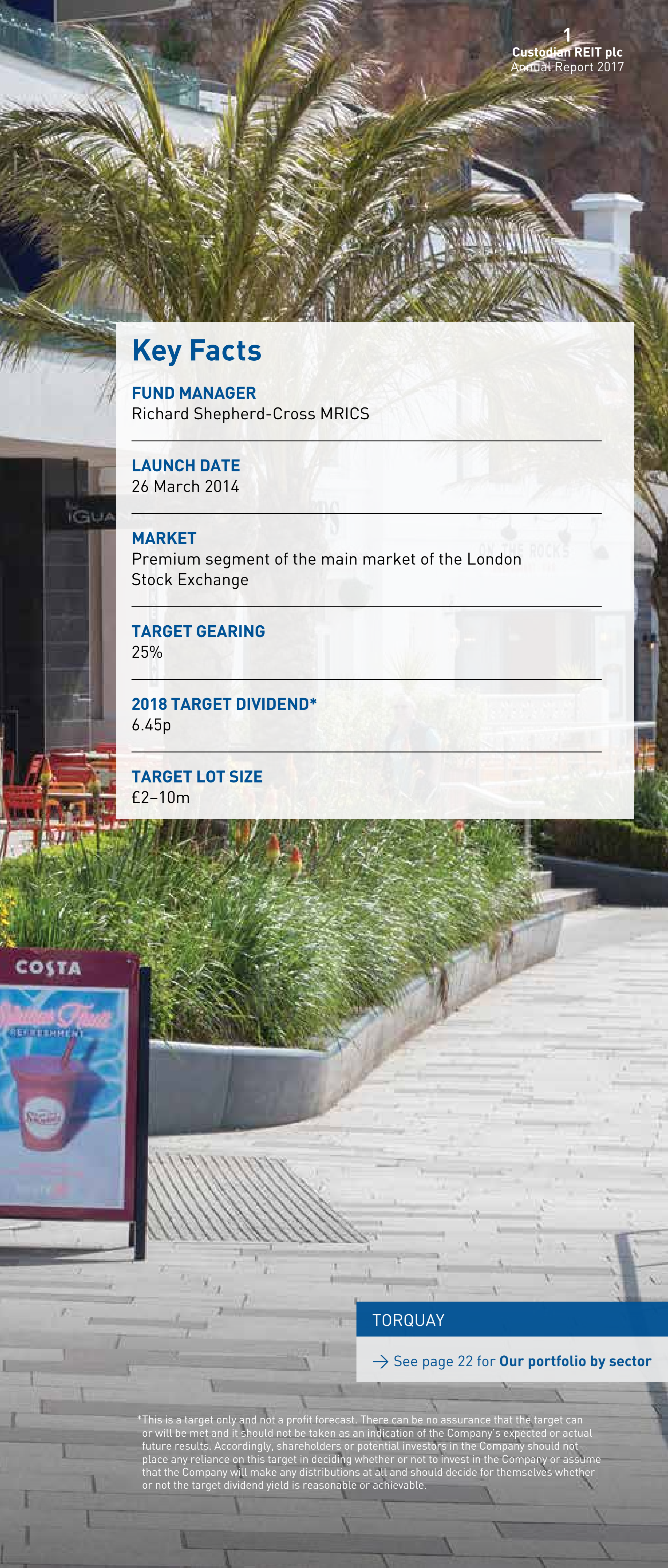
Custodian
REIT PLC

| Annual Report 2017

Custodian REIT plc ("Custodian REIT" or "the Company") is a UK real estate investment trust ("REIT") with a portfolio comprising regional properties predominantly let to institutional grade tenants throughout the UK, with individual values of less than £10m at acquisition.

The Company[1] offers investors access to a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company intends to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

1 References to the Company in the Strategic report include the Company and its dormant subsidiaries: Custodian Real Estate Limited, Custodian Real Estate GP Limited, Custodian Real Estate Nominees Limited and Custodian Real Estate Luxembourg S.à.r.l..



Key Facts

FUND MANAGER
Richard Shepherd-Cross MRICS

LAUNCH DATE
26 March 2014

MARKET
Premium segment of the main market of the London Stock Exchange

TARGET GEARING
25%

2018 TARGET DIVIDEND*
6.45p

TARGET LOT SIZE
£2–10m

TORQUAY

→ See page 22 for **Our portfolio by sector**

*This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

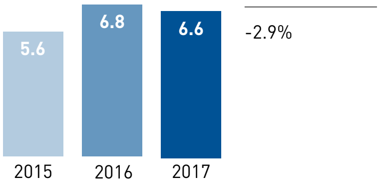
INSIDE THIS REPORT

For more information, please visit
www.custodianreit.com

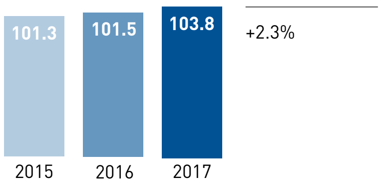
FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

- NAV per share total return[2] of **8.5%** (2016: 6.4%)
- EPRA[3] earnings per share[4] of **6.6p** (2016: 6.8p), basic and diluted earnings per share of 8.1p (2016: 5.5p)
- Portfolio value of **£415.8m** (2016: £319.0m)
- Profit after tax up **116%** to £24.2m (2016: £11.2m)
- **£92.4m[5]** of new equity raised at average premium of 5.1% to NAV
- 2018 target dividend per share increased to **6.45p** (2017: 6.35p)
- **£105.0m[6] invested** in 25 acquisitions and one ongoing pre-let development
- **£8.9m valuation uplift** from successful asset management initiatives, £2.9m net valuation increase[7]
- **£1.6m profit** on disposal of six properties for an aggregate consideration of £18.9m

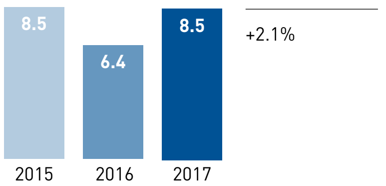
EPRA EARNINGS PER SHARE (P)



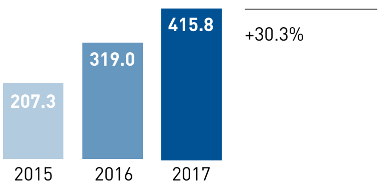
NAV PER SHARE (P)



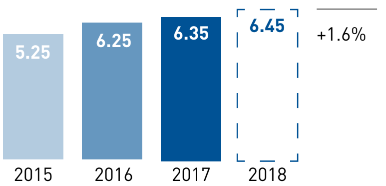
NAV PER SHARE TOTAL RETURN (%)



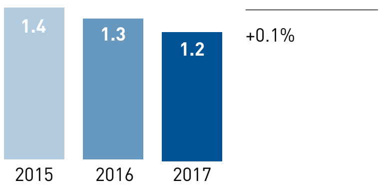
PORTFOLIO VALUE (£M)



DIVIDENDS PER SHARE [8] (P)



OCR EXCLUDING DIRECT PROPERTY EXPENSES[9] (%)



2 Net Asset Value ("NAV") movement including dividends paid and approved relating to the year on shares in issue at 31 March 2016.
3 The European Public Real Estate Association ("EPRA").
4 Profit after tax excluding net gains on investment properties divided by weighted average number of shares in issue.
5 Before costs and expenses of £1.3m.
6 Before acquisition costs of £6.1m.
7 Comprising £8.9m of valuation uplift from successful asset management initiatives and £0.1m of other valuation increases, less £6.1m of acquisition costs.
8 Dividends paid and approved for the year.
9 Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.

H&M, WINSFORD

MARKET CAPITALISATION

£379.7m

2016: £269.5m (+40.9%)

DIVIDEND COVER[10]

101.0%

2016: 100.8%

SHARE PRICE

112.0p

2016: 107.25p

ONGOING CHARGES RATIO[11]

1.6%

2016: 1.6%

SHARE PRICE TOTAL RETURN[12]

10.3%

2016: 3.5%

NET GEARING[13]

14.5%

2016: 19.1%

NAV

£351.9m

2016: £255.1m

PREMIUM TO NAV PER SHARE

7.9%

2016: 5.7%

10 Profit after tax, excluding net gains on investment properties and one-off costs, divided by dividends paid and approved for the year.
11 "OCR" – expenses (excluding operating expenses of rental property rechargeable to tenants) divided by average quarterly NAV.
12 Share price movement including dividends paid and approved for the year.
13 Gross borrowings less unrestricted cash, divided by portfolio value.

EPRA performance measures

	2017	2016
EPRA EPS (p)	**6.6**	6.8
EPRA NAV per share (p)	**103.8**	101.5
EPRA net initial yield ("NIY")	**6.4%**	6.4%
EPRA 'topped-up' NIY	**6.8%**	6.7%
EPRA vacancy rate	**1.4%**	3.2%
EPRA cost ratio (including direct vacancy costs)	**18.0%**	18.2%
EPRA cost ratio (excluding direct vacancy costs)	**16.1%**	17.3%

Alternative performance measures, including EPRA Best Practice Recommendations, are used to assess the Company's performance.
EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures, following the Company becoming a FTSE EPRA/NAREIT index series constituent in March 2017. Explanations as to why EPRA performance measures give valuable further insight into the Company's performance are given below:

EPRA EPS
A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income.

EPRA NAV per share
A measure of NAV excluding any adjustments to IFRS NAV not expected to crystallise in normal circumstances such as fair value adjustments to borrowings, giving a better indication of NAV of a real estate investment company with a long-term investment strategy.

EPRA NIY and 'topped-up' NIY
Alternative measures of portfolio valuation based on cash passing rents at the balance sheet date and once lease incentive periods have expired, net of ongoing property costs.

EPRA vacancy rate
Estimated rental value ("ERV") of unoccupied investment property compared to the portfolio's ERV.

EPRA cost ratios
Alternative measures of ongoing charges based on expenses compared to gross rental income.

Supporting calculations for alternative performance measures and reconciliations between non-statutory performance measures and their IFRS equivalents are set out in the Additional disclosures section of the Annual Report.

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

CHAIRMAN'S STATEMENT

"We invested a total of £105m on the completion of 25 acquisitions and one ongoing pre-let development"

DAVID HUNTER,
Chairman

EPRA EPS

6.6p

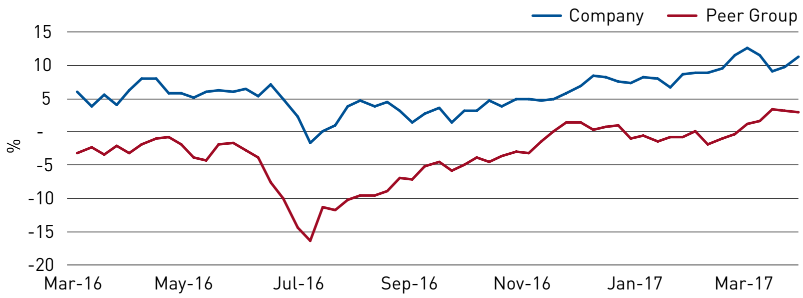
2016: 6.8p

NEW EQUITY RAISED

£92.4m

2016: £77.7m

Premium to NAV



I am pleased to report that Custodian REIT has continued to deliver strong shareholder returns with NAV per share total return of 8.5% (2016: 6.4%) for the year ended 31 March 2017. During the year we invested a total of £105.0m on the completion of 25 acquisitions and one ongoing pre-let development, funded by £92.4m raised from the issue of new shares and £25m of new term debt. Increasing the scale of the Company and a continued focus on controlling costs has reduced the OCR (excluding direct property expenses) from 1.3% to 1.2%. We plan to achieve further growth to realise the economies of scale offered by the Company's relatively fixed cost base and the recently announced reduction in Investment Manager fees, detailed below, while adhering to the Company's investment policy and maintaining the quality of both properties and income.

The Company pays one of the highest fully covered dividends amongst its peer group of listed property investment companies[14]. Despite the fund's rapid growth, we have sought to minimise the impact of 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Company's £35m revolving credit facility ("RCF"). I am delighted that the flexibility of the RCF, coupled with proactive asset management of the portfolio and the rapid deployment of cash as it has been raised, has allowed us to increase the target dividend[15] for the year ending 31 March 2018 by 1.6% to 6.45p per share, and to accelerate the payment of quarterly dividends by one month.

Market

Recent experience has reinforced Confucius' time honoured maxim: "Wisdom is knowing you cannot predict the future". At the time of writing we are in the midst of an election campaign with a predicted, but not entirely predictable outcome. Throughout the year political norms were overturned, 'knowns' became unknown and 'certainties' became uncertain. Against this backdrop Custodian REIT has been a stable and predictable performer in an otherwise turbulent market, as illustrated by the chart above, comparing the Company's premium to NAV since March 2016 to its peer group[16].

We believe that in uncertain times a well-defined investment strategy, offering secure income and focusing on long-term goals and deliverable targets will protect shareholders from unwanted volatility.

There was a sharp decrease in the share prices of listed property stocks in early 2016 and a high level of redemptions from open-ended funds post the EU referendum ("the Referendum"). If these events had been taken as a prediction of poor times ahead for commercial property, the market confounded those predictions in the fourth quarter of 2016 and the first quarter of 2017 with investor sentiment towards commercial property showing a marked improvement through this period.

- While central London lost much of its domestic appeal for investment and development it gained overseas demand, driven both by currency arbitrage and the relative stability of the London property market on the global spectrum.
- Regional markets witnessed increasing domestic demand as confidence built around the impact of Brexit.
- A shortage of supply, limited development and stable demand from occupiers drove rental growth.
- The relatively high investment yield available from property continued to look attractive in a low return environment.

14 Source: Numis Securities Limited.
15 This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.
16 Peer group comprises: F&C Commercial Property Trust Limited, F&C UK Real Estate Investments Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, Standard Life Investments Property Income Trust Limited and UK Commercial Property Trust Limited.

NUFFIELD HEALTH, STOKE

→ See page 22 for **Our portfolio by sector**

The Company's strategy of targeting sub £10m regional properties that produce a relatively high income return, with the real potential of rental growth, has stood us in good stead through this year's market ups and downs.

Net asset value

The NAV of the Company at 31 March 2017 was £351.9m, reflecting approximately 103.8p per share, an increase of 2.3% since 31 March 2016.

The Company delivered NAV total return of 8.5% for the year, which was a period of significant new investment where the initial costs (primarily stamp duty) of investing £105.0m in 25 property acquisitions and one pre-let development diluted NAV per share total return by circa 1.8p, largely offset by raising £91.1m of new equity (net of costs) at an average 5.1% premium to dividend adjusted NAV, which added 1.5p per share[17].

Acquisition costs incurred during the year represented 5.8% of the total invested, lower than typical purchasers' costs of circa 6.5% due to £2.9m of development funding and the purchase of a portfolio of 10 light industrial units ("the Light Industrial Portfolio") for £26.75m being made by way of a corporate acquisition (detailed in Note 10), allowing the Company and vendor to share the associated cost savings. The recent increases in premium to the Company's NAV have allowed equity issuance during Q1 2017 to be at an average 7.7% premium to dividend adjusted NAV, fully covering the cost of raising and deploying the proceeds.

In addition to acquisitions, activity during the year also focused on pro-active asset management, which generated £8.9m of the £9.0m valuation uplift. We intend to continue our asset management activities and complete the current acquisition pipeline, with the deployment of existing debt facilities expected to increase gearing towards our target level of 25% loan-to-value ("LTV").

	Pence per share	£m
NAV at 31 March 2016	101.5	255.1
Issue of equity (net of costs)	0.6	91.1
	102.1	**346.2**
Valuation movements relating to:		
– Asset management activity	2.7	8.9
– Other valuation movements	0.0	0.1
– Acquisition costs	(1.8)	(6.1)
Net valuation increase	**0.9**	**2.9**
Profit on disposal of investment property	0.5	1.6
Net gain on investment property	**1.4**	**4.5**
Income	8.1	27.6
Expenses and net finance costs	(2.3)	(7.9)
Dividends paid[18]	(5.5)	(18.5)
NAV at 31 March 2017	**103.8**	**351.9**

Share price

The defining event of the year for property investment was the Referendum, which triggered a rush for the door by retail investors from open-ended property funds. The subsequent suspension of redemptions in certain of these funds was widely covered in the news at the time and did little for the reputation of property as an investment asset class. Most property investment companies' shares moved to trade at a significant discount to NAV in the immediate aftermath but, save for a single day's trading, Custodian REIT's share price maintained a premium to NAV.

I believe this was due to:

- The relatively high, fully covered dividend;
- The exclusive focus on UK regional property; and
- The predominance amongst the Company's shareholders of private clients and discretionary wealth managers, who value the high income and low volatility.

The Company's peer group of property investment companies have since all seen their share prices return to or exceed pre-Referendum levels. This bounce demonstrates the strength of the closed-ended property investment company structure and the continued investment demand for exposure to UK commercial property markets. In contrast the large development and investment REITs, typically carrying out significant property development

17 0.6p per share through new issuance plus 0.9p per share notional dividend saving due to new shares being issued ex-dividend.

18 Dividends totalling 6.425p per share (1.6625p relating to the prior year and 4.7625p relating to the year) were paid on shares in issue throughout the year. Dividends paid on shares in issue at the year end averaged 5.5p per share due to new shares being issued ex-dividend.

CHAIRMAN'S STATEMENT
CONTINUED

activity and with a largely institutional shareholder base ("Large REITs")[19], have not witnessed a similar rebound in their share prices since the Referendum as illustrated opposite.

Placing of new ordinary shares

The Company raised £92.4m of new equity during the year, placing 87.8m new shares at an average 5.1% (2016: 3.5%) premium to dividend adjusted NAV via an ongoing programme of tap issuance.

Since the year end, the Company has issued a further 6.0m new shares at an average premium of 9.1% to dividend adjusted NAV. All share issues have been accretive to NAV and the sustained investor demand for the Company's shares is testament to the success of our strategy to date.

Borrowings

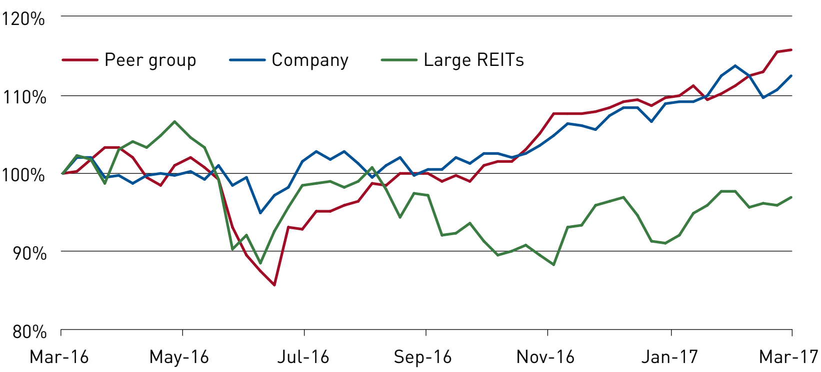
As at 31 March 2017 net gearing equated to 14.5% LTV. The Board's strategy is to:

- Increase debt facilities in line with portfolio growth, targeting net gearing of 25% LTV;
- Facilitate expansion of the portfolio to take advantage of expected rental growth; and
- Reduce shareholders' exposure to risk by:
  - Taking advantage of the prevailing low interest rates to secure long-term, fixed rate borrowing; and
  - Managing the weighted average maturity ("WAM") of the Company's debt facilities.

To achieve these objectives, the Company agreed a new 12 year £45m term loan facility with Scottish Widows Limited ("SWIP") on 6 June 2016, with a fixed rate of interest of 2.987%. £20m of the proceeds were used to repay in full a £20m term loan with Lloyds Bank plc, which attracted interest of 1.95% per annum above three month LIBOR and was due to be repaid in October 2019.

On 5 April 2017, the Company and Aviva Investors Real Estate Finance ("Aviva") entered into an agreement for Aviva to provide the Company with a new 15 year £50m term loan facility, comprising two tranches of £35m ("Tranche 1") and £15m ("Tranche 2") respectively. The Company drew down Tranche 1 on 6 April 2017, with a fixed rate of interest of 3.02% per annum.

Total shareholder return



Tranche 2 is available for draw down on or before 5 October 2017 with a fixed rate of interest, calculated at the same margin as Tranche 1 above the prevailing 2032 gilt rate on the date of draw down.

The weighted average cost of the Company's agreed debt facilities at 5 April 2017 was 3.1%[20] (2016: 3.1%) with a WAM of 10.1 years (2016: 5.2 years) and 77% (2016: 65%) of the Company's agreed debt facilities now at a fixed rate of interest. This removes significant interest rate risk from the Company and provides shareholders with a wide, beneficial margin between the fixed cost of debt and income returns from the portfolio.

Investment Manager

The Investment Manager was appointed at IPO under an investment management agreement ("IMA") to provide property management and administrative services to the Company. The performance of the Investment Manager and fees payable to it are reviewed each year by the Management Engagement Committee ("MEC").

The Board has been pleased with the progress and performance of the Investment Manager, particularly the timely deployment of new monies on high quality assets, securing the earnings required to fully cover the increased target dividend.

The MEC has reviewed, in detail, the arrangements with the Investment Manager this year, following expiry of the initial three year term. In light of the positive performance of the Company since IPO the Board and the Investment Manager have agreed a further three year term with 12 months' notice to the Investment Manager's ongoing engagement, from 1 June 2017. Fees payable to the Investment Manager under the IMA have been amended to include:

- A step down in the property management fee from 0.75% to 0.65% of NAV applied to NAV in excess of £500m; and
- A step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m and a further step down to 0.05% of NAV applied to NAV in excess of £500m.

All other key terms of the IMA remain unchanged. The Board considers these amendments to the IMA to be in the best interests of the Company's shareholders because:

- The administrative fee will immediately fall, increasing dividend cover on target dividends for the year ending 31 March 2018;
- Further growth in NAV, particularly above £500m, will further reduce the Company's OCR and increase dividend capacity; and
- Another three year term provides the Investment Manager with security of tenure and allows further investment in the dedicated systems and people providing its services under the IMA.

19 Large development and investment REITs comprise: British Land Company plc, Land Securities Group plc, Hammerson plc, Intu Properties plc, Derwent London plc, Great Portland Estates plc, Workspace Group plc, Capital & Counties Properties plc, Shaftesbury plc, Hansteen Holdings plc, Segro plc, Big Yellow Group plc, Safestore Holdings plc, Empiric Student Property plc, Unite Group plc, Capital & Regional plc, Helical plc and LondonMetric Property plc.
20 Assuming three month LIBOR of 0.35% and that Tranche 2 attracts fixed annual interest of 3.02%.

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→ See page 22 for **Our portfolio by sector**

Dividends

Income is a major component of total return. The Company paid aggregate dividends of 6.425p per share during the year (totalling £18.5m), comprising the fourth interim dividend of 1.6625p per share relating to the year ended 31 March 2016 and three interim dividends of 1.5875p per share relating to the year ended 31 March 2017.

The Board has approved an interim dividend of 1.5875p per share for the quarter ended 31 March 2017 payable on 30 June 2017 to shareholders on the register on 28 April 2017, meeting the Company's target of paying an annual dividend per share for the year of 6.35p (2016: 6.25p, 2015: 5.25p), totalling £19.7m. Dividends relating to the year are 101% covered by net recurring income of £19.9m, calculated as set out in the Additional disclosures section of the Annual Report.

In the absence of unforeseen circumstances the Board intends to pay quarterly dividends to achieve a target dividend of 6.45p per share for the year ending 31 March 2018. The Board's objective is to grow the dividend on a sustainable basis at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

The payment of dividends relating to the year ending 31 March 2018 will be accelerated by one month to align more closely with London Stock Exchange best practice and the Company's peer group. The dividend relating to the quarter ending 30 June 2017 is therefore expected to be payable on 31 August 2017.

> "Targeting sub £10m regional properties producing a high income return"

Outlook

Property investment and occupational markets continue to exhibit a less than perfect correlation, which is slightly at odds with expected theory that occupational demand drives rental growth which in turn drives valuation increases. This aspect makes the outlook for total returns harder to predict as external influences can cause investment markets to move in a contrary fashion. While the occupational market has strengthened through the year and rental growth has taken hold across large parts of regional economies, the investment market has been more volatile. I anticipate that occupational demand combined with a limited supply of new development will continue to drive rental growth across regional markets, supporting a low vacancy rate and securing dividends and long-term capital growth for the Company's shareholders.

David Hunter
Independent Chairman
5 June 2017

INVESTMENT MANAGER'S REPORT

"Asset management activities increased NAV by £8.9m, the largest component of NAV performance through the year"

RICHARD SHEPHERD-CROSS,
Investment Manager

PORTFOLIO VALUE

£415.8m

2016: £319.0m

DIVIDEND COVER

101.0%

2016: 100.8%

The UK property market

Markets, we are told, are driven by fear and greed. The Chairman has commented on the recent market volatility which was principally a function of fear surrounding the outcome of the Referendum and 'Brexit'. However, it would appear that the fear of Brexit is not having the impact on commercial property markets that had been predicted, although this may still be too early to call. Our experience of managing 131 assets let to 265 tenants across a nationwide portfolio suggests that it is business as usual from a property perspective. This is evident in the occupancy rate[21] of the portfolio which currently stands at 98.6% (2016: 96.8%).

Strong demand from buyers dominated the property investment market and resulted in yield compression through 2014 and 2015 to a 'false' summit and a pause in mid-2016 in anticipation of the Referendum. Following a period of relative inaction in the two months prior to the Referendum and a period of 'reflection' in the two months following, we now find ourselves in a market with very few sellers but an extensive field of buyers comprising private investors, developer/trader property companies, local authorities, listed property companies and overseas buyers. So demand is back and in aggregate yields have recovered most of the ground lost in 2016, albeit retail yields continue to soften while industrial yields continue to harden.

Does the return of strong demand suggest that the market has yet to peak? We are not unduly concerned by this risk to Custodian REIT. The equivalent yield of the portfolio has been constant at 6.75% since September 2014, although the net initial yield of the portfolio has hardened to reflect rental growth. This suggests that capital growth has been driven by the prospect of rental growth and not by underlying yield compression, lessening the risk of a reversal of gains made in the near future.

Is fear driving market demand for long dated income with indexed linked rent reviews? Is this reflective of the fear of weak economic growth and weak property markets in the near future? This possible weakness is not our experience in regional economies. We are witnessing rental growth driven by a lack of supply and very limited speculative development. We are enjoying low vacancy rates and tenants are happy to commit to extending leases or agree rental increases, demonstrating a confidence in their businesses.

Are open-ended property funds still fearful? The Financial Times reports fund managers are sitting on between 18-30% in cash, which amounts to over £3bn of cash, or 20% of total funds[22]. While this is explained as being appropriate caution in the face of current and feared redemptions, this strategy can be doing nothing to enhance returns.

One challenge affecting the whole market is the limited supply of property being offered to the market. This shortage of supply, in part, might explain the significant cash reserves of the open-ended funds. A lack of suitable opportunities may cause investors to sit on their hands, but it also creates a vicious circle, with potential sellers fearful of not being able to re-invest their capital receipts. We have opted to exploit this position by selling six properties this year, for a total of £18.9m, to either capitalise on the strong market for long dated income or maximise value through sales to owner occupiers and special purchasers.

Others in the market have also sought to benefit from selling in the current market. Savills reported that the first quarter of 2017 saw a record level of nearly £5bn transacted in the London office market, 84% of which involved overseas investors[23]. However, the market outside London was decidedly short of sellers and investment volumes were down by 31% in the first quarter of 2017 according to Lambert Smith Hampton[24].

21 ERV of occupied property divided by total portfolio ERV.
22 Source: Financial Times 23 April 2017.
23 Source: Savills UK Commercial Market in Minutes April 2017.
24 Source: Lambert Smith Hampton Q1 2017 UK Investment Transactions Bulletin.

“We continue to pursue a pipeline of new investment opportunities”

CHESTER

→ See page 22 for **Our portfolio by sector**

This supply shortage has slowed deployment of the Company's debt facilities, although a nationwide brief and a focus on sub £10m lot sizes has allowed us to continue to secure properties that meet the Company's investment criteria.

There is a fear that the high street will lose out to on-line retail. This concern is causing many to divest themselves of high street property and acquire logistics and distribution assets in their place. While we believe that many convenience retail locations and smaller market towns will weaken as people change their shopping habits, this cannot be said of all retail locations. We believe in strong regional retail towns, particularly those with a high tourist footfall and those with a diverse leisure offering including coffee shops and restaurants in their town centres. Shopping remains one of the nation's favourite leisure activities.

The widespread demand for distribution and logistics properties has the potential to create a bubble in market pricing if the current trajectory continues. Greed triumphing over fear. We are vigilant about the pricing of investment opportunities in this sector but we believe pricing is still at sustainable levels, given the real prospect of rental growth.

While there appears to be more fear than greed in the market, greed is never too far from the surface. One recent phenomenon has been the rise of local authorities buying real estate, funded by cheap money from the Public Works Loan Board ("PWLB"). Local authorities, who can borrow up to 100% of a property's value from the PWLB, invested over £1bn during 2016[25], often outside their local authority area in a push to close the funding gap, as central government reduces direct financial support. Our experience of the rising activity of local authorities in the market is that they are having an inflationary impact on pricing, perhaps because they are too focused on short-term income returns rather than the long-term risk of capital depreciation. This local authority activity has created some competition for the Company, but in the main, local authorities seem to be focused on larger lot size property, or simply long dated income, which has limited this impact.

In conclusion, we believe there is strength and longevity in the occupational market and across regional markets, with good prospects for low vacancy rates and rental growth. We believe that fears of short-term volatility in the economy may be pushing investment into long-term income strategies, making this segment of the market very expensive. However we believe the impact on the property market of many of these fears may be misplaced. The demand for industrial investment property let with long-term, RPI-linked income is risking the stability of market pricing. We believe the abundance of cheap debt is pushing some market protagonists to understate the inherent risks of property ownership and over-price property. However, allowing for some caution around competitive pressures on pricing and careful stock selection, we believe we can still invest in properties that meet our core investment criteria and provide solid, long-term performance for the Company.

Activity

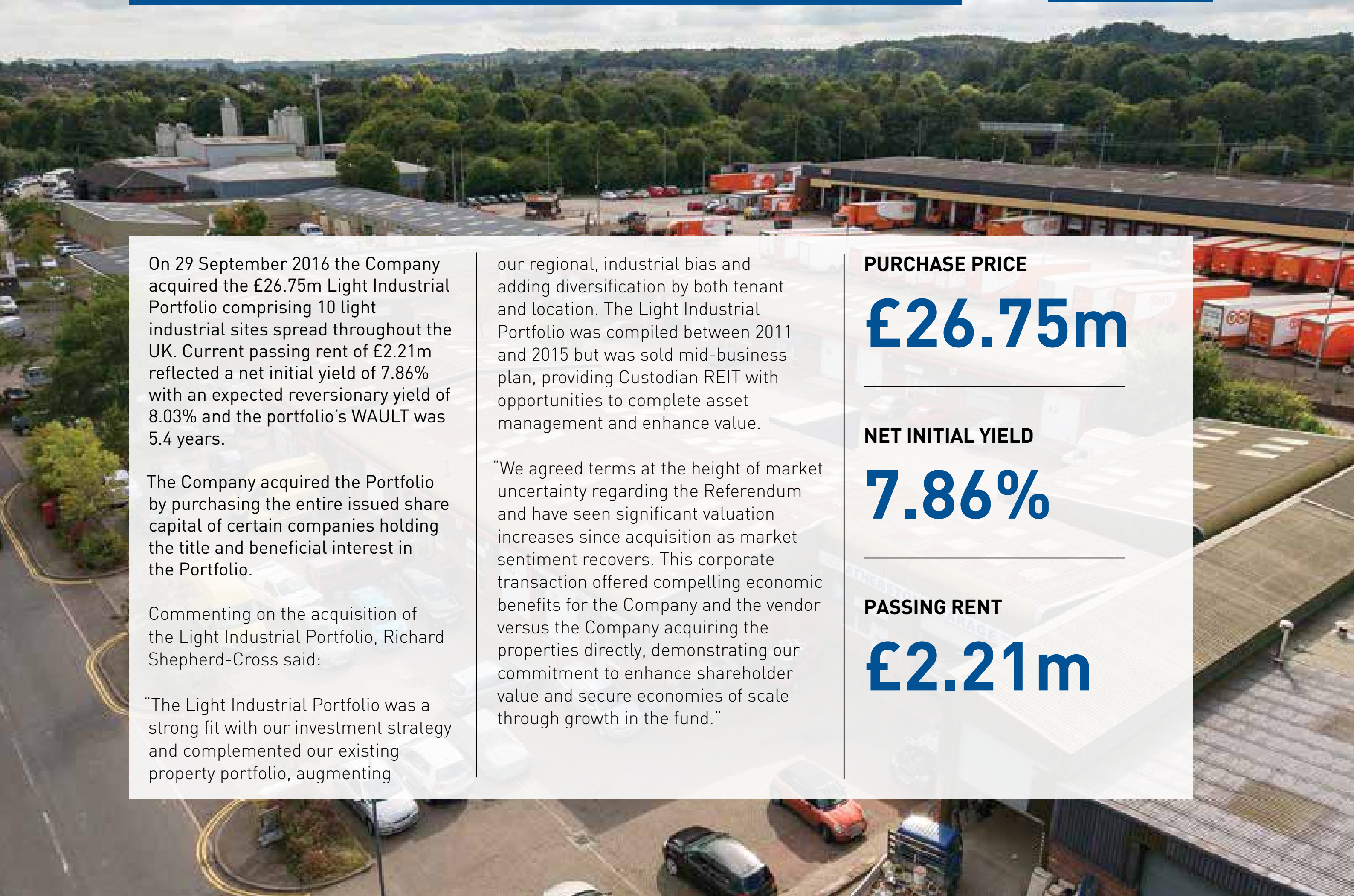
Notwithstanding some of the competitive headwinds described above we were delighted to complete £105m of acquisitions during the year. £60m of these acquisitions were made in the immediate aftermath of the Referendum where we were able to exploit the short-term weakness in market sentiment, having had the courage to raise new equity in the run-up to the Referendum. This courage was rooted in our belief that the strength of occupational markets would underpin investment sentiment once the Referendum was behind us.

NAV has increased and the portfolio profile has strengthened in terms of diversification of tenant, sector and lease break/expiry. In addition, the portfolio's rental growth potential has been enhanced as a result of these acquisitions.

25 Source: Financial Times 17 October 2016.

ACQUISITION OF LIGHT INDUSTRIAL PORTFOLIO

ATHERSTONE



On 29 September 2016 the Company acquired the £26.75m Light Industrial Portfolio comprising 10 light industrial sites spread throughout the UK. Current passing rent of £2.21m reflected a net initial yield of 7.86% with an expected reversionary yield of 8.03% and the portfolio's WAULT was 5.4 years.

The Company acquired the Portfolio by purchasing the entire issued share capital of certain companies holding the title and beneficial interest in the Portfolio.

Commenting on the acquisition of the Light Industrial Portfolio, Richard Shepherd-Cross said:

"The Light Industrial Portfolio was a strong fit with our investment strategy and complemented our existing property portfolio, augmenting our regional, industrial bias and adding diversification by both tenant and location. The Light Industrial Portfolio was compiled between 2011 and 2015 but was sold mid-business plan, providing Custodian REIT with opportunities to complete asset management and enhance value.

"We agreed terms at the height of market uncertainty regarding the Referendum and have seen significant valuation increases since acquisition as market sentiment recovers. This corporate transaction offered compelling economic benefits for the Company and the vendor versus the Company acquiring the properties directly, demonstrating our commitment to enhance shareholder value and secure economies of scale through growth in the fund."

PURCHASE PRICE

£26.75m

NET INITIAL YIELD

7.86%

PASSING RENT

£2.21m

Investment objective

The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully covered by earnings, with a conservative level of gearing. I am delighted we have continued to achieve this, with earnings providing 101% cover of the approved total dividend for the year of 6.35p per share, with a net gearing ratio of 14.5% at the year end. As a result of the fund's growth and consequential reduction in OCR (excluding direct property expenses) the Board has increased the target dividend for the next financial year to 6.45p per share.

We continue to pursue a pipeline of new investment opportunities with the aim of deploying the Company's undrawn debt facilities up to the conservative gearing target of 25% LTV. At the current cost of debt we believe this strategy can improve dividend cover as gearing increases towards the target level.

We remain committed to a strategy focused on sub £10m lot size regional property and expect to see long-term total return out-performance from a higher income component of total return compared to London and the South East, and continuing strong asset management performance as we secure rental increases and extend contractual income.

Portfolio balance

The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio, but with a relatively low exposure to office and a relatively high exposure to industrial and to alternative sectors often referred to as 'other' in property market analysis. The current sector weightings are:

Sector	**Valuation 31 March 2017 £m**	Valuation 31 March 2016 £m	Gross Valuation increase[26] £m	**Weighting by income 31 March 2017**	Weighting by income 31 March 2016
Industrial	**187.2**	123.2	6.7	**45%**	39%
Retail	**120.2**	92.0	0.6	**28%**	28%
Other[27]	**56.4**	59.8	0.8	**13%**	18%
Office	**52.0**	44.0	0.9	**14%**	15%
Total	**415.8**	**319.0**	**9.0**	**100%**	**100%**

26 Before the impact of £6.1m acquisition costs.
27 Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

Industrial property is a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings with high residual values (ie the vacant possession value is closer to the investment value than in other sectors) and where the real estate is less exposed to obsolescence. £4.7m of the £6.7m gross valuation increase in the industrial sector was driven by asset management initiatives, with occupational demand driving rental growth and generating positive returns.

Retail represents 28% of portfolio income, comprising 17% high street and 11% out-of-town retail (retail warehousing). Strong comparison retail pitches in dominant regional towns continue to show very low vacancy rates and offer stable long-term cash flow, with the opportunity for rental growth. Retail warehousing is witnessing close to record low vacancy rates as a restricted planning policy and lack of development combine with retailers' requirements to offer large format stores, free parking and 'click and collect' to consumers. This made retail a target sector for acquisitions throughout the year.


KETTERING


WARRINGTON


SHEFFIELD


WEST BROMWICH


WESTERHAM

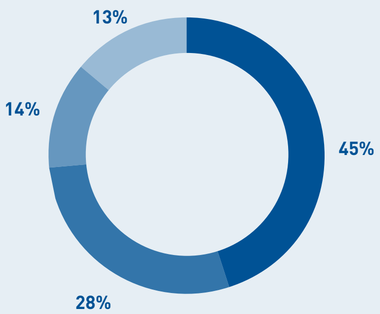

WARRINGTON


CHRISTCHURCH


GATESHEAD

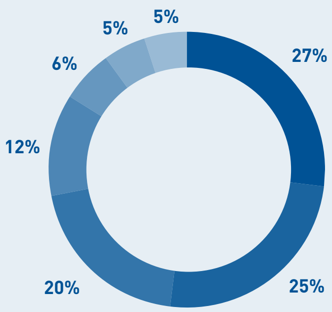

IRLAM

SECTOR SPLIT BY INCOME



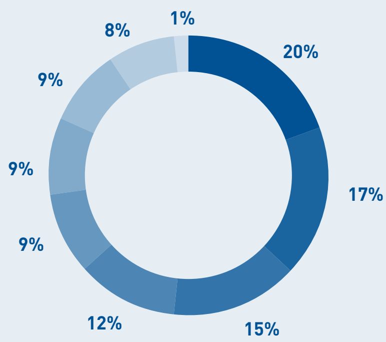
Industrial	45%	
Retail	28%	
Office	14%	
Other	13%	

OTHER SECTOR – SUB-SECTOR SPLIT



Restaurant	27%	
Leisure	25%	
Trade Counter	20%	
Motor Trade	12%	
Hotel	6%	
Nursery	5%	
Healthcare	5%	

REGIONAL SPLIT BY INCOME



West Midlands	20%	
South-East	17%	
North-West	15%	
East Midlands	12%	
South-West	9%	
North-East	9%	
Eastern	9%	
Scotland	8%	
Wales	1%	

While deemed to be outside the core sectors of office, retail and industrial the 'other' sector offers diversification of income without adding to portfolio risk, containing assets considered mainstream but which typically have not been owned by institutional investors. The 'other' sector has proved to be an out-performer over the long-term and continues to be a target for acquisitions.

Office rents in regional markets are growing strongly and supply is constrained by a lack of development and the extensive conversion of secondary offices to residential making returns very attractive. However, the Company's relatively low exposure to the office sector is a long-term strategic decision rather than a short-term comment on the state of the office market. We are conscious that obsolescence and lease incentives can be a real cost of office ownership which can hit cash flow and be at odds with the Company's relatively high target dividend.

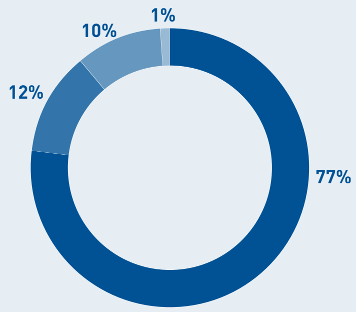
For details of all properties in the portfolio please see www.custodianreit.com/property/portfolio.

Asset management

During the year we focused on proactively managing the portfolio to enhance income and maintain the weighted average unexpired lease term to the earlier of first break or expiry ("WAULT") ahead of the Company's objective of a WAULT of over five years. At 31 March 2017 the portfolio's WAULT had fallen by 0.8 years to 5.9 years (2016: 6.7 years) with the completion of asset management initiatives partially offsetting the one year natural annual decline.

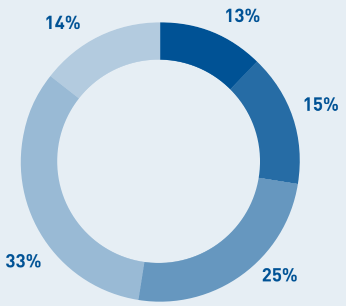
WAULT is a much quoted statistic and is often considered a proxy for risk. This perception has encouraged many investors in the market to pursue long-dated income causing significant price inflation where long leases are combined with fixed or index-linked rent reviews. Property investment value is a combination of the value of the land, the building and the lease. Land should appreciate over time. The building will depreciate but should have 30-50 years of economic use before it needs to be redeveloped. The lease is the fastest depreciating part of a property's investment value yet we believe leases are currently being over-valued by the market. This possible lease over-valuation has encouraged us to buy properties with shorter leases, where we expect to experience less depreciation in value over the long-term. Although buying shorter leases puts pressure on the WAULT of the portfolio, we believe that with the current strength of the occupational market and a portfolio of high quality properties, risk is better managed by pursuing a strategy of buying high quality properties that are likely to re-let, rather than highly priced properties with long leases, simply to mitigate an artificial measure of risk.

RENT REVIEW



Open Market	77%	
RPI	12%	
Fixed	10%	
CPI	1%	

INCOME EXPIRY



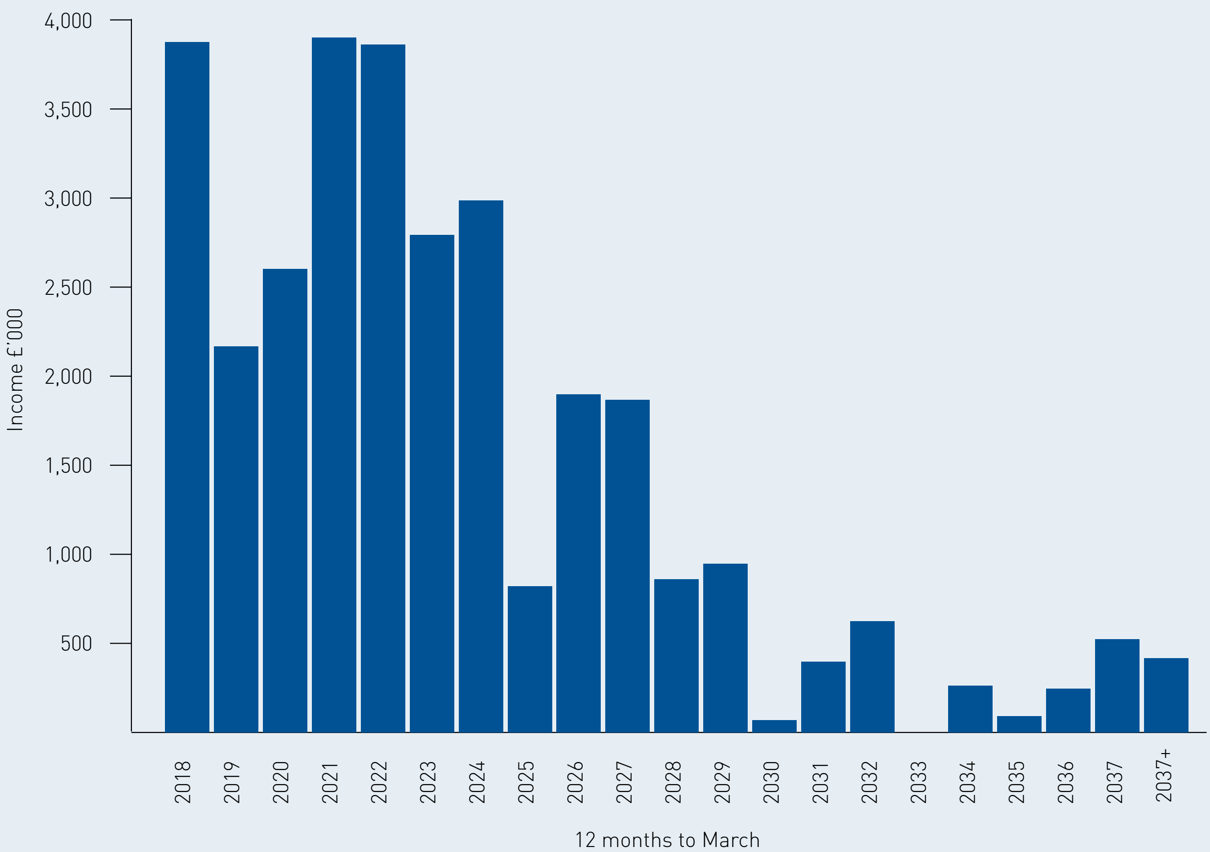
0–1 years	13%	
1–3 years	15%	
3–5 years	25%	
5–10 years	33%	
10+ years	14%	

Successful asset management strategies including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses have more than offset the impact on valuations of acquisition costs.
In aggregate asset management activities increased NAV by £8.9m delivering the largest component of NAV performance through the year. This element of NAV growth underlines the importance of pro-active, strategic asset management of the portfolio. As a fund manager who collects rent and has direct relationships with all the tenants in the portfolio, we have been able to deliver mutually beneficial outcomes for both the Company and its tenants.

→ See pages 16 and 17 detailing **key asset management initiatives** completed during the year.

In a competitive market with pressure to invest, it would have been easy to rule out selling to avoid cash-drag and the requirement for re-investment. However, when markets are making buying difficult it is often the best time to sell. We were sufficiently confident of our ability to deploy new monies into the market that we felt 2016/17 would be a good time to look at those properties not considered long-term prospects for the Company and where we could exploit special purchasers or market mis-pricing.

LEASE EXPIRY PROFILE




YORK


SHREWSBURY

Accordingly, we disposed of six properties for an aggregate consideration of £18.9m during the year to funds and private investors who paid very strongly for long-term secure income, owner occupiers and special purchasers, comprising:

- Purpose-built student residential building in Lenton, Nottingham sold for £1.2m in May 2016, £0.1m above valuation;
- 63 room Premier Inn hotel in Dudley sold for £4.45m in July 2016, £0.2m above valuation;
- Kia car dealership in Solihull sold for £1.875m in November 2016, £0.3m above valuation;
- Wetherspoons public house in Southsea sold for £1.67m in February 2017, £0.2m above valuation;
- Toyota car dealership in Peterborough sold for £2.75m in March 2017, £0.3m above valuation; and
- Bentley car dealership in Knutsford sold for £7.0m in March 2017, £0.7m above valuation.

The Bentley car dealership in Knutsford was acquired at IPO in March 2014 for £5.7m and was valued at £6.3m at 31 December 2016, with a WAULT of circa 12 years and benefitting from RPI-linked rent reviews. The site was considered marginally over-rented and its valuation significantly exceeded its £4.0m vacant possession value meaning, as the unexpired term reduced, we could have witnessed a sharp decline in valuation. In our view the market is overpaying for long, index linked income and the decision was taken to sell. A lack of available investment stock coupled with strong demand for long-term income with structured rent reviews resulted in the Company benefitting from an extremely competitive bidding process, with interest from across the investor spectrum, and the 31 December 2016 valuation net initial yield of 5.49% compared favourably to a net initial yield on sale price of 4.92%.

Each disposal was made above purchase price, generating a combined profit on disposal of £1.6m[28] with an average net initial yield[29] of 5.7%.

The Company intends to redeploy the sale proceeds on property with better short-term income growth and long-term capital growth potential.

28 Net of disposal costs of £0.2m.
29 Passing rent divided by valuation plus estimated purchasers' costs of 6.5%.

Income expiry	31 March 2017	31 March 2016
0-1 years	**13%**	9%
1-3 years	**15%**	20%
3-5 years	**25%**	19%
5-10 years	**33%**	29%
10+ years	**14%**	23%
Total	**100%**	100%

Portfolio risk

We have managed the portfolio's income expiry profile through successful asset management activities, such that the WAULT of 5.9 years is ahead of target with only 53% of income expiring within five years at 31 March 2017 (2016: 48%). Short-term income at risk is a relatively low proportion of the portfolio's income, with only 28% expiring in the next three years (2016: 29%).

The portfolio's exposure to risk is reduced by 23% of income benefitting from either fixed or indexed rent reviews and there is increasingly strong evidence of open market rental growth across all sectors.

Outlook and pipeline

Over the remainder of the next financial year we intend to continue our asset management activities and complete on the current strong acquisition pipeline of £38.6m, with the aim of deploying debt facilities to increase gearing towards the target level of 25%. We expect asset management initiatives to positively impact the WAULT of the portfolio, with tenants keen to agree lease extensions or to waive their options to break, enhancing the rent roll as increases are agreed at review or renewal.

The sub £10m lot size, regional market has not seen the same level of price inflation as the London and large lot size markets over the last two years, and consequently it is still possible to acquire properties with strong investment credentials that meet our return requirements. We are keen to capitalise on the strength of the occupational market and are seeing sufficient opportunities, consistent with our investment strategy, to maintain the level of deployment necessary to minimise cash drag and enhance gearing. We are actively considering £25m–£50m of opportunities that maintain a threshold level of quality in building, location and tenant and expect this pipeline to increase as uncertainty diminishes after the General Election on 8 June 2017.

I am confident the Company's existing strategy can deliver enhanced income cover to the target dividend in the years ahead and provide the stable long-term returns demanded by our shareholders.

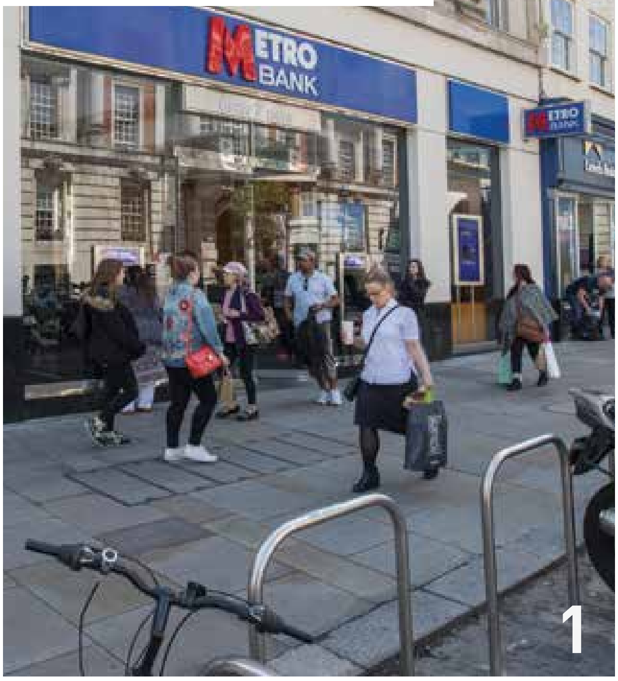
Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
5 June 2017

COLCHESTER, METRO BANK

RENTAL INCREASE
33%

LEASE EXTENSION
25 years (15 years to 1st break)

VALUATION INCREASE
£1.6m



WOLVERHAMPTON, ASSA ABLOY

RENTAL INCREASE
42%

LEASE EXTENSION
5 years

VALUATION INCREASE
£1.6m

NUNEATON, DX NETWORK

RENTAL INCREASE
10%

LEASE EXTENSION
5 years

VALUATION INCREASE
£1.0m

MILTON KEYNES, SAINT-GOBAIN

NEW LETTING
£0.27m rent per annum

LEASE
10 years

VALUATION INCREASE
£0.6m

Key asset management initiatives completed during the year included:

1. Arrangement of a simultaneous surrender and agreement of a new lease of a retail unit on High Street, Colchester to Metro Bank. The new lease secured an increase in annual rent from £0.15m to £0.20m, significantly ahead of ERV and increased the unexpired lease term from 0.25 years to 25 years, with a break option in year 15, increasing valuation by £1.6m;
2. Agreeing a surrender and re-grant of a lease to Assa Abloy at Cannock Road, Wolverhampton with expiry moving from July 2018 to July 2023 and annual rent increasing by 42% from £0.36m to £0.51m, increasing valuation by £1.6m;
3. Extending DX Network's lease at Harrington Way, Nuneaton with expiry moving from August 2016 to March 2022 and rent increasing by 10%, increasing valuation by £1.0m;
4. Following a comprehensive refurbishment, a vacant unit at Tilbrook 44 in Milton Keynes let to Saint-Gobain on a 10 year lease with annual rent of £0.27m, increasing valuation by £0.6m;
5. Extending Edwards Geldards' lease at Pride Park, Derby by removing a break option with the lease expiry now in June 2023, increasing valuation by £0.5m;
6. Letting a vacant unit in Gateshead to Jump Arena on a 15 year lease with annual rent of £0.16m, increasing valuation by £0.5m;
7. Extending R Scott Bathrooms' lease at Causewayside House, Edinburgh with expiry moving from November 2017 to November 2027, increasing valuation by £0.4m;
8. Agreeing a 10 year lease extension with Brenntag UK at an industrial unit in Cambuslang with expiry moving from April 2021 to April 2031 with a 2.5% (annually compounded) minimum rental uplift from 2026, increasing valuation by £0.4m;
9. Removing a January 2018 break clause in Pets at Home's lease in Winnersh increasing WAULT from 0.7 years to 10.7 years, increasing valuation by £0.4m;
10. Extending DHL Express' lease at Dyce Drive, Aberdeen with expiry moving from February 2017 to February 2022 and rent increasing by 7%, increasing valuation by £0.4m;
11. Removing a 2020 break clause in Pizza Hut's lease in Crewe increasing WAULT to 13 years and valuation by £0.3m;
12. Extending Tesco's lease at Causewayside House, Edinburgh with expiry moving from December 2019 to December 2029, increasing valuation by £0.3m;
13. Extension of two leases at the multi-let industrial estate in Chepstow with expiries now in May 2026, increasing valuation by £0.2m;
14. Entering into a reversionary lease with Savers' at a retail unit in Colchester, at a rent ahead of ERV with expiry moving from December 2017 to December 2022, increasing valuation by £0.2m;
15. Letting a vacant retail unit in Portsmouth to The Works on a 10 year lease with annual rent of £0.1m, increasing valuation by £0.2m;
16. Letting a trade counter unit at Counterpoint, Crewe to Edmunson Electrical ahead of ERV on a 10 year lease following the simultaneous surrender of the former tenant's lease, increasing WAULT from 0.3 years to 10 years, increasing valuation by £0.2m;
17. Following the refurbishment of the common parts at Causewayside House, Edinburgh, surrendering Metaswitch Networks' lease over 4,700 sq ft as at January 2017 and re-granting a new lease expiring in January 2027 over 9,500 sq ft, increasing valuation by £0.1m; and
18. Documenting a number of outstanding rent reviews across the portfolio, with increases secured in Dumfries (+8%), Portishead (+11%), Perth (+8%) and Sheffield (+4%).

DIVERSE AND RELIABLE TENANTS

Industrial

Portfolio income

44.7%

(2016: 39.2%)

Tenant	% portfolio income
Assa Abloy	1.6%
Kings Road Tyres	1.6%
JTF Wholesale	1.6%
Teleperformance	1.5%
H&M	1.4%
Restore	1.3%
Portola Packaging	1.1%
Revlon International	1.0%
Amco Services	1.0%
SAPA Profiles	1.0%
Turpin Distribution Services	1.0%
HellermannTyton	0.9%
YESSS Electrical	0.9%
Massmould	0.9%
DB Schenker	0.9%
OyezStraker	0.9%
DX Network Services	0.9%
Saint-Gobain Building Distribution	0.8%
Sherwin-Williams	0.8%
BSS	0.8%
Heywood Williams Components	0.8%
Royal Mail	0.8%
DHL Supply Chain	0.7%
Cummins	0.7%
Unilin Distribution	0.7%
Superdrug Stores	0.7%
Sytner	0.7%
DHL Express	0.7%
Elma Electronics	0.7%
Constantine	0.6%
Interserve Project Services	0.6%
Brenntag	0.6%
Vertiv Infrastructure	0.6%
Dinex Exhausts	0.6%
Semcon	0.6%
Ichor Systems	0.6%
EAF Supply Chain	0.5%
Jump Arena	0.5%
West Midlands Ambulance Service NHS Trust	0.5%

Tenant	% portfolio income
Synergy Health	0.5%
VP Packaging	0.4%
Triumph Structures	0.4%
Northern Commercials	0.4%
Powder Systems	0.4%
Aqualisa Products	0.4%
Travis Perkins	0.4%
MTS Logistics	0.4%
Bunzl	0.4%
Arkote	0.4%
DHL International	0.4%
Sealed Air	0.4%
North Warwickshire Borough Council	0.4%
PHS	0.3%
Synertec	0.3%
Royal Mail	0.3%
DHL Global Forwarding	0.3%
Acorn Web Offset	0.3%
Andrew Page	0.3%
Multi-tenanted Phoenix Park	0.2%
Sovereign Air	0.2%
Global Furniture Alliance	0.2%
Boots	0.2%
WH Partnership	0.2%
Reid Lifting	0.2%
Rexel	0.2%
Gamestec	0.2%
Rapid Vehicle Repairs	0.2%
J R Foster & L J Green	0.1%
Nital Training Academy	0.1%
Equinox Aromas	0.1%
River Island	0.1%
Castle Energy Services	0.1%
Ellani Cars	0.1%
The Solder Connection	0.1%
DPR Press	0.1%
The Gas Transportation Co.	0.1%
PDC Utility Services	0.1%
Qlite	0.1%

VACANT UNITS 0.6%

Retail

Portfolio income

27.9%

(2016: 27.6%)

Tenant	% portfolio income
Poundland	1.2%
URBN	0.7%
Metro Bank	0.6%
Specsavers	0.6%
Reiss	0.6%
Greggs	0.6%
The Works	0.6%
Waterstones	0.6%
Tesco	0.5%
Cotswold Outdoor	0.5%
Paperchase	0.5%
WHSmith	0.5%
The White Company	0.5%
Topman	0.4%
Superdrug	0.4%
Laura Ashley	0.4%
Game Retail	0.4%
Sportswift	0.4%
Phase Eight	0.4%
Holland & Barrett	0.3%
Kruidvat Real Estate	0.3%
Edinburgh Woollen Mill	0.3%
Wilko Retail	0.3%
Iceland Foods	0.3%
Signet Trading (t/a Ernest Jones)	0.3%
House of Fraser	0.3%
TCCT Retail (t/a Thomas Cook)	0.3%
H Samuel	0.3%
Portsmouth City Council	0.2%
EE	0.2%
Lush Retail	0.2%
WHSmith	0.2%
Kuoni Travel	0.2%
Ciel Concessions (t/a Chesca)	0.2%
Your Phone Care	0.2%
Whistles Holdings	0.2%
Lloyds TSB	0.2%
Savers Health & Beauty	0.2%

Tenant	% portfolio income
Feldale Retail (t/a Lakeland)	0.2%
Done Brothers (t/a Betfred)	0.1%
Aslan Jewellery	0.1%
Superdrug	0.1%
Framemakers Galleries	0.1%
Leeds Building Society	0.1%
Danish Wardrobe Company	0.1%
Coral	0.1%
Whittard Trading	0.1%
P.Morgans Bakery	0.1%
R Scott Bathrooms	0.1%
M.H. Roberts	0.1%
Dawson & Sanderson	0.1%
Other smaller tenancies	0.2%

Retail Warehouse	% portfolio income
Homebase	1.7%
B&Q	1.5%
Wickes Building Supplies	1.5%
Staples	1.4%
Go Outdoors	1.1%
Sainsburys	0.7%
B&M Retail	0.6%
T J Morris (t/a Home Bargains)	0.5%
Laura Ashley	0.4%
Pets at Home	0.4%
Poundstretcher	0.3%
Carpetright	0.3%
Tesco Stores	0.2%
Majestic Wine Warehouse	0.1%
Bathstore.com	0.1%
KFC	0.1%
Halfords	0.1%
Pizza Hut	0.1%

VACANT UNITS 0.1%

Office

Portfolio income

14.1%

(2016: 14.8%)

Tenant	% portfolio income
First Title (t/a Enact)	2.0%
Regus	1.8%
Mattioli Woods	1.1%
National Grid	1.0%
Wienerberger	1.0%
Edwards Geldards	0.8%
Lyons Davidson	0.6%
Metaswitch Networks	0.6%
Digby Brown	0.5%
Regus	0.5%
RBS	0.5%
Age Scotland	0.4%
Cognizant Technology Solutions	0.3%
Systra	0.3%
Erskine Murray	0.2%
Dakeyne Emms	0.2%
Kerr Barrie	0.2%

Tenant	% portfolio income
TP Cutherbertson & MG Stocks	0.2%
Copeland Wedge Associates	0.1%
Workers Educational Association	0.1%
Stoford Properties	0.1%
Reward Gateway	0.1%
Quantem Consulting	0.1%
Naismiths	0.1%
KWB Property Management	0.1%
Safe Deposits	0.1%
Virtus Development & Consulting	0.1%
Bell Cornwall Associates	0.1%
Other smaller tenancies	0.2%

VACANT UNITS 0.7%

Other

Portfolio income

13.3%

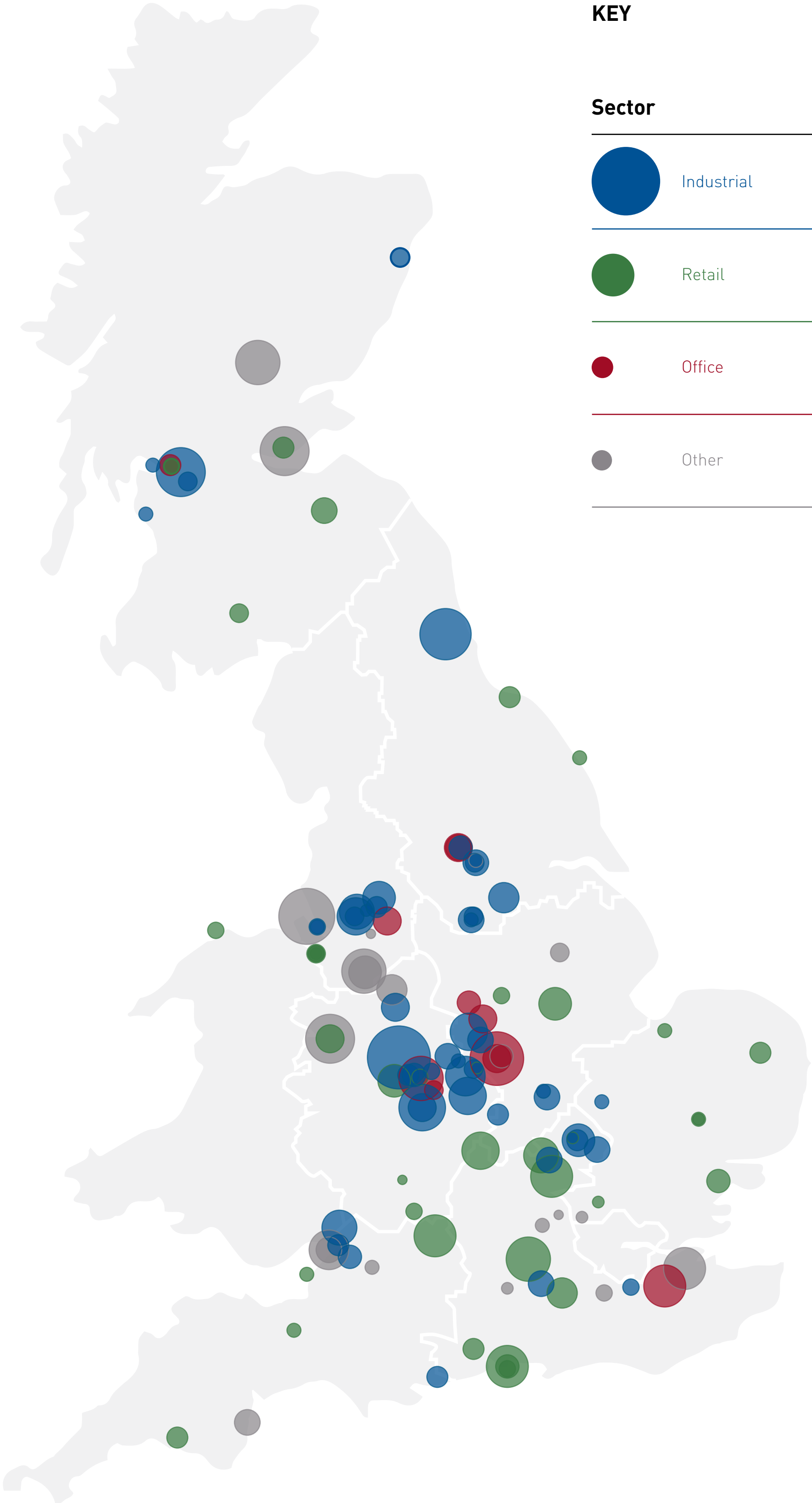
(2016: 18.4%)

Tenant	% portfolio income
Nuffield Health	1.1%
MKM Buildings Supplies	0.9%
Tai Pan Buffet Restaurants	0.9%
Co-Op	0.9%
Magnet	0.8%
Bannatyne Fitness	0.7%
Pizza Hut	0.7%
Travelodge	0.7%
MFA Bowl	0.6%
Liverpool Community Health NHS Trust	0.6%
Mecca Bingo	0.5%
Honda Motor Europe	0.5%
Prezzo	0.4%
Bright Horizons	0.4%
Stonegate Pub Co	0.4%
Mecca Bingo (sublet to Odeon)	0.4%
Las Iguanas	0.4%

Tenant	% portfolio income
The Restaurant Group (t/a Frankie & Bennies)	0.3%
Azzuri Restaurants (t/a ASK)	0.3%
Le Bistrot Pierre	0.3%
Scotco Eastern (t/a KFC)	0.2%
JD Wetherspoons	0.2%
Multi Tile (t/a Tile Giant)	0.2%
Loungers	0.2%
F1 Autocentres	0.2%
Knutsford Day Nursery	0.2%
Sam's Club (t/a House of the Rising Sun)	0.1%
Edmundson Electrical	0.1%
Jurassic Coast Coffee (t/a Costa Coffee)	0.1%

VACANT UNITS 0.0%

OUR PORTFOLIO



KEY

Sector		% Portfolio income
	Industrial	44.7%
	Retail	27.9%
	Office	14.1%
	Other	13.3%

Portfolio facts

VALUE

£415.8m

2016: £319.0m

SEPARATE TENANCIES

265

2016: 228

OCCUPANCY RATE

98.6%

2016: 96.8%

ASSETS

131

2016: 113

WAULT

5.9 years

2016: 6.7 years

NET INITIAL YIELD[30]

6.9%

2016: 6.9%

30 Portfolio passing rent divided by portfolio valuation plus estimated purchasers' costs of 6.5%.

INDUSTRIAL

→ Read more on this portfolio sector on page 22

RETAIL

→ Read more on this portfolio sector on page 34

OFFICE

→ Read more on this portfolio sector on page 44

OTHER

→ Read more on this portfolio sector on page 48

OUR PORTFOLIO BY SECTOR

BSS, BRISTOL

INDUSTRIAL AT A GLANCE

PORTFOLIO WEIGHTING BY INCOME

45%

2016: 39%

NUMBER OF PROPERTIES

60

2016: 44

SECTOR SPLITS

28% WAREHOUSE

13% DISTRIBUTION

4% MANUFACTURING

"Industrial property is a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings with high residual values and where the real estate is less exposed to obsolescence"

OUR PORTFOLIO BY SECTOR

CONTINUED

Industrial

1. **WOLVERHAMPTON**
   Assa Abloy
2. **BURTON**
   Kings Road Tyres
3. **GATESHEAD**
   Multi-let
4. **CHESFORD**
   JTF Wholesale
5. **ASHBY**
   Teleperformance
6. **WINSFORD**
   H&M
7. **SALFORD**
   Restore
8. **DONCASTER**
   Portola Packaging
9. **CHEPSTOW**
   Multi-let
10. **STONE**
   Revlon International
11. **REDDITCH**
   Amco Services
12. **REDDITCH**
   SAPA Profiles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OUR PORTFOLIO BY SECTOR
CONTINUED

Industrial

13. BIGGLESWADE
Turpin Distribution Services

14. KETTERING
Multi-let

15. CANNOCK
HellermannTyton

16. NORMANTON
YESSS Electrical

17. MILTON KEYNES
Massmould

18. TAMWORTH
DB Schenker

19. WEST BROMWICH
OyezStraker

20. NUNEATON
DX Network Services

21. MILTON KEYNES
Saint-Gobain Building Distribution

22. WARRINGTON
EAF Supply Chain
Synertec

23. PLYMOUTH
Sherwin-Williams

24. BRISTOL
BSS


VP
14


15


17


18


DX
20


ideal
21


23


24

OUR PORTFOLIO BY SECTOR

CONTINUED

Industrial

25. BEDFORD
Heywood Williams Components

26. COVENTRY
Royal Mail

27. WARRINGTON
DHL Supply Chain

28. STEVENAGE
Morrison Utility

29. DAVENTRY
Cummins

30. MANCHESTER
Unilin Distribution

31. AVONMOUTH
Superdrug Stores

32. OLDBURY
Sytner

33. ABERDEEN
DHL Express

34. BEDFORD
Elma Electronics

35. SOUTHWARK
Constantine

36. CHRISTCHURCH
Interserve Project Services


26


27


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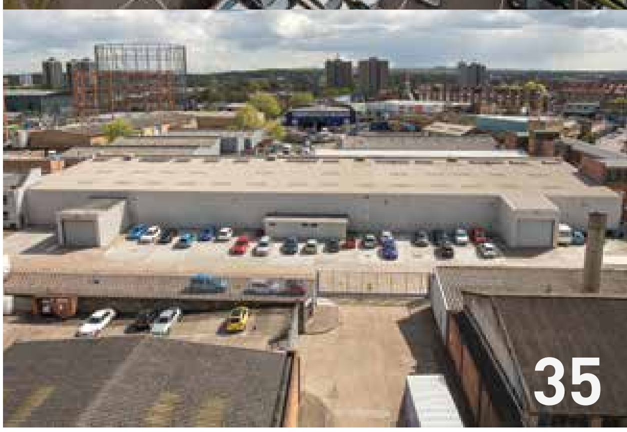
33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OUR PORTFOLIO BY SECTOR

CONTINUED

Industrial

37. CAMBUSLANG
Brenntag

38. BEDFORD
Vertiv Infrastructure

39. LEEDS
Sovereign Air
Nationwide Crash Repairs

40. WARRINGTON
Dinex Exhausts

41. WARWICK
Semcon

42. HAMILTON
Ichor Systems

43. ERDINGTON
West Midlands Ambulance Service
NHS Trust

44. SHEFFIELD PARKWAY
Synergy Health

45. FARNBOROUGH
Triumph Structures

46. IRLAM
Northern Commercials

47. LIVERPOOL, SPEKE
Powder Systems

48. WESTERHAM
Aqualisa Products


38


39


41


42


44


Triumph
45


47


48

OUR PORTFOLIO BY SECTOR
CONTINUED

Industrial

49. COALVILLE
MTS Logistics

50. CASTLEFORD
Bunzl

51. SHEFFIELD
Arkote

52. LIVERPOOL, SPEKE
DHL International

53. KETTERING
Sealed Air

54. ATHERSTONE
North Warwickshire Borough Council

55. SHEFFIELD
Andrew Page
River Island

56. HUNTINGDON
PHS

57. KILMARNOCK
Royal Mail

58. GLASGOW
DHL Global Forwarding

59. NORMANTON
Acorn Web Offset

60. HINCKLEY
Multi-let


50


51


53


54


56


NO ENTRY
VISITORS PARKING
57


59


60

RETAIL AT A GLANCE

PORTFOLIO WEIGHTING BY INCOME

28%

2016: 28%

NUMBER OF PROPERTIES

42

2016: 36

SECTOR SPLITS

17% HIGH STREET

11% OUT-OF-TOWN RETAIL

URBAN OUTFITTERS, SOUTHAMPTON

"Strong comparison retail pitches in dominant regional towns continue to show very low vacancy rates and offer stable long-term cash flow, with the opportunity for rental growth"

OUR PORTFOLIO BY SECTOR
CONTINUED

Retail

1. **SHREWSBURY**
   Whittard Trading
   Paperchase
   Greggs
   Holland & Barrett
   TCCT Retail (t/a Thomas Cook)
   William Hill
   Edinburgh Woollen Mill

2. **PORTSMOUTH**
   Poundland
   Your Phone Care
   Sportswift
   Game Retail

3. **COLCHESTER**
   Metro Bank
   Laura Ashley
   H Samuel
   Lush Retail
   Leeds Building Society

4. **GUILDFORD**
   Reiss
   House of Fraser

5. **COLCHESTER**
   Poundland
   Kruidvat Real Estate

6. **SOUTHAMPTON**
   URBN

7. **NORWICH**
   Specsavers

8. **SHREWSBURY**
   Cotswold Outdoor

9. **LLANDUDNO**
   WHSmith

10. **NOTTINGHAM**
    The White Company

11. **CHESTER**
    Signet Trading (t/a Ernest Jones)
    Feldale Retail (t/a Lakeland)

12. **BIRMINGHAM**
    Tesco
    Coral
    Subway
    Greggs


Poundland
GAME
2


3


savers
Poundland
5


URBAN OUTFITTERS
6


COTSWOLD
outdoor | action | travel
8


9


11


TESCO
GREGGS
12

OUR PORTFOLIO BY SECTOR
CONTINUED

Retail

13. CHESTER
Ciel Concessions (t/a Chesca)
Lloyds TSB

14. KING'S LYNN
Topman

15. WESTON-SUPER-MARE
Superdrug

16. GLASGOW
Greggs

17. SOUTHSEA
Superdrug
Portsmouth City Council

18. CHESTER
Kuoni Travel
Aslan Jewellery

19. EDINBURGH
Phase Eight

20. PORTSMOUTH
The Works

21. REDCAR
Multi-let

22. SCARBOROUGH
Waterstones

23. TAUNTON
Wilko Retail

24. DUMFRIES
Iceland Foods


TOPSHOP TOPMAN
14


Superdrug
15


Southsea library
Superdrug
17


KUONI
18


TheWorks.co.uk
20


21


wilko
23


Iceland
Iceland
24

OUR PORTFOLIO BY SECTOR
CONTINUED

Retail

25. EDINBURGH
Tesco
R Scott Bathrooms

26. BURY ST EDMUNDS
The Works

27. BEDFORD
Waterstones

28. ST ALBANS
EE

29. HINCKLEY
WHSmith

30. CIRENCESTER
Framemakers Galleries
Danish Wardrobe Company

31. CHESTER
Whistles Holdings

32. BURY ST EDMUNDS
Savers Health & Beauty

33. CHELTENHAM
Done Brothers (t/a Betfred)


The Works
BIG ART EVENT!
26


Waterstone's
27


WHSmith
29


FRAMEMAKERS
SPRING SALE
30


savers
32


BETFRED
BETFRED
32

OUR PORTFOLIO BY SECTOR
CONTINUED

Retail Warehouse

1. **WINNERSH**
   Wickes Building Supplies
   Pets at Home
2. **SWINDON**
   Go Outdoors
   B&M Retail
3. **LEIGHTON BUZZARD**
   Homebase
4. **BANBURY**
   B&Q
5. **MILTON KEYNES**
   Staples
6. **GRANTHAM**
   Laura Ashley
   Poundstretcher
   Carpetright
7. **TORPOINT**
   Sainsburys
8. **STOURBRIDGE**
   Tesco Stores
   Bathstore.com
   KFC
   Halfords
   Pizza Hut
9. **PORTISHEAD**
   T J Morris (t/a Home Bargains)
   Majestic Wine Warehouse


2


3


STAPLES
5


6


KFC
8


9

OFFICE AT A GLANCE

PORTFOLIO WEIGHTING BY INCOME

14%

2016: 15%

NUMBER OF PROPERTIES

12

2016: 10

"Office rents in regional markets are growing strongly and supply is constrained by a lack of development. The Company's relatively low exposure to the office sector is a long-term strategic decision as we are conscious that obsolescence and lease incentives can hit cash flow and be at odds with the Company's relatively high target dividend"

FIRST TITLE (T/A ENACT), LEEDS

OUR PORTFOLIO BY SECTOR
CONTINUED

Office

1. **EDINBURGH**
   Age Scotland
   Metaswitch Networks
   Digby Brown
2. **WEST MALLING**
   Regus
3. **BIRMINGHAM**
   Multi-let
4. **LEICESTER**
   Mattioli Woods
   Regus
   RBS
5. **LEEDS**
   First Title (t/a Enact)
6. **CASTLE DONNINGTON**
   National Grid
7. **CHEADLE**
   Wienerberger
8. **LEEDS**
   First Title (t/a Enact)
9. **DERBY**
   Edwards Geldards
10. **LEICESTER**
    Mattioli Woods
    Erskine Murray
11. **GLASGOW**
    Safe Deposits
    Systra
    Cognizant Technology Solutions
    Kerr Barrie
12. **SOLIHULL**
    Lyons Davidson


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11


12

CREWE

OTHER AT A GLANCE

PORTFOLIO WEIGHTING BY INCOME

13%

2016: 18%

NUMBER OF PROPERTIES

21

2016: 23

SECTOR SPLITS

4%	RESTAURANT
3%	LEISURE
3%	TRADE COUNTER
2%	MOTOR TRADE
1%	VARIOUS

"The 'other' sector offers diversification of income without adding to portfolio risk, and has proved to be an out-performer over the long-term"

OUR PORTFOLIO BY SECTOR
CONTINUED

Other

1. **CREWE**
   MFA Bowl
   Mecca Bingo
   Mecca Bingo (sublet to Odeon)
   Pizza Hut

2. **LIVERPOOL**
   Tai Pan Buffet Restaurants
   Liverpool Community Health NHS Trust
   Clydesdale Bank (ATM)

3. **PERTH**
   Scotco Eastern (t/a KFC)
   The Restaurant Group
   (t/a Frankie & Bennies)
   Bannatyne Fitness

4. **STOKE**
   Nuffield Health

5. **TORQUAY**
   Le Bistrot Pierre
   Jurassic Coast Coffee
   (t/a Costa Coffee)
   Loungers
   Las Iguanas

6. **GILLINGHAM**
   Co-Op

7. **LEICESTER**
   Magnet

8. **PORTISHEAD**
   Travelodge

9. **LINCOLN**
   MKM Building Supplies

10. **CREWE**
    Edmundson Electrical
    Multi Tile (t/a Tile Giant)
    F1 Autocentres

11. **REDHILL**
    Honda Motor Europe

12. **SHREWSBURY**
    Azzuri Restaurants (t/a ASK)
    Sam's Club (t/a House of the
    Rising Sun)


2


3


COSTA
5


6


8


9


11


12

OUR PORTFOLIO BY SECTOR
CONTINUED

Other

13. BATH
Prezzo

14. HIGH WYCOMBE
Stonegate Pub Co.

15. CASTLEFORD
MKM Building Supplies

16. WATFORD
Pizza Hut

17. LEICESTER
Pizza Hut

18. PORTISHEAD
JD Wetherspoons

19. BASINGSTOKE
Bright Horizons

20. CHESHAM
Bright Horizons

21. KNUTSFORD
Knutsford Day Nursery


YATES
14


15


Pizza Hut
17


18


20


21

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results.

The Directors have assessed the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity. The table below outlines the risk factors identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

The outcome of the general election on 8 June 2017 is uncertain and the Board considers it is too early to understand the full impact of 'Brexit', but these political risks are not considered likely to have a material impact on the Company's performance.

RISK TYPE	RISKS	MITIGATING FACTORS
Investment portfolio	– Tenant default. – Change in demand for space. – Market pricing affecting value. – Properties concentrated in a specific geographical location or sector. – Lease expiries concentrated in a specific year. – Decrease in occupancy.	– Investment policy limits the Company's rent roll to no more than 10% from a single tenant, and no more than 50% in any specific sector or geographical region. – Focused on established business locations for investment. – Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail and other. – Active management of lease expiry profile and impact on WAULT considered in forming acquisition decisions. – Building specifications not tailored to one user.
Financial	– Reduced availability or increased cost of debt. – Breach of borrowing covenants.	– Target gearing of 25% LTV on property portfolio. – Existing facilities sufficient for spending commitments and agreed until 2020. – Ongoing monitoring and management of the forecast liquidity and covenant position.
Operational	– Inadequate performance, controls or systems operated by the Investment Manager.	– Ongoing review of performance by independent Board of Directors.
Regulatory	– Adverse impact of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. – Non-compliance with the REIT regime[31].	– Strong compliance culture. – External professional advisers are engaged to review and advise upon control environment and ensure regulatory compliance. – Business model and culture embraces FCA principles. – REIT regime compliance is considered by the Board in assessing the Company's financial position and by the Investment Manager in making operational decisions.
Operational	– Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure).	– Comprehensive due diligence is undertaken in conjunction with professional advisors and the provision of insured warranties and indemnities are sought from vendors where appropriate.

31 As defined by the Corporation Tax Act 2010.

Longer-term viability statement

In accordance with provision C2.2 of the UK Corporate Governance Code issued by the Financial Reporting Council ("the Code"), the Directors have assessed the prospects of the Company over a period longer than the 12 months required by the 'Going Concern' provision. The Board resolved to conduct this review for a period of three years, because:

- The Company's strategic review covers a three-year period; and
- The Board believes a three-year horizon maintains a reasonable level of accuracy regarding projected rental income and costs, allowing robust sensitivity analysis to be conducted.

The Board's three-year strategic review considered the Company's profit, cash flows, dividend cover, REIT regime compliance, borrowing covenant compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis, which involves flexing a number of key assumptions underlying the projections, including:

- Tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

This analysis also evaluates the potential impact of the principal risks and uncertainties set out above should they actually occur.

Current debt and associated covenants are summarised in Note 15, with no covenant breaches during the year. The Company's dividend policy is set out in Business Model and Strategy. The principal risks and uncertainties faced by the Company, together with the steps taken to mitigate them, are highlighted above and in the Audit Committee report. The Board seeks to ensure that risks are kept to a minimum at all times.

Based on the results of this analysis, the Directors expect that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

LANCASTER HOUSE, BIRMINGHAM

→ See page 22 for **Our portfolio by sector**

BUSINESS MODEL AND STRATEGY

INVESTMENT OBJECTIVE AND POLICY

The Company seeks to provide shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK. The Company targets individual properties with a value of less than £10m at acquisition, seeking to benefit from a significant NIY advantage as a result.

The Board keeps the Company's investment objectives under review to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders. During the year the Investment Manager has acquired properties with shorter leases, believing that long leases are currently over-valued by the market and that this approach more effectively manages risk by taking advantage of the current strength of the occupational market. This puts pressure on the WAULT of the portfolio which the Board continues to monitor carefully.

The Company's investment objectives:

1. The portfolio should not exceed a maximum weighting to any one property sector or to any one geographic region of greater than 50%;

2. To hold a portfolio of UK commercial property, diversified by sector, location, tenant and lease term;

3. To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations, the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers;

4. To have no one tenant or property accounting for more than 10% of the total rent roll of the portfolio at the time of purchase, except:

   a) In the case of a single tenant which is a governmental body or department, where no limit shall apply; or

   b) In the case of a single tenant rated by Dun & Bradstreet ("D&B") as having a credit risk score higher than two, where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").

5. To maintain an average unexpired lease term to first break of over five years across the portfolio secured against low risk tenants and to minimise rental voids;

6. Not to undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may (provided that it shall not exceed 20% of the gross assets of the Company) invest in forward funding agreements or forward commitments (these being arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments, where the Company intends to own the completed development; and

7. To target borrowings of 25% of the aggregate market value of all the properties of the Company at the time of borrowing.

TRAVELODGE, PORTISHEAD

→ See page 22 for **Our portfolio by sector**

KEY PERFORMANCE INDICATORS

The Board meets quarterly and at each meeting reviews performance against a number of key measures:

- NAV total return – reflects both the NAV growth of the Company and dividends paid to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds;
- EPRA EPS – reflects the Company's ability to generate earnings from the portfolio which underpin dividends;
- Net gearing – measures the prudence of the Company's financing strategy, balancing the additional returns available from employing debt with the need to effectively manage risk;
- Dividends per share, dividend yield and dividend cover – a key objective is to provide an attractive, sustainable level of income to shareholders, fully covered from net rental income. The Board reviews target dividends in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- Occupancy – the Board reviews the level of property voids within the Company's portfolio on a quarterly basis and compares this to the market average, as measured by the IPD. The Board seeks to ensure that the Investment Manager is giving proper consideration to replacing the Company's income;
- OCR – measures the annual running costs of the Company and indicates the Board's ability to operate the Company efficiently, keeping costs low to maximise earnings from which to pay fully covered dividends; and
- Premium or discount of the share price to NAV – the Board closely monitors the premium or discount of the share price to the NAV and believes a key driver of this is the Company's long-term investment performance. However, there can be short-term volatility in the premium or discount and the Board therefore seeks limited authority at each AGM to issue or buy back shares with a view to trying to limit this volatility.

The Board considers the key performance measures over various time periods and against similar funds. A record of these measures is disclosed in the Financial highlights and performance summary, the Chairman's statement and the Investment Manager's report.

BUSINESS MODEL AND STRATEGY
CONTINUED

Financing
The Company operates with a conservative level of gearing, with target borrowings over the medium term of 25% of the aggregate market value of all properties at the time of drawdown.

Debt
The Company has the following facilities available:

- A £35m RCF with Lloyds Bank plc attracting annual interest of 2.45% above three-month LIBOR on advances drawn down under the agreement from time to time;
- A £20m term loan facility with SWIP repayable in August 2025, attracting fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, attracting fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva comprising:
  a) A £35m tranche repayable on 5 April 2032, attracting fixed annual interest of 3.02%; and
  b) A £15m tranche repayable 15 years from drawdown attracting fixed annual interest of 1.6% over the prevailing 2032 swap rate on the date of drawdown.

The Company's borrowing facilities all require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

On 6 June 2016 a £20m term loan with Lloyds Bank repayable in 2019, attracting annual interest of 1.95% above three-month LIBOR was repaid in full, incurring one-off costs of £0.165m related to the accelerated recognition of the associated deferred arrangement fees.

Equity
During the year the Company raised £92.4m (before costs and expenses) through the placing of 87,771,274 new ordinary shares. Following the year end, the Company issued a further 6.0m of new ordinary shares raising £6.7m (before costs and expenses).

Dividends
The Company paid dividends totalling 6.425p per share during the year, comprising the fourth interim dividend of 1.6625p per share relating to the financial year ended 31 March 2016 and three interim dividends of 1.5875p per share relating to the year ended 31 March 2017.

The Board has approved an interim dividend of 1.5875p per share for the quarter ended 31 March 2017 which will be paid on 30 June 2017, meeting its target of paying an annual dividend per share for the year of 6.35p (2016: 6.25p, 2015: 5.25p).

In the absence of unforeseen circumstances, the Board intends to pay quarterly dividends to achieve a target dividend of 6.45p per share for the year ending 31 March 2018. The Board's objective is to grow the dividend on a sustainable basis, at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

Employees
The Company has four non-executive directors and no employees. Non-executive directors are paid fixed salaries and participate in the performance of the Company through their shareholdings. The Board is conscious of the increased focus on diversity in the boardroom and acknowledges the importance of diversity, while noting that changes to the composition of the Board should not be forced. All non-executive directors are white males. The Board believes that for any future appointment the best person for the role should be selected, while recognising the benefits of diversity when considering a particular appointment.

Corporate social responsibility
The Company is committed to delivering its strategic objectives in an ethical and responsible manner. The Company's environmental and social policies address the importance of these issues in the day-to-day running of the business, as detailed below.

Environmental policy
The four key elements of the Company's environmental policy are:

- An independent environmental report is required for all potential acquisitions, which considers, amongst other matters, the historical and current usage of the site and the extent of any contamination present;
- An ongoing examination of existing and new tenants' business activities is carried out to assess the risk of pollution occurring. The Company monitors all incoming tenants through its insurance programme to identify potential risks, and activities deemed to be high-risk are avoided. As part of the active management of the portfolio, any change in tenant business practices considered to be an environmental hazard is reported and suitably dealt with;
- Sites are visited periodically and any obvious environmental issues are reported to the Board; and
- All leases prepared after the adoption of the policy commit occupiers to observe any environmental regulations. Any problems are referred to the Board.

Development activity
During the year the Company carried out one industrial development at a site in Stevenage. The developer is sensitive to both ecological and sustainability considerations and has complied with environmental standards. The development at Stevenage has been designed to achieve an EPC grade "A". Developments built to this environmental specification ensure the creation of an improved, stable environment and reduce heating and energy costs.

Social policy
The activities of the Company are carried out in a responsible manner, taking into account the social impact.

Approval of Strategic report
The Strategic report, (incorporating the Chairman's statement, Investment Manager's report, Portfolio, Principal risks and uncertainties and Business model and strategy) was approved by the Board of Directors and signed on its behalf by:

David Hunter
Independent Chairman
5 June 2017

DHL INTERNATIONAL, SPEKE

→ See page 22 for **Our portfolio by sector**

BOARD OF DIRECTORS

The Board comprises four non-executive directors. A short biography of each director is set out below:

COMMITTEE KEY

A Audit Committee

M Management Engagement Committee

Chairman of Committee

Member of Committee

David Hunter

A M

Role:
Independent Chairman

Age: 63

David is a professional strategic adviser focused principally on UK and international real estate. He is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University.

Ian Mattioli MBE

Role:
Director

Age: 54

Ian has over 30 years' experience in the financial services industry and, together with Bob Woods founded Mattioli Woods which now has over £7.5bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of the investment proposition, including the structured products initiative. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire, and was appointed as Non-Executive Chairman of K3 Capital Group plc ("K3") on 11 April 2017 following its AIM listing. K3 specialises in business transfer, business brokerage and corporate finance across the UK in the small cap marketplace.

Matthew Thorne MA, FCA

A M

Role:
Independent Director

Age: 64

Matthew chairs the Company's Audit Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He is an independent non-executive director of Bankers Investment Trust plc, chairing the Audit Committee, and since May 2007 has been an advisor to Consensus Business Group (led by Vincent Tchenguiz). Matthew is also a finance member of the advisory board and Audit Committee chair of Greenwich Hospital. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991 to 1992 and Investment Director of Beazer plc from 1983 to 1991.

KEY INVESTMENT MANAGER PERSONNEL

A short biography of the Investment Manager's key personnel is set out below:

Barry Gilbertson PPRICS

A M

Role:
Senior Independent Director

Age: 65

Barry is the designated Senior Independent Director and chairs the Management Engagement Committee. He is an international consultant with a focus on real estate, strategy and risk, with more than 40 years' experience advising on property – especially where real estate is material to the corporate entity.

He was an adviser to the Bank of England from 2003 to 2014 and the 123rd President of the Royal Institution of Chartered Surveyors in 2004/5. In 1996, Barry became the first chartered surveyor to become a full equity partner in any firm of chartered accountants worldwide when he joined the Coopers & Lybrand (now PricewaterhouseCoopers) partnership, where he remained a partner until 2011. Barry has been a non-executive consultant to Knight Frank LLP, and has held advisory appointments with the United Nations and the UK Government.

Barry's other public company non-executive directorships have previously included Chairman of conwert Immobilien Invest SE, quoted on the Vienna Stock Exchange in Austria; and RONA, in Montreal, Canada, quoted on the TSX and, 2011 to date, Granite REIT, quoted on the NYSE and TSX, where he currently serves on the Audit Committee and chairs the Corporate Governance and Nominations Committee having previously chaired the following three Committees, Real Estate Investment, Strategy and Compensation.

Barry has served on the Council of The University of Bath since 2014, serving on the Finance Committee, holds Visiting Professor appointments at two UK universities, and been awarded Honorary Membership of four international professional bodies.

Richard Shepherd-Cross BSc MRICS

Role:
Managing Director

Age: 46

Richard has more than 20 years' experience in the commercial property market. As Managing Director of the Investment Manager he operates the business and manages a core team of 14. Richard is a former director at Jones Lang LaSalle in London where he led the portfolio investment team. Richard has had responsibility for developing the services of Mattioli Woods' property business and for establishing Custodian Capital in 2011.

Nathan Imlach CA FCSI CF

Role:
Finance Director

Age: 47

Nathan qualified as a chartered accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad. He joined Mattioli Woods as its Finance Director in 2005, prior to its admission to AIM. Nathan has also been the Finance Director of Custodian Capital since its formation in 2011 and oversees the reporting and accounting framework of the company. He is a Fellow of the Chartered Institute for Securities & Investment and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales. Nathan is the Senior Independent Non-executive Director of Mortgage Advice Bureau (Holdings) plc, chairing the Audit Committee, and is a director and trustee of Leicester Grammar School Trust.

Ian Mattioli MBE (Founder and Chairman)

Ian's biography is set out on the opposite page.

GOVERNANCE REPORT

The Company is committed to the principles of corporate governance contained in the Code, for which the Board is accountable to shareholders. The Code is available from the FRC website at www.frc.org.uk.

The Company has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code during the year, so far as is possible, given the Company's size and nature of business. Further explanation of how the main principles have been applied is set out below, in the Directors' remuneration report and in the Audit Committee report. Areas of non-compliance with the Code are as follows:

- There is no chief executive position within the Company, which is not in accordance with provision A.2.1 of the Code. As an investment company, the Company has no employees and therefore no requirement for a chief executive;
- The Company has not established a nomination committee, which is not in accordance with provision B.2.1 of the Code. As all of the directors are non-executive, the Company considers that the Board as a whole can fulfil the role otherwise undertaken by such committees; and
- The Company has not established a remuneration committee, which is not in accordance with provision D.2.1 of the Code. As all of the directors are non-executive, the Company considers that the Board as a whole can fulfil the role otherwise undertaken by such committees.

Role of the Board

The Board comprises four directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the investment policy (as set out in the Strategic report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties. In particular, the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager, while retaining the responsibility for exercising overall control and supervision of the Investment Manager.

In making any new Board appointment the Directors will consider a number of factors, including diversity, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members. The Articles stipulate that all new directors shall retire and offer themselves for re-appointment at least every three years.

Barry Gilbertson is the Senior Independent Director, with a responsibility to be available as an alternative point of contact to the Chairman for shareholders and other stakeholders and to act as a sounding board for the Chairman.

The attendance of the directors at scheduled Board and Board committee meetings during the year was as follows:

	Board	Audit Committee	Management Engagement Committee
David Hunter	5/5	3/3	1/1
Barry Gilbertson	5/5	3/3	1/1
Matthew Thorne	5/5	3/3	1/1
Ian Mattioli	4/5	n/a	n/a

Directors' interests are set out in the Directors' remuneration report.

The Board considers that the length of time each director, including the Chairman, serves on the Board should not be limited and has not set a finite tenure policy. Length of service of current directors and future succession planning is reviewed each year as part of the Board evaluation process.

Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. 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 issues. The Chairman should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors.

The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information and ensuring effective communication with shareholders.

The Investment Manager

The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an IMA. Under the IMA, during the year the Investment Manager was paid an annual fund and asset management fee of 0.9% of the NAV of the Company up to £200m and 0.75% of the NAV of the Company in excess of £200m, plus an annual administration fee of 0.125% of the NAV of the Company. The IMA fee structure has been varied following the year end as detailed in Note 18.

The Investment Manager is a subsidiary of Mattioli Woods plc ("Mattioli Woods"), a related party and a provider of specialist pension consultancy and administration, employee benefits and wealth management services. The Investment Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and has an established market presence in the sub £10m lot size property sector, with a proven track record of property syndication, investment and asset management.

Ian Mattioli is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager.

Key personnel

The Investment Manager's key personnel are Richard Shepherd-Cross, Nathan Imlach and Ian Mattioli.

AIFM Directive

The directive creates a European Union ("EU") wide framework for regulating an AIFM. The Company's activities fall within the scope of the directive and the Board has determined that the Investment Manager will act as AIFM for these purposes. The Board has put in place a system of regular reporting from the AIFM and the Company's depositary to ensure both are meeting their regulatory responsibilities in respect of the Company.

Non-mainstream pooled investments

The Company conducts its affairs so that its shares can be recommended by independent financial advisers to retail investors in accordance with the rules of the FCA in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

Board committees

Audit Committee

The Audit Committee comprises the independent directors and is chaired by Matthew Thorne. Its responsibilities are set out in the Audit Committee report.

Management Engagement Committee

The Management Engagement Committee comprises the independent directors and is chaired by Barry Gilbertson. The Investment Manager is appointed under the IMA to provide real estate fund management services. The Management Engagement Committee reviews annually the performance of the Investment Manager and its compliance with the Company's investment policy and with the IMA. During the year, the Management Engagement Committee has considered:

- The capability and resources of the Investment Manager to deliver satisfactory investment performance;
- The length of the notice period of the IMA; and
- The fees payable to the Investment Manager.

The Management Engagement Committee also reviews, annually, other organisations providing significant financial, advisory or legal services to the Company either directly or via the Investment Manager, including the terms of engagement and effectiveness of the independent valuer. As a consequence of these reviews, the Directors are satisfied with the Investment Manager's ability to deliver investment performance that meets the agreed objectives, such that the continuing appointment of the Investment Manager, on the terms agreed, is in the best interest of the Company and its shareholders.

Nominations and Remuneration Committee

The Board has not established a separate Nominations Committee or Remuneration Committee as, given the nature of the Company's operations, these duties are performed by the Board as a whole.

Directors' share dealings

The Directors have adopted a code for directors' share dealings, which is compliant with the European Union's Market Abuse Regulation ("MAR"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR.

Board appraisals

The Directors have annual appraisals as part of a Board effectiveness review. Whilst this review is usually undertaken in-house, during the year ending 31 March 2018 the Board will undertake the review with external expert assistance, in accordance with best practice. The Board as a whole considers its performance and the performance of its committees. The Chairman reviews the performance of the non-executive directors and the non-executive directors review the Chairman's performance. The questions set out in the Higgs guidance are considered at each appraisal, where relevant to the Company. As part of the annual performance appraisal process, the training needs for board members are considered and, where necessary, acted upon.

Shareholders

The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received either orally or in writing. All shareholders have at least 20 clear working days' notice of the AGM, where all directors and committee members are available to answer questions.

At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

The Investment Manager and corporate broker regularly update the Board with the views of shareholders and analysts.

Significant holdings of ordinary shares in the Company are set out in the Directors' report.

Conflicts of interest

The Articles allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate. Only independent directors (who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the Directors must act in a way they consider will be most likely to promote the Company's success. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control

The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board has an ongoing process to monitor the Company's risk management and internal control systems, including financial, operational and compliance controls, and to identify, evaluate and manage the significant risks faced by the Company. The process is regularly reviewed by the Board, based on reports from the Investment Manager, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. Key features of the Company's system of internal control include:

- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A defined schedule of matters reserved for the Board; and
- An annual review of the effectiveness of internal controls and formal consideration of business risks. Issues are also raised at quarterly board meetings as appropriate.

The Board has considered the requirements of the Bribery Act 2010 and has taken steps to ensure that it has adequate procedures in place to comply with the requirements of the Act. Responsibility for the Company's bribery prevention policies rests with the Investment Manager.

Approval

This Governance report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Independent Chairman
5 June 2017

AUDIT COMMITTEE REPORT

Composition

The Audit Committee ("the Committee") comprises Matthew Thorne as Chairman, David Hunter and Barry Gilbertson, all of whom are independent non-executive directors.

Responsibilities

The Committee meets regularly to monitor the integrity of the Company's financial statements and is also responsible for the appointment, performance and independence of the external auditor and the independent property valuer. The Committee has also considered the Board's additional requirement under the Code to state whether, in the Board's opinion, the Annual Report is fair, balanced and understandable. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by the Investment Manager to provide confirmation to the Board.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and longer-term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes;
- To review the significant risks faced by the Company;
- To review the internal audit programme, monitoring the effectiveness of the audit process and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken;
- To take an active part in discussions between the external auditor and the Investment Manager regarding the resolution of issues that impact the audited financial statements; and
- To gain assurance around the independence of the valuer.

The Committee also oversees and approves the calculation of fees payable to the Investment Manager set out in Note 18.

Meetings

The Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in January to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members, the Investment Manager and the external auditor. The Committee allows time to speak with the external auditor without the Investment Manager present for at least one meeting each year.

Primary areas of judgement in relation to the Annual Report and financial statements

The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from the Investment Manager and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio, which is fundamental to the Company's statement of financial position and reported results. The external auditor meets with the valuer separately from the Audit Committee, using real estate specialists where applicable, and reports back to the Committee on its review. The Committee also gains comfort from the valuer's methodology and other supporting market information.

Loan covenant and REIT regime compliance is a matter for the whole Board. The Company remains conservatively geared and the Committee considers reports to support the Company's going concern status, longer-term viability statement and REIT regime compliance in quarterly board reports, which include headroom and sensitivity analysis, along with undrawn facilities and forecasts.

The Committee was satisfied that these issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Audit Committee discussed the issues with the external auditor, who had concurred with the judgement of the Investment Manager.

Audit

The Company's day-to-day operations are contracted to the Investment Manager, including the internal audit function. The Committee agrees an appropriate annual internal audit programme, taking into consideration the current size of the Company and its relative lack of business complexity and reviewed the reports of the internal audit function.

The external audit, review of its effectiveness, auditor reappointment and audit tendering

The Audit Committee reviews annually the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The review of the 2017 external audit was conducted internally. The Committee agreed a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. Following this review, the Committee was satisfied that the external auditor, Deloitte LLP ("Deloitte"), continued to perform effectively. Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Audit of the Company's Annual Report	**57**	52
Total audit related fees	**57**	52
Reporting accountant services and other advisory services on secondary share placings	**—**	70
Tax compliance services	**—**	15
Review of the Company's Interim Report	**11**	11
Real estate advisory services	**—**	520
Total non-audit fees	**11**	616
Total fees	**68**	668

Non-audit fees

A non-audit fee policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice; tax advisory; compliance and regulatory certificates and minor projects, where the fee involved will not exceed £10,000 without the prior consent of the Committee.

The Committee will not normally allow the external auditor to be used for the following: compiling accounting records; internal audit services; IT consultancy; remuneration advice; valuation work; and work on internal controls.

A new non-audit fee policy is expected to be adopted by the Committee during the year ending 31 March 2018 to ensure auditor objectivity and independence, and to comply with best practice and EU Regulations introduced in June 2016. Fees for permissible non-audit fees payable to the external auditor will be capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later).

As a result, the Company intends to engage a separate service provider to carry out tax compliance work for the year.

In September 2015 the Investment Manager recommended that the Company engage Deloitte Real Estate, a division of Deloitte, to act on the Company's behalf on a property portfolio acquisition ("the Engagement"). Due to a material fee being payable to Deloitte Real Estate, which was contingent on the successful completion of the Engagement, the Committee considered whether the Engagement gave rise to a conflict of interest and therefore impaired the independence of Deloitte in its role as the Company's auditor.

As set out in the Company's 2016 Annual Report, following careful consideration, the Committee resolved that the independence of Deloitte statutory audit of the year ended 31 March 2016 would not be impaired by the Engagement and the appointment of Deloitte Real Estate was approved. During the current financial year, Deloitte sold or separated parts of Deloitte Real Estate from its auditing division.

The Committee has reviewed the level of fees paid to Deloitte for other non-audit services and is satisfied the independence and objectivity of Deloitte as the Company's auditor is not impaired.

Deloitte was appointed as the Company's auditor in 2014. Under the Financial Reporting Council's February 2017 best practice, as a 'public interest entity', the Company is required at the latest to re-tender the external audit by 2024 and rotate audit firms by 2034. The Committee intends to re-tender the external audit within the timeframe set by the Financial Reporting Council and adopt its specific requirements for the tendering process.

The external auditor is required to rotate the audit partner responsible for every fifth annual audit. The 31 March 2017 audit marks the fourth audit for the current lead audit partner, Jonathan Dodworth.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval

This report was approved by the Committee and signed on its behalf by:

Matthew Thorne
Chairman of the Audit Committee
5 June 2017

DIRECTORS' REMUNERATION REPORT

The Non-executive Directors and Company Secretary are the only officers of the Company. The Directors are engaged under letters of appointment and do not have service contracts with the Company. The Company Secretary is engaged under the terms of the IMA with the Investment Manager. The Company has no employees.

Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Remuneration policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy. The Company aims to provide remuneration packages with no variable element which will retain Non-Executive Directors with the skills and experience necessary to maximise shareholder value on a long-term basis. The remuneration packages for the recruitment of Non-Executive Directors will be set with reference to the remuneration packages of comparable businesses.

The remuneration policy has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Company's (Accounts and Reports) Regulations 2008 ("the Regulations") as amended in August 2013.

Any major decisions on directors' remuneration are taken by the Chairman. There have been no substantial changes relating to directors' remuneration during the year.

At the AGM of the Company held on 26 July 2016, an ordinary resolution to approve the directors' remuneration report was passed, with 98.3% of votes cast for the resolution and 1.7% of votes cast against the resolution, with 453,683 votes withheld.

Directors' remuneration (audited)

	Year ended 31 March 2017		
	Fees £	Social security costs £	Total £
David Hunter	**46,200**	**6,003**	**52,203**
Matthew Thorne	**36,200**	**4,622**	**40,822**
Barry Gilbertson	**31,700**	**4,001**	**35,701**
Ian Mattioli	**27,500**	**3,422**	**30,922**
	141,600	**18,048**	**159,648**

	Year ended 31 March 2016			
	Prospectus fee £	Fees £	Social security costs £	Total £
David Hunter	5,000	45,000	6,526	56,526
Matthew Thorne	5,000	35,000	4,802	44,802
Barry Gilbertson	5,000	30,500	4,526	40,026
Ian Mattioli	—	27,000	3,353	30,353
	15,000	137,500	19,207	171,707

The prospectus fee relates to services supplied by the Independent Directors in connection with the November 2015 prospectus, conditional upon the Company raising gross proceeds of £50m or more following publication of the prospectus, which each director applied to acquire ordinary shares in May 2016.

The Directors and the key Investment Manager personnel are considered to be the Company's key management personnel defined by IAS 24 'Related Party Disclosures'. The terms and conditions of the IMA and the amounts paid to the Investment Manager are set out in Note 18.

Directors' interests (audited)

At 31 March 2017 the directors had the following interests in the ordinary shares of the Company:

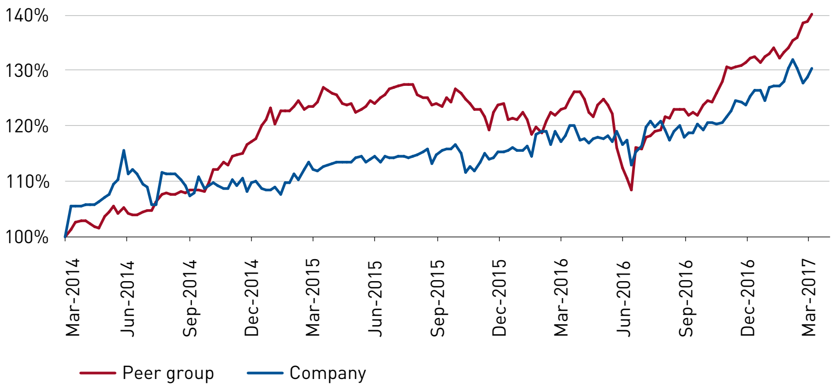
	No. shares	% holding
David Hunter	25,000	0.01%
Matthew Thorne	25,000	0.01%
Barry Gilbertson	35,000	0.01%
Ian Mattioli[32]	2,435,305	0.72%
	2,520,305	0.75%

In May 2016 the Independent Directors each acquired 5,000 ordinary shares under the terms of the prospectus fee described above. On 21 October 2016 Barry Gilbertson acquired 10,000 new ordinary shares via a placing. On 10 February 2017 Ian Mattioli transferred 100,000 ordinary shares into a charitable trust under the control of him and his wife for nil consideration. There have been no changes in Directors' interests since the year end.

No director 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 Company and which were affected by the Company or remain in any respect outstanding or unperformed. No loan or guarantee has been granted or provided by any member of the Company for the benefit of any director. There are no restrictions agreed by any director on the disposal within a certain period of time of their holdings in the Company's securities. Restrictions on other transfers of ordinary shares are set out in the Directors' report.

Total shareholder return

The graph below illustrates the total shareholder return from admission to trading on the London Stock Exchange ("Admission") to 31 March 2017 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar listed property investment companies.[33]



Benchmarking performance against the performance of the Company's peers is considered to be the most appropriate method of measuring the Company's relative performance, as required by the Regulations. The performance of the Company relative to its peers is discussed in the Investment Manager's report.

Approval

The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Directors' remuneration report that are subject to audit are indicated above.

This Directors' remuneration report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Independent Chairman
5 June 2017

32 Including his wife and a charitable trust under his control.
33 The Company's peer group comprises: F&C Commercial Property Trust Limited, F&C UK Real Estate Investments Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, Standard Life Investments Property Income Trust Limited, UK Commercial Property Trust Limited and Ediston Property Investment Company plc.

DIRECTORS' REPORT

Report and financial statements

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2017. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiaries.

The Company's principal activity is commercial property investment. The Strategic report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The Company's subsidiaries are dormant.

Details of significant events since the year end are contained in Note 20 to the financial statements.

The Directors believe they have discharged their responsibilities under section 414C of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

The Group profit for the year after taxation is set out in the consolidated statement of comprehensive income.

The Directors have approved a fourth quarterly dividend of 1.5875p per share (totalling £5.4m) in respect of the quarter ended 31 March 2017, which is expected to be paid on 30 June 2017, resulting in total dividends relating to the year ended 31 March 2017 achieving the target of 6.35p per share.

Going concern

At 31 March 2017 the Company had net assets of £351.9m and had undrawn debt facilities of £35.0m. The Investment Manager intends to deploy the Company's cash and debt facilities to achieve its dividend targets, while ensuring it has sufficient liquidity to cover its short-term liabilities. Therefore, the Directors consider preparing the financial statements on a going concern basis to be appropriate.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax.

Directors

A list of the directors and their short biographies is shown in the Board of Directors and key Investment Manager personnel section of the Governance report.

The appointment and replacement of directors is governed by the Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Directors' remuneration report. During the year, no director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 18 to the financial statements.

Directors' indemnity

All directors and officers of the Company have the benefit of a qualifying third party indemnity provision contained in the Articles, which was in force throughout the year and is currently still in force. The Company also purchased and maintained directors' and officers' liability insurance in respect of itself and its directors and officers as permitted by Section 234 of the Companies Act 2006, although no cover exists in the event directors or officers are found to have acted fraudulently or dishonestly.

Conflicts of interest

There are procedures in place to deal with any directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively.

Donations

No political or charitable donations were made during the year.

Capital structure

The Company's authorised and issued share capital is shown in Note 16 to the financial statements.

The ordinary shares rank pari passu in all respects. Save as may be agreed at each AGM, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA and the Company's share dealing code, whereby certain directors and officers require approval to deal in ordinary shares of the Company.

The Directors are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

CREST

Custodian REIT plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings

At 5 June 2017 the Directors were aware that the following shareholders each owned[34] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[35]
Mattioli Woods plc	27,168,603	8.0%
BMO Global Asset Management	15,428,808	4.6%
Canaccord Genuity Wealth Management	14,642,742	4.3%

No changes in substantial shareholding were disclosed between 31 March 2017 and 5 June 2017.

Close company provisions

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Change of control

The Company has borrowing facilities provided by its bankers which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Related party transactions

Details of related party transactions are given in Note 18 to the financial statements.

Environmental

The Board believes good environmental practices such as the recycling of paper waste support its strategy by enhancing the reputation of the Company. However, due to the nature of its business generally, the Company does not have a significant environmental impact.

Greenhouse gas emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the Company is required to report greenhouse gas emissions for each financial year as follows:

Sources of greenhouse gas emissions	**31 March 2017 tCO_2e[36]**	31 March 2016 tCO_2e
Scope 1		
Gas, refrigerants and fuel	**—**	—
Scope 2		
Landlord controlled electricity	**700.1**	554.7
Intensity measure		
Emissions per £1m of rent	**22.6**	24.1

The operational control method has been used to reflect influence over energy consumption, with the increase in landlord controlled electricity due to the acquisition of several multi-let properties during the year. Tenants' usage or emissions are not included as the Company does not have control over those items. Emissions from vacant space have been included.

Financial risk management

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control. The Board's process for identifying and managing risks is set out in more detail in the Governance report.

Since Admission, the Company has sought to manage financial risk to ensure sufficient liquidity is available to meet its identifiable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through the use of bank facilities. The Company does not undertake any trading activity in financial instruments. All activities are transacted in pounds sterling. The Company does not engage in any hedging activities.

The Company reviews the credit quality of potential tenants and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent income from a wide range of the Company's tenants.

The Company's financial risk management policy is further detailed in Note 19 to the financial statements.

34 Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.
35 Based on the issued share capital on 5 June 2017.
36 Tonnes of carbon dioxide equivalent.

DIRECTORS' REPORT
CONTINUED

Auditor
Deloitte, which has been the Company's auditor since 20 May 2014, has confirmed its willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Deloitte as the Group's auditor will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to the auditor
The Directors who were members of the Board at the time of approving the Directors' report are listed in the Governance report. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all steps they might reasonably be expected to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Annual General Meeting
The AGM of the Company will be held at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR on 20 July 2017 at 11:00am.

At the AGM all votes will be dealt with on a poll where every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution are announced at the AGM.

Events since 31 March 2017
Details of significant events occurring after the end of the reporting year are given in Note 20 to the financial statements.

Approval
This Directors' report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Independent Chairman
5 June 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and company financial statements for each financial year. The Directors are required to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and Article 4 of the IAS Regulation and have also chosen to prepare company financial statements in accordance with IFRSs as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing each of the Group and Company financial statements, IAS 1 requires the directors to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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 the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The consolidated financial statements, prepared in accordance with IFRS 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 Strategic report includes 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 principal risks and uncertainties that they face; and
- The Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approval

This Directors' responsibilities statement was approved by the Board of Directors and signed on its behalf by:

David Hunter
Independent Chairman
5 June 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC

For the year ended 31 March 2017

Opinion on financial statements of Custodian REIT plc

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 March 2017 and of the Group's and the parent company's profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- The Consolidated and Company statements of comprehensive income;
- The Consolidated and Company statements of financial position;
- The Consolidated and Company statements of cash flows;
- The Consolidated and Company statements of changes in equity; and
- The related Notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: – Valuation of the Property Portfolio; – Revenue recognition cut-off and accounting for lease incentives; – Compliance with the REIT Regime; and – Loan covenant compliance. These key risks are consistent with those identified in the prior year.
Materiality	The materiality that we used in the current year was £7.0m, which was determined on the basis of 2% of net assets for statement of financial position testing and £1.9m for the statement of comprehensive income, which was determined on the basis of 10% of underlying profit before tax.
Scoping	All audit procedures were performed directly by the Group audit team.
Significant changes in our approach	In the absence of substantive changes to the Group's business model or activities our audit approach is consistent with the previous period. There were no new key risks identified or changes in basis for determining materiality.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2.1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2.4 to the financial statements and the directors' statement on the longer-term viability of the Group contained within 'Principal risks and uncertainties' on pages 54 to 55.

We are required to state whether we have anything material to add or draw attention to in relation to:

The directors' confirmation on page 54 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 disclosures on pages 54 to 55 that describe those risks and explain how they are being managed
or mitigated;

- The directors' statement in the Directors' report 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 Group'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 directors' explanation in the Principal risks and uncertainties section 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.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC

CONTINUED

For the year ended 31 March 2017

Valuation of the Property Portfolio

Risk description	As disclosed in Note 10, the Group's investment property portfolio is £415.8m (31 March 2016: £319.0m). The Group's accounting policy in Note 2 states that investment property is held at fair value and Note 2.5 describes key judgements made in valuation of investment properties. In determining the fair value, the external valuer makes a number of key estimates and assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases, void periods and purchaser costs. Certain of these estimates and assumptions require input from management. Some of these estimates and assumptions are subject to market forces and will change over time. Valuation of investment property is an area of judgement which could materially affect the financial statements. The Audit Committee report on pages 64–65 discloses this as a significant financial matter.
How the scope of our audit responded to the risk	Together with our real estate experts, who are Chartered Surveyors, we met with the third party valuer appointed by those charged with governance with the aim of understanding the valuation methodology adopted. We assessed the competence, capabilities and objectivity of the external valuer. We selected a sample of investment properties for further investigation (based on value, absolute and percentage movement, and some randomly selected properties). For this sample, we assessed and challenged the reasonableness of the significant judgments and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields assumed and assessing sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the Group to the valuer for the purposes of its valuation exercise. With the assistance of expert members of our audit team who are Chartered Surveyors, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuer both in the meeting and contained in the detailed valuation reports; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values.
Key observations	We are satisfied that the key assumptions applied in determining the property valuations by the external valuer were appropriate. The testing performed in relation to the final property valuations proved satisfactory.

Revenue recognition cut-off and accounting for lease incentives

Risk description	As disclosed in Note 4, the Company recognised £27.0m of gross income from investment properties (2016: £18.6m), where £6.2m (2016: £4.5m) related to last quarterly billing which is exposed to revenue cut-off risk and £2.7m (2016: £1.2m) to lease incentives revenue. As set out in Note 4 to the financial statements, the Company's accounting policy is to account for the rental income from properties owned by the Company on a straight line basis over the term of the lease. Lease incentives are amortised on a straight-line basis over the lease term. There is a risk that lease incentives such as rent free periods or stepped rent agreements may not be treated appropriately to ensure rental income is recognised in each accounting period on straight line basis over the lease length. We have also have defined revenue recognition risk as arising from revenue cut-off errors of rental income near the period-end.
How the scope of our audit responded to the risk	To respond to the risk we tested new tenancy agreements entered into in the period (on a sample basis); tested cut-off for a sample of revenue recognised near either side of year end to ensure the transactions have been recognised in the correct period; and performed substantive testing of a selection of tenancy rental revenue recognised to signed rental agreements ensuring lease incentives have been recognised over the correct period.
Key observations	The results of our tests were satisfactory and we concluded revenue had been appropriately recognised. The Group's accounting policies in relation to revenue recognition were found to be in line with IFRS and industry peers.

Compliance with REIT regime

Risk description	The UK 'REIT' regime affords the Company a beneficial tax treatment for income and capital gains, provided certain criteria are met. As a REIT, the Company must ensure that it monitors its compliance with the requirements of the regime. If the Company breaches one or more of the REIT regime conditions, the penalty can range from automatic expulsion from the regime to additional tax liabilities for the REIT. The Audit Committee report on pages 64–65 discloses this as a significant financial matter.
How the scope of our audit responded to the risk	We obtained copies of the Investment Manager's calculations to support compliance with these conditions which we recalculated. We also agreed compliance with these conditions by reference to the REIT requirements at the balance sheet date, and in the forecast period of 12 months from the balance sheet date.
Key observations	The results of our tests were satisfactory and we found no instances of breaches or forecast breaches of compliance with the REIT regime.

Loan covenant compliance

Risk description	Given the existing and new finance facilities undertaken by the Company and their maturities as disclosed in Note 15, a key factor in assessing the going concern basis of the Company is covenant compliance. Compliance is based on cash management and the associated headroom, property valuations and the terms of the finance facilities available, as well as consideration of existing non-financial covenants. In assessing going concern, management is expected to demonstrate compliance for the forecast period. Key judgements relate to the forecast of growth and the impact of receipt of additional facilities on the ratios. A key risk arises as forecasts inherently include assumptions and judgements applied by management in relation to the timing of receipt and payment of cash flows, as well as forecasted growth level. The Audit Committee report on page 64–65 discloses this as a significant financial matter.
How the scope of our audit responded to the risk	We challenged management's judgements when arriving at their forecast covenant compliance by testing forecast numbers, testing of historic forecast accuracy, as well as corroborating management's analysis on completeness of existing non-financial covenants. We also confirmed that adequate disclosures have been made in the Annual Report.
Key observations	The results of our tests were satisfactory and we found no instances of breaches or forecast breaches of the covenant compliance.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC

CONTINUED
For the year ended 31 March 2017

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£7.0m (2016: £5.1m) for statement of financial position testing and £1.9m (2016: £1.3m) for the statement of comprehensive income testing.
Basis for determining materiality	2% (2016: 2%) of net assets for the statement of financial position testing. This percentage takes into account our knowledge of the Group, our assessment of audit risks and the reporting requirements for the financial statements. 10% (2016: 10%) of the underlying income before tax for the statement of comprehensive income testing.
Rationale for the benchmark applied	We have used the net assets value as at 31 March 2017 as the benchmark for determining materiality, as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements for property companies. In addition to net assets, we consider underlying profit before tax as a critical performance measure for the Group. We have also benchmarked these percentages and approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.35m for the statement of financial position (2016: £0.1m) and all misstatements in excess of £0.98m for the statement of comprehensive income (2016: £0.26m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. In the current year we increased the percentage applied to calculate the threshold based on market practice. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope is consistent with our scope in the previous year.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Group consists of the parent company and dormant subsidiaries. We carried out a full scope audit of the Group. All audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – We have not received all the information and explanations we require for our audit; – Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – The parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report arising from these matters.
Corporate Governance statement Under the Listing Rules we are also required to review part of the Corporate Governance statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.	We have nothing to report arising from our review.
Our duty to read other information in the Annual Report Under 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; – Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – 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.	We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

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. 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Dodworth (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
5 June 2017

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

Group and Company	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Revenue	4	**27,610**	19,012
Investment management		**(2,671)**	(1,948)
Operating expenses of rental property			
– rechargeable to tenants		**(630)**	(451)
– directly incurred		**(1,239)**	(572)
Professional fees		**(337)**	(356)
Directors' fees		**(160)**	(172)
Administrative expenses		**(475)**	(352)
Expenses		**(5,512)**	(3,851)
Operating profit before financing and revaluation of investment property		**22,098**	15,161
Unrealised gains/(losses) on revaluation of investment property:			
– relating to property revaluations	10	**9,016**	3,031
– relating to costs of acquisition	10	**(6,103)**	(5,768)
Net valuation increase/(decrease)		**2,913**	(2,737)
Profit on disposal of investment property		**1,599**	56
Net gains/(losses) on investment property		**4,512**	(2,681)
Operating profit before financing		**26,610**	12,480
Finance income	6	**186**	221
Finance costs (including one-off items)	7	**(2,591)**	(1,494)
Net finance costs		**(2,405)**	(1,273)
Profit before tax		**24,205**	11,207
Income tax expense	8	**—**	—
Profit for the year and total comprehensive income for the year, net of tax		**24,205**	11,207
Attributable to:			
Owners of the Company		**24,205**	11,207
Earnings per ordinary share:			
Basic and diluted (p)	3	**8.1**	5.5
EPRA (p)	3	**6.6**	6.8

The profit for the year arises from the Company's continuing operations.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 March 2017
Registered number: 08863271

		Group		Company	
	Note	**31 March 2017 £000**	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Non-current assets					
Investment property	10	**415,812**	318,966	**415,812**	318,966
Investments	11	**—**	—	**7,109**	—
Total non-current assets		**415,812**	318,966	**422,921**	318,966
Trade and other receivables	12	**7,189**	4,518	**7,189**	4,518
Cash and cash equivalents	14	**5,807**	5,455	**5,807**	5,455
Total current assets		**12,996**	9,973	**12,996**	9,973
Total assets		**428,808**	328,939	**435,917**	328,939
Equity					
Issued capital	16	**3,390**	2,512	**3,390**	2,512
Share premium	16	**159,101**	68,874	**159,101**	68,874
Retained earnings	16	**189,386**	183,674	**189,386**	183,674
Total equity attributable to equity holders of the Company		**351,877**	255,060	**351,877**	255,060
Non-current liabilities					
Borrowings	15	**63,788**	65,143	**63,788**	65,143
Other payables		**571**	571	**571**	571
Total non-current liabilities		**64,359**	65,714	**64,359**	65,714
Current liabilities					
Trade and other payables	13	**7,014**	3,681	**14,123**	3,681
Deferred income		**5,558**	4,484	**5,558**	4,484
Total current liabilities		**12,572**	8,165	**19,681**	8,165
Total liabilities		**76,931**	73,879	**84,040**	73,879
Total equity and liabilities		**428,808**	328,939	**435,917**	328,939

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 5 June 2017 and are signed on its behalf by:

David Hunter
Independent Chairman

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the year ended 31 March 2017

Group and Company	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Operating activities			
Operating profit		**26,610**	12,480
Adjustments for:			
Net (increase)/decrease in fair value of investment property	10	**(2,913)**	2,737
Profit on disposal of investment property (excluding costs of disposal)		**(1,807)**	(56)
Income tax	8	**—**	—
Cash flows from operating activities before changes in working capital and provisions		**21,890**	15,161
Increase in trade and other receivables		**(3,225)**	(3,615)
Increase in trade and other payables		**4,401**	2,399
Cash generated from operations		**23,066**	13,945
Interest paid	7	**(2,233)**	(1,307)
Net cash flows from operating activities		**20,833**	12,638
Investing activities			
Purchase of investment property		**(104,968)**	(109,674)
Acquisition costs		**(6,103)**	(5,768)
Disposal of investment property		**18,945**	1,821
Interest received	6	**33**	22
Net cash from investing activities		**(92,093)**	(113,599)
Financing activities			
Proceeds from the issue of share capital	16	**92,425**	77,719
Payment of costs of share issue		**(1,320)**	(1,632)
(Repayment of)/new borrowings	15	**(1,000)**	41,700
Dividends paid	9	**(18,493)**	(12,220)
Net cash from financing activities		**71,612**	105,567
Net increase in cash and cash equivalents		**352**	4,606
Cash and cash equivalents at start of the year		**5,455**	849
Cash and cash equivalents at end of the year		**5,807**	5,455

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2015		**1,776**	**175,009**	**3,201**	**179,986**
Profit for the year		—	—	11,207	11,207
Total comprehensive income for year		—	—	11,207	11,207
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	—	—	(12,220)	(12,220)
Issue of share capital	16	736	75,351	—	76,087
Transfer of reserves	16	—	(181,486)	181,486	—
As at 31 March 2016		**2,512**	**68,874**	**183,674**	**255,060**
Profit for the year		—	—	24,205	24,205
Total comprehensive income for year		—	—	24,205	24,205
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	—	—	(18,493)	(18,493)
Issue of share capital	16	878	90,227	—	91,105
As at 31 March 2017		**3,390**	**159,101**	**189,386**	**351,877**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 5 June 2017.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS, and therefore they comply with Article 4 of the EU IAS Regulation.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

2.2. Basis of consolidation

The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. Other subsidiaries have a December accounting reference date which has not been amended as those companies are expected to be liquidated during the next financial year. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.3. Application of new and revised International Financial Reporting Standards

During the year the Company has applied a number of amendments to IFRSs and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 31 March 2016:

- Annual Improvements to IFRSs 2012-2014 Cycle; and
- Amendments to IAS 1 'Disclosure Initiative'.

The application of the above amendments and interpretations has had no impact on the disclosures or on the amounts recognised in the Company's financial statements. At the date of authorisation of these financial statements, the following new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers';
- IFRS 16 'Leases'; and
- IAS 7 (amendments) 'Disclosure Initiative'.

Other than to expand certain disclosures within the financial statements, the Directors do not anticipate that the application of these standards, amendments and interpretations will have a material impact on the Company's financial statements in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 may have an impact on the classification of ground rent in the statement of comprehensive income and disclosure of an associated right of use asset in the statement of financial position. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully. The Company's projections show that the Company should continue to be cash generative and be able to operate within the level of its current financing arrangements. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are amortised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment properties are held to earn rentals and/or for capital appreciation. Investment properties are initially recognised at cost including direct transaction costs. Investment properties are subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment properties is recognised in the statement of comprehensive income in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in the statement of comprehensive income, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

Group undertakings

Investments are included in the statement of financial position at cost less any provision for impairment.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are initially recognised at fair value plus transaction costs, when the Company becomes party to the contractual provisions of the instrument. Interest resulting from holding financial assets is recognised in the statement of comprehensive income on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in the statement of comprehensive income.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 March 2017

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in the statement of comprehensive income. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Payments on operating lease agreements where the Company is lessor are recognised as an expense on a straight-line basis over the lease term. Payments on operating lease agreements where the Company is lessee are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

2.5 Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

The areas where a higher degree of judgement or complexity arises are discussed below.

Valuation of property

Investment properties are valued at the reporting date at fair value. Where investment properties are being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in the statement of comprehensive income. Valuation surpluses reflected in retained earnings are not distributable until realised on sale.

In making its judgement over the valuation of properties, the Company considers valuations performed by independent valuers in determining the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates. The valuers also make reference to market evidence of transaction prices for similar properties.

2. Basis of preparation and accounting policies continued

2.5 Key sources of judgements and estimation uncertainty continued

Acquisition of subsidiaries

The Board applies judgement as to whether the acquisition of a subsidiary comprises an asset purchase or a business combination[37]. A business comprises an integrated set of activities, including strategic and operational management, and assets capable of being managed for the purpose of providing an economic benefit to the owner.

The Board assessed the acquisition of the Light Industrial Portfolio, as detailed in Note 10, as an asset purchase because all outsourced strategic and operational management contracts were terminated on acquisition.

Estimates

There are no areas where assumptions and estimates are considered significant to the financial statements.

3. Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Shares issued after the year end are disclosed in Note 20.

The Company became a FTSE EPRA/NAREIT index series constituent in March 2017 and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS which the Directors consider are better indicators of performance.

Group and Company	Year ended 31 March 2017	Year ended 31 March 2016
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**24,205**	11,207
Net (gains)/losses on investment property (£000)	**(4,512)**	2,681
EPRA net profit attributable to equity holders of the Company (£000)	**19,693**	13,888
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year	**251,242,071**	177,605,659
Effect of shares issued during the year	**47,489,151**	26,590,709
Basic and diluted weighted average number of shares	**298,731,222**	204,196,368
Basic and diluted EPS (p)	**8.1**	5.5
EPRA EPS (p)	**6.6**	6.8

4. Revenue

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Gross rental income from investment property	**26,980**	18,561
Income from recharges to tenants	**630**	451
	27,610	19,012

37 As defined by IFRS 3 – Business Combinations.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 March 2017

5. Operating profit

Operating profit is stated after charging/(crediting):

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit on disposal of investment property	**(1,599)**	(56)
Net investment property valuation (increase)/decrease	**(2,913)**	2,737
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual financial statements	**57**	52
Fees payable to the Company's Auditor and its associates for other services	**11**	616
Administrative fee payable to the Investment Manager	**365**	252

Fees payable to the Company's auditor, Deloitte LLP, are detailed in the Audit Committee report.

6. Finance income

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Bank interest	**33**	22
Finance income	**153**	199
	186	221

7. Finance costs

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Amortisation of arrangement fees on debt facilities	**358**	187
Bank interest	**2,233**	1,307
	2,591	1,494

During the year the Company repaid a £20m term loan with Lloyds Bank plc resulting in one-off costs of £0.165m related to the accelerated recognition of the associated deferred arrangement fees.

8. Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 20.0%. The differences are explained below:

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit before income tax	**24,205**	11,207
Tax charge on profit at a standard rate of 20.0% (2016: 20.0%)	**4,841**	2,241
Effects of:		
REIT tax exempt rental profits and gains	**(4,841)**	(2,241)
Income tax expense	**—**	—
Effective income tax rate	**0.0%**	0.0%

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax. Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted at 6 September 2016.

9. Dividends

Group and Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2016: 1.6625p (31 March 2015: 1.50p)	**4,227**	2,672
Current year		
– 30 June 2016: 1.5875p (30 June 2015: 1.50p)	**4,492**	2,775
– 30 September 2016: 1.5875p (30 September 2015: 1.50p)	**4,638**	2,907
– 31 December 2016: 1.5875p (31 December 2015: 1.5875p)	**5,136**	3,866
	18,493	12,220

The Directors propose that the Company pays a fourth interim dividend relating to the quarter ended 31 March 2017 of 1.5875p per ordinary share (totalling £5.4m). This dividend has not been included as a liability in these financial statements. The fourth interim dividend is expected to be paid on 30 June 2017 to shareholders on the register at the close of business on 28 April 2017.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2017

10. Investment property

Group and Company	£000	£000
At 31 March 2015		207,287
Additions		116,181
Disposals		(1,765)
Gross valuation increase	3,031	
Acquisition costs	(5,768)	
Net valuation decrease		(2,737)
At 31 March 2016		318,966
Additions		111,071
Disposals		(17,138)
Gross valuation increase	9,016	
Acquisition costs	(6,103)	
Net valuation increase		2,913
At 31 March 2017		**415,812**

Included in investment properties is £3.4m relating to ongoing pre-let developments.

£233.1m (2016: £166.9m) of investment property has been charged as security against the Company's borrowings.

The carrying value of investment property at 31 March 2017 comprises £361.6m freehold (2016: £274.7m) and £54.2m leasehold property (2016: £44.3m).

The investment properties are stated at the Directors' estimate of their 31 March 2017 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 31 March 2017 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. LSH has recent experience in the relevant location and category of the properties being valued.

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.7% to 14.3%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuer e.g. ERVs and yields. These assumptions are based on market observation and the valuer's professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

Investment property additions include £26.75m relating to the Light Industrial Portfolio, which the Company acquired by purchasing the entire issued share capital of Custodian Real Estate GP Limited (formerly BLME (UK) GP Limited) and Custodian Real Estate Luxembourg S.à.r.l. (formerly LIBF (II) S.à.r.l.), being the partners in Custodian Real Estate Light Industrial Limited Partnership (formerly BLME Light Industrial Building Limited Partnership), an English limited partnership holding the title and beneficial interest in the Light Industrial Portfolio on acquisition.

On 13 October 2016 the trade and assets of Custodian Real Estate Light Industrial Limited Partnership were transferred to the Company at market value.

11. Investments

Shares in subsidiaries

Company name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2017 £000	31 March 2016 £000
Custodian Real Estate Limited	08882372	England and Wales	Dormant	100%	**—**	—
Custodian Real Estate GP Limited (formerly BLME (UK) GP Limited)	07631899	England and Wales	Dormant – in liquidation	100%	**7**	—
Custodian Real Estate Nominees Limited* (formerly BLME Nominees LIBF Limited)	07661151	England and Wales	Dormant – in liquidation	100%	**—**	—
Custodian Real Estate Light Industrial Limited Partnership* (formerly BLME Light Industrial Building Limited Partnership)	LP014551	England and Wales	Dormant – in liquidation	100%	**—**	—
Custodian Real Estate Luxembourg S.à.r.l. (formerly LIBF (II) S.à.r.l.)	B8162.013	Luxembourg	Dormant	100%	**7,102**	—
					7,109	—

* Held indirectly

The Company's dormant UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary. The registered office of Custodian Real Estate Luxembourg S.à.r.l. is 2 Rue d'Alsace, L-1122, Luxembourg.

The Company acquired 100% of the ordinary share capital of Custodian Real Estate GP Limited and Custodian Real Estate Luxembourg S.à.r.l. on 29 September 2016 as part of the acquisition of the Light Industrial Portfolio. Custodian Real Estate GP Limited owns 100% of the ordinary share capital of Custodian Real Estate Nominees Limited. Custodian Real Estate Luxembourg S.à.r.l. and Custodian Real Estate GP Limited hold 99.9% and 0.1% beneficial interests respectively in Custodian Real Estate Light Industrial Limited Partnership.

12. Trade and other receivables

Group and Company	31 March 2017 £000	31 March 2016 £000
Trade receivables	**1,342**	1,019
Other receivables	**2,771**	1,857
Prepayments and accrued income	**3,076**	1,642
	7,189	4,518

The Company has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the creditworthiness of the counterparty. Trade receivables include £0.1m (2016: £0.1m) which are past due as at 31 March 2017 for which no provision has been made because the amounts are considered recoverable. Included within accrued income are deferred lease incentives totalling £2.48m which are to be held for a period over one year.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED
For the year ended 31 March 2017

13. Trade and other payables

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Falling due in less than one year:				
Trade and other payables	**608**	437	**608**	437
Social security and other taxes	**2,423**	1,231	**2,423**	1,231
Accruals	**2,761**	1,566	**2,761**	1,566
Rental deposits	**1,222**	447	**1,222**	447
Amounts due to subsidiary undertakings	**—**	—	**7,109**	—
	7,014	3,681	**14,123**	3,681

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings, arising on the transfer of the trade and assets of Custodian Real Estate Light Industrial Limited Partnership to the Company, are due on demand.

14. Cash and cash equivalents

Group and Company	**31 March 2017 £000**	31 March 2016 £000
Cash and cash equivalents	**5,807**	5,455

Cash and cash equivalents include £1.31m (2016: £0.49m) of restricted cash comprising £1.22m of rental deposits held on behalf of tenants and £0.09m of retentions held in respect of development fundings.

15. Borrowings

Group and Company	**31 March 2017 £000**	31 March 2016 £000
Falling due in more than one year:		
Bank borrowings	**65,000**	66,000
Costs incurred in the arrangement of bank borrowings	**(1,212)**	(857)
	63,788	65,143

On 25 February 2014, the Company agreed a RCF of £25m with Lloyds Bank plc for a term of five years. On 13 November 2015, the Company and Lloyds Bank plc entered into an agreement to increase the total funds available under the RCF from £25m to £35m and extend the termination date to 13 November 2020. The RCF is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. Under the terms of agreement, the Company pays interest of 2.45% above three-month LIBOR per annum on the outstanding amounts utilised under the agreement from time to time. At 31 March 2017, the RCF drawn was £nil.

On 9 December 2014 the Company agreed a £20m term loan with Lloyds Bank plc ("the Lloyds Loan"), secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. The loan attracts interest of 1.95% above three-month LIBOR per annum and is repayable on 10 October 2019. On 6 June 2016 the Lloyds Loan was repaid in full, incurring one-off costs of £0.165m related to the accelerated recognition of the associated deferred arrangement fees.

15. Borrowings continued

On 14 August 2015, the Company and SWIP, with Lloyds Bank plc acting as agent, entered into an agreement for SWIP to provide the Company with a term loan facility of £20m, repayable on 14 August 2025. The loan is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 45% on those properties specifically charged to it and a floating charge. Under the terms of the agreement, the Company will pay fixed interest of 3.935% per annum on the balance.

On 6 June 2016, the Company and SWIP, with Lloyds Bank plc acting as agent, entered into an agreement for SWIP to provide the Company with a term loan facility of £45m, repayable on 6 June 2028. The loan is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 45% on those properties specifically charged to it and a floating charge. Under the terms of the agreement, the Company will pay fixed interest of 2.987% per annum on the balance. The proceeds from this new loan were partially used to repay the Lloyds Loan.

On 5 April 2017, the Company and Aviva entered into an agreement for Aviva to provide the Company with a new term loan facility of £50m. The loan is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. The Company drew down the first tranche of £35m on 6 April 2017, which is repayable on 6 April 2032 with a fixed rate of interest of 3.02% per annum payable on the balance.

All of the Company's borrowing facilities require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

16. Share capital

Group and Company Issued share capital	Ordinary shares of 1p	£000
At 31 March 2015	177,605,659	1,776
Issue of share capital	73,636,412	736
At 31 March 2016	251,242,071	2,512
Issue of share capital	87,771,274	878
At 31 March 2017	**339,013,345**	**3,390**

During the year, the Company raised £92.4m (before costs and expenses) through the placing of 87,771,274 new ordinary shares.

The Company has made further issues of new shares since the year end, which are detailed in Note 20 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 March 2017

16. Share capital continued

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 26 July 2016, the Board was given authority to issue up to 100,000,000 shares, pursuant to section 551 of the Companies Act 2006. This authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 58,781,274 ordinary shares have been issued under this authority since 26 July 2016, leaving an unissued balance of 41,218,726 at 31 March 2017.

In addition, the Company was granted authority to make market purchases of up to 27,888,207 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

On 14 August 2015, registration was completed of the Chancery Division of the High Court of Justice's approval of the cancellation of the Company's share premium account, standing at £181,485,649 as of 22 July 2015.

Group and Company

Other reserves	Share premium account £000	Retained earnings £000
At 31 March 2015	175,009	3,201
Shares issued during the year	76,983	—
Costs of share issue	(1,632)	—
Profit for the year	—	11,207
Dividends paid	—	(12,220)
Transfer of reserves	(181,486)	181,486
At 31 March 2016	68,874	183,674
Shares issued during the year	91,547	—
Costs of share issue	(1,320)	—
Profit for the year	—	24,205
Dividends paid	—	(18,493)
At 31 March 2017	**159,101**	**189,386**

The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

17. Commitments and contingencies

Company as lessor

The Company lets all investment properties under operating leases. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

Group and Company	**31 March 2017 £000**	31 March 2016 £000
Not later than one year	**29,279**	21,782
Later than one year but not later than five years	**85,803**	63,657
Later than five years	**63,180**	55,816
	178,262	141,255

18. Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. Each director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Nathan Imlach, is also a director of Mattioli Woods and the Investment Manager.

Investment Management Agreement

On 25 February 2014 the Company entered into a three year IMA with the Investment Manager commencing on Admission, under which the Investment Manager was appointed as AIFM with responsibility for the property management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA.

During the year the Investment Manager was paid an annual management fee calculated by reference to the NAV of the Company each quarter as follows:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4; plus
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m divided by 4.

The Investment Manager provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual financial statements of the Company. During the year the Company paid the Investment Manager an administrative fee equal to 0.125% of the NAV of the Company at the end of each quarter.

On 1 June 2017 the terms of the IMA were varied with effect from that date to extend the appointment of the Investment Manager for a further three years and to introduce further fee hurdles such that annual management fees payable to the Investment Manager under the IMA are now:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

Administrative fees payable to the Investment Manager under the IMA are now:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED
For the year ended 31 March 2017

18. Related party transactions continued

Investment Management Agreement continued

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the three year term. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a fee of 0.25% (2016: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Company paid the Investment Manager £2.49m (2016: £1.80m) in respect of annual management charges, £0.37m (2016: £0.25m) in respect of administrative fees and £0.23m (2016: £0.22m) in respect of marketing fees.

During the prior year the Company paid Mattioli Woods £0.02m in respect of corporate transaction support.

Properties

The Company owns MW House and Gateway House located at Grove Park, Leicester, which are partially let to Mattioli Woods. Mattioli Woods paid the Company rentals of £0.41m (2016: £0.41m) during the year.

19. Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year end was 14.5% (2016: 19.1%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate, and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCF only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2017, the RCF was drawn at £nil and therefore the Company was not exposed to interest rate risk.

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

19. Financial risk management continued

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 59%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2017 was £1.4m (2016: £1.1m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted average effective interest rate %	31 March 2017 0-3 months £000	31 March 2017 3 months-1 year £000	31 March 2017 1-5 years £000	31 March 2017 6 years + £000
Trade and other payables	—	7,014	—	146	425
Borrowings:					
Variable rate	—	—	—	—	—
Fixed rate	3.935	197	590	3,935	22,654
Fixed rate	2.987	275	826	6,721	53,312
		7,486	**1,416**	**10,802**	**76,391**

Company	Weighted average effective interest rate %	31 March 2017 0-3 months £000	31 March 2017 3 months-1 year £000	31 March 2017 1-5 years £000	31 March 2017 6 years + £000
Trade and other payables	—	14,123	—	146	425
Borrowings:					
Variable rate	—	—	—	—	—
Fixed rate	3.935	197	590	3,935	22,654
Fixed rate	2.987	275	826	6,721	53,312
		14,595	**1,416**	**10,802**	**76,391**

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 March 2017

19. Financial risk management continued

Liquidity risk management continued

Group and Company	Weighted average effective interest rate %	31 March 2016 0-3 months £000	31 March 2016 3 months-1 year £000	31 March 2016 1-5 years £000	31 March 2016 6 years + £000
Trade and other payables	—	3,681	—	148	423
Borrowings:					
Variable rate	2.856	322	967	24,127	26,000
Fixed rate	3.935	197	590	3,148	23,441
		4,200	1,557	27,423	49,864

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2017, the fair value of the Company's investment properties was £415.8m (2016: £319.0m).

Interest bearing loans and borrowings – level 3

As at 31 March 2017 the value of the Company's loans was £63.8m (2016: £65.1m) and the amortised cost of the Company's loans with Lloyds Bank plc and SWIP approximated their fair value. The loans from SWIP includes a market-based break cost for early repayment ("Prepayment Option"), which is classified as a non-separable component of the loan. If the Prepayment Option was classified as a separate financial instrument, it would increase the Company's borrowings and decrease NAV at 31 March 2017 by £2.6m (2016: £1.5m).

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

20. Events after the reporting date

New equity

Since the reporting date the Company has issued 6.0m new ordinary shares of 1p each, raising £6.7m (before costs and expenses).

Acquisitions

On 28 April 2017 the Company acquired a 22,663 sq ft retail warehouse in Gloucester for £4.725m let to Magnet and Smyths Toys. The units' leases expire in September 2024 and September 2021 respectively with a total passing rent of £0.373m per annum, reflecting a NIY of 7.41%.

On 11 May 2017 the Company acquired a 27,480 sq ft car dealership in York for £3.92m let to Pendragon on a lease expiring on 27 February 2030 with a current passing rent of £0.24m per annum, reflecting a NIY of 5.75%.

On 12 May 2017 the Company acquired a 31,062 sq ft retail warehouse in Galashiels for £3.145m let to B&Q plc. The unit's lease expires on 27 December 2024 with a current passing rent of £0.275m per annum, reflecting a NIY of 8.21%.

On 12 May 2017 the Company acquired three retail warehouse units in Plymouth for £7.487m let to Oak Furniture Land, SCS and McDonald's. The units' leases expire on 6 June 2025, 13 October 2026 and 28 September 2031 respectively with a total passing rent of £0.54m per annum, reflecting a NIY of 6.74%.

Borrowings

On 5 April 2017, the Company and Aviva entered into an agreement for Aviva to provide the Company with a new term loan facility of £50m. The Company drew down the first tranche of £35m on 6 April 2017, which is repayable on 6 April 2032 with a fixed rate of interest of 3.02% per annum payable on the balance.

IMA

On 1 June 2017 the terms of the IMA were varied to extend the appointment of the Investment Manager for a further three years and to introduce further fee hurdles as set out in Note 18.

ADDITIONAL DISCLOSURES (UNAUDITED)

1. NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

	Year ended 31 March 2017	Year ended 31 March 2016
Net assets (£000)	**351,877**	255,060
Shares in issue at 31 March (thousands)	**339,013**	251,242
NAV per share at the start of the year (p)	**101.5**	101.3
Dividends per share for the year (p)	**6.35**	6.25
NAV per share at the end of the year (p)	**103.8**	101.5
NAV total return	**8.5%**	6.4%

2. Dividend cover

The extent to which dividends relating to the year are supported by recurring net income.

	Year ended 31 March 2017	Year ended 31 March 2016
Dividends paid relating to the year (£000)	**14,266**	9,548
Dividends approved relating to the year (£000)	**5,398**	4,227
	19,664	13,775
Profit after tax (£000)	**24,205**	11,207
One-off costs (£000)	**165**	—
Net (gains)/losses on investment property (£000)	**(4,512)**	2,681
	19,858	13,888
Dividend cover	**101.0%**	100.8%

3 Net gearing

Gross borrowings less unrestricted cash, divided by portfolio value.

	Year ended 31 March 2017	Year ended 31 March 2016
Gross borrowings (£000)	**65,000**	66,000
Cash (£000)	**(5,807)**	(5,455)
Restricted cash (£000)	**1,307**	490
Net borrowings (£000)	**60,500**	61,035
Investment property (£000)	**415,812**	318,966
Net gearing	**14.5%**	19.1%

4 Ongoing charges

A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV.

	Year ended 31 March 2017	Year ended 31 March 2016
Average quarterly NAV during the year (£000)	**303,840**	212,069
Expenses (£000)	**5,512**	3,851
Operating expenses of rental property rechargeable to tenants (£000)	**(630)**	(451)
	4,882	3,400
Operating expenses of rental property directly incurred (£000)	**(1,239)**	(572)
	3,643	2,828
OCR	**1.6%**	1.6%
OCR excluding direct property expenses	**1.2%**	1.3%

ADDITIONAL DISCLOSURES (UNAUDITED)

CONTINUED

EPRA performance measures

EPRA promotes, develops and represents the European public real estate sector, providing leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders.

5. EPRA earnings per share

EPRA earnings represent the earnings from core operational activities, excluding investment property valuation movements and gains or losses on asset disposals. It demonstrates the extent to which dividend payments are underpinned by recurring operational activities.

	Year ended 31 March 2017	Year ended 31 March 2016
Profit for the year after taxation (£000)	**24,205**	11,207
Investment property valuation (gain)/loss (£000)	**(4,512)**	2,681
EPRA earnings (£000)	**19,693**	13,888
Weighted average number of shares in issue (thousands)	**298,731**	204,196
EPRA earnings per share (p)	**6.6**	6.8

6. EPRA NAV per share

The EPRA NAV highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	31 March 2017	31 March 2016
Net assets (£000)	**351,877**	255,060
Fair value of financial instruments (£000)	**—**	—
Deferred tax (£000)	**—**	—
EPRA NAV (£000)	**351,877**	255,060
Closing number of shares in issue (thousands)	**339,013**	251,242
EPRA NAV per share (p)	**103.8**	101.5

7. EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties. The EPRA "topped-up" NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

	31 March 2017	31 March 2016
Investment property valuation (£000)	**415,812**	318,966
Allowance for estimated purchasers costs[38] (£000)	**27,028**	20,733
Gross up property portfolio valuation (£000)	**442,840**	339,699
Annualised cash passing rental income (£000)	**28,907**	22,110
Property outgoings (£000)	**(730)**	(450)
Annualised net rents (£000)	**28,177**	21,660
Impact of expiry of lease incentives	**1,841**	1,227
	30,018	22,887
EPRA NIY	**6.4%**	6.4%
EPRA "topped-up" NIY	**6.8%**	6.7%

8. EPRA vacancy rate

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole portfolio.

	31 March 2017	31 March 2016
Annualised potential rental value of vacant premises (£000)	**449**	747
Annualised potential rental value for the property portfolio (£000)	**31,197**	23,600
EPRA vacancy rate	**1.4%**	3.2%

9. EPRA cost ratios

EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income.

	Year ended 31 March 2017	Year ended 31 March 2016
Directly incurred operating expenses and administrative fees (£000)	**4,882**	3,400
Ground rent costs (£000)	**(37)**	(37)
EPRA costs (including direct vacancy costs) (£000)	**4,845**	3,363
Property void costs (£000)	**(517)**	(152)
EPRA costs (excluding direct vacancy costs) (£000)	**4,328**	3,211
Gross rental income (£000)	**26,980**	18,561
Ground rent costs (£000)	**(37)**	(37)
Rental income net of ground rent costs (£000)	**26,943**	18,524
EPRA cost ratio (including direct vacancy costs)	**18.0%**	18.2%
EPRA cost ratio (excluding direct vacancy costs)	**16.1%**	17.3%

38 Assumed at 6.5% of investment property valuation.

COMPANY INFORMATION

Directors

David Hunter	Independent Non-executive Chairman
Barry Gilbertson	Independent Non-executive
Matthew Thorne	Independent Non-executive
Ian Mattioli MBE	Non-executive

Company secretary
Nathan Imlach

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FINANCIAL CALENDAR

27 APRIL 2017	Ex-dividend date for Q4 dividend
28 APRIL 2017	Record date for Q4 dividend
6 JUNE 2017	Announcement of results for the year ended 31 March 2017
30 JUNE 2017	Payment of Q4 dividend
20 JULY 2017	AGM

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