID: 1.3579pps of which non-PID: 0.3921pps
Full Year 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	1.00pps of which PID: 0.6572pps of which non-PID: 0.3428pps

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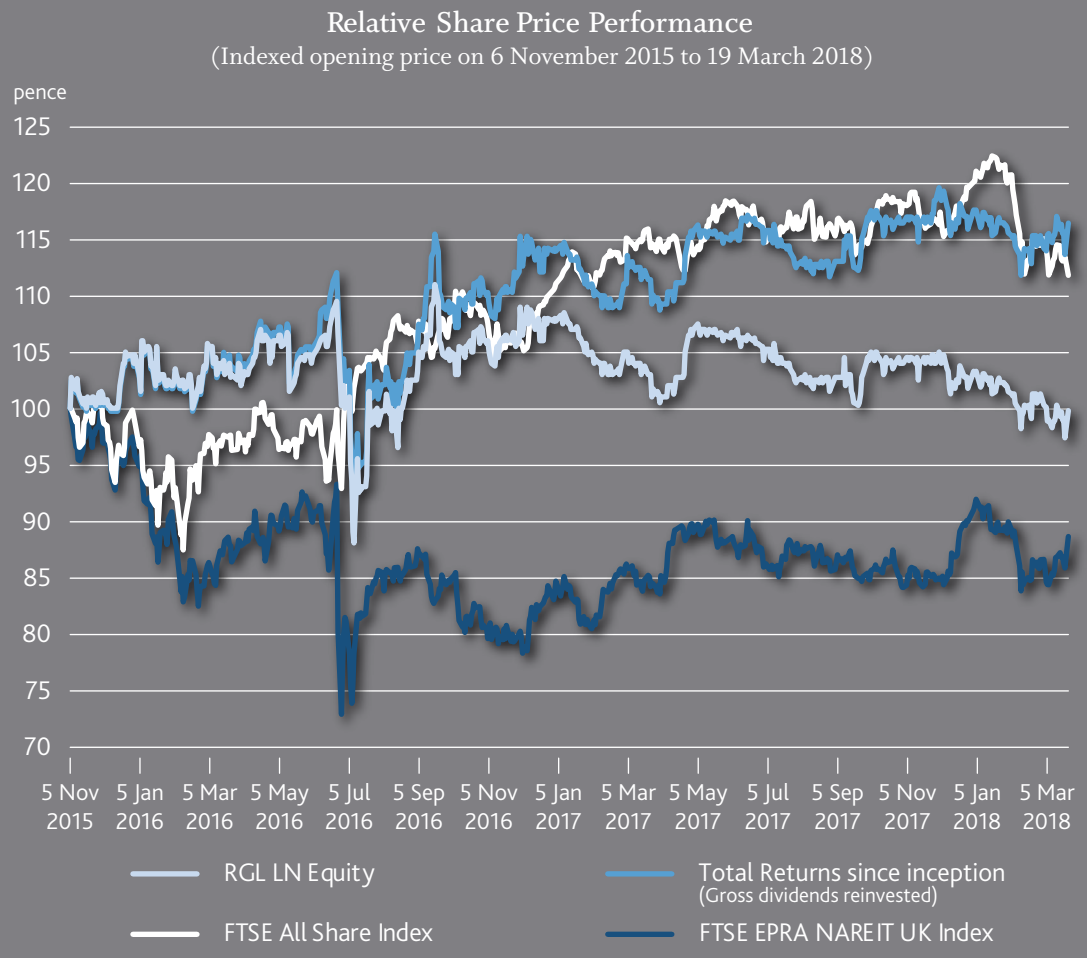
Notes

Share Price Performance



Source: Bloomberg data

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