Custodian
REIT PLC

Interim Report 2016

WELCOME

Custodian REIT plc ("Custodian REIT" or "the Company") is a UK real estate investment trust ("REIT") with a portfolio comprising properties predominantly let to institutional grade tenants on long leases throughout the UK, characterised by smaller lot sizes with individual property values of less than £10m at acquisition.

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting smaller lot size properties, the Company intends to provide investors with an attractive level of income with the potential for capital growth.

For more information, please visit
www.custodianreit.com

Lancaster House, BIRMINGHAM

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1 NAV movement including dividends paid.
2 Before costs and expenses of £0.6m.
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4 Before the impact of acquisition costs.
5 Portfolio passing rent divided by portfolio valuation plus estimated purchasers' costs of 6.5%.
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9 Share price movement including dividends paid.
10 Profit after tax excluding gains on investment properties (Note 3).
11 Earnings per share ("EPS") excluding gains on investment properties. Basic EPS for the Period is 3.0p (30 September 2015: 4.3p, 31 March 2016: 5.5p).
12 NAV per share excluding recognised fair value adjustments on financial instruments and deferred tax.

FINANCIAL HIGHLIGHTS AND PERFORMANCE

NAV per share total return

3.4%

2015: 4.6%

Dividends

3.25p

2015: 3.0p

Market capitalisation

£306.7m

2015: £207.0m

- Net asset value ("NAV") per share total return[1] of 3.4%
- NAV per share of 101.7p
- Portfolio value of £383.5m
- Profit after tax of £8.3m
- £43.0m[2] of new equity raised at an average premium of 5.0% to dividend adjusted NAV
- Dividends of 3.25p per share paid in the period[3], proposed Q2 dividend of 1.5875p per share
- £66.6m invested in 18 acquisitions and on-going developments during the period
- £15.0m committed pipeline of property acquisition opportunities
- £3.5m portfolio valuation uplift[4] including £3.3m from successful asset management initiatives
- Portfolio net initial yield[5] 6.95%, unexpired lease term[6] 6.2 years, occupancy rate[7] 97.8%
- Net gearing[8] of 21.1% loan-to-value
- Drawn down £45.0m 12-year fixed rate loan and repaid £20m five-year variable rate loan
- Heads of terms agreed for a £50m 15-year fixed rate loan

	Unaudited 6 months to 30 Sept 2016	Unaudited 6 months to 30 Sept 2015	Audited 12 months to 31 Mar 2016
Total return			
NAV per share total return	3.4%	4.6%	6.2%
Total shareholder return[9]	0.9%	1.8%	3.5%
Dividends paid (p per share)	3.25	3.0	6.25
Capital values			
NAV (£m)	297.1	196.5	255.1
NAV per share (p)	101.7	103.0	101.5
Net gearing	21.1%	13.7%	19.1%
Investment property portfolio valuation (£m)	383.5	232.9	319.0
Ordinary share price (p)	105.0	108.5	107.3
Premium to NAV per share	3.2%	5.3%	5.7%
Market capitalisation (£m)	306.7	207.0	269.6
European Public Real Estate Association ("EPRA") performance measures			
EPRA earnings[10] (£m)	8.4	6.4	13.9
EPRA earnings per share[11] (p)	3.0	3.5	6.8
EPRA NAV per share[12] (p)	101.7	103.0	101.5

CHAIRMAN'S STATEMENT

"We can secure sustainable income to support future dividends and deliver capital growth for shareholders over the long-term"

David Hunter,
Chairman

Profit after tax

£8.3m

2015: £7.9m

New equity raised

£43.0m

2015: £14.3m

I am pleased to report the Company has delivered further positive returns for the six months ended 30 September 2016 ("the Period"), while continuing to expand its property portfolio. We invested a total of £66.6m during the Period, completing 18 acquisitions and achieving practical completion on one development, funded by £43.0m raised from the issue of new shares. Of this, £11.9m was raised after the EU referendum when many of our peers' shares were trading at a discount to NAV and therefore unable to raise new equity. We continue to target growth to realise the potential economies of scale offered by the Company's relatively fixed cost base, while adhering to the Company's investment policy and maintaining the quality of both properties and income.

At the same time as growing the portfolio, we have continued to pay fully covered dividends in line with target and minimised 'cash drag' on the issue of new shares by taking advantage of the flexibility offered by the Company's £35.0m revolving credit facility.

The successful deployment of new monies on the acquisition of high quality assets at an average net initial yield of 7.4% supports our objective to deliver strong income returns from a focus on smaller lots in strong, regional markets.

Market

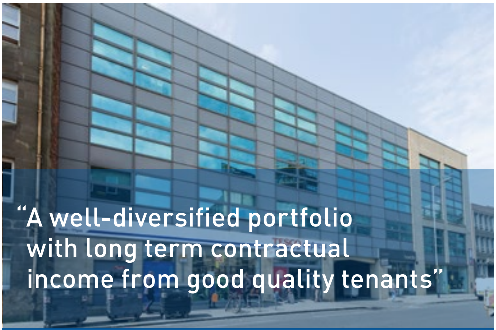
Custodian Capital Limited ("CCL" or "the Manager"), the Company's discretionary investment manager, anticipates medium term rental growth in the regional occupational property market. This market has remained robust throughout a period of turbulence in the capital markets following the EU referendum, primarily driven by a lack of supply, limited development and generally low rental levels from which rental growth can be obtained. We believe these strengths in the occupational market will drive performance through the next phase of the market, where the focus will be on income, occupancy levels and income growth. Regional markets and sub-£10m lot sizes in particular (where there has been less market pressure in the last two years) are well placed to out-perform whole market forecasts with the benefit of higher yielding assets, fundamentally under-rented properties and a lack of supply that we expect to sustain rental growth.

Underlining our confidence in regional property markets' ability to out-perform in a low return environment, we raised £25m of new equity in October through a placing to progress Custodian REIT's investment strategy. The Manager has access to a strong pipeline of acquisition opportunities and a track record of committing new equity promptly.

Net asset value

The Company delivered NAV per share total return of 3.4% for the Period. The first half was a period of significant new investment, where the initial costs (primarily stamp duty) of investing £66.6m in property acquisitions diluted NAV per share total return by circa 1.2p, partially offset by raising £43.0m at a 5% premium to dividend adjusted NAV, which added 0.55p per share[13]. Acquisition costs incurred during the Period represented 5.7% of the total consideration, lower than the typical purchasers' costs of 6.5% due to 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 (Note 9), allowing the Company and vendor to share the associated cost savings.

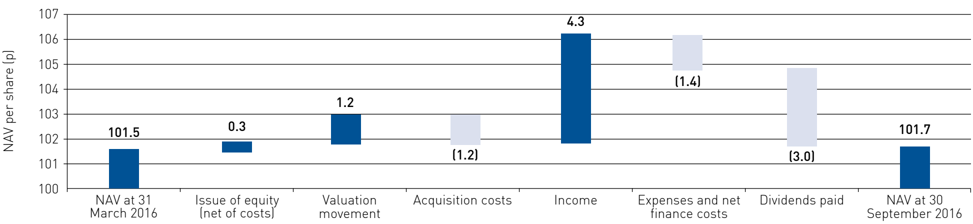
In addition to new acquisitions, activity during the Period also focused on pro-active asset management, which generated £3.3m of the £3.5m valuation uplift. During the remainder of this financial year we intend to continue our asset management activities and complete on the current acquisition pipeline, deploying new monies raised from the recent equity issue and drawing down debt to maintain gearing at or around our target level of 25% loan-to-value ("LTV").



EDINBURGH

17 See page17 for **Portfolio**

	Pence per share	£m
NAV at 31 March 2016	101.5	255.1
Issue of equity (net of costs)	0.3	42.4
	101.8	**297.5**
Valuation movements relating to:		
– Asset management activity	1.1	3.3
– Other valuation movements	0.1	0.2
	1.2	3.5
Profit on disposal of investment properties	0.0	0.1
Impact of acquisition costs	(1.2)	(3.8)
Net valuation movement	**(0.0)**	**(0.2)**
Income	4.3	12.6
Expenses and net finance costs	(1.4)	(4.1)
Dividends paid[14]	(3.0)	(8.7)
NAV at 30 September 2016	**101.7**	**297.1**



13 0.3p per share through new issuance plus 0.25p per share notional dividend saving due to new shares being issued ex-dividend.

14 Dividends of 3.25p per share were paid on shares in issue throughout the Period. Dividends paid on shares in issue at the end of the Period averaged 3.0p per share due to new shares being issued ex-dividend.

CHAIRMAN'S STATEMENT CONTINUED

Share price

Total shareholder return for the first half of the financial year was 0.9%, with a closing price of 105.0p per share on 30 September 2016 representing a 3.2% premium to NAV. During the Period the Company traded consistently at a premium to NAV despite the market turmoil caused by the EU referendum, with low volatility offering shareholders stable returns. I believe the premium to NAV has been a function of strong demand for closed-ended property funds, the Company's investment strategy being focused on regional property and the attractive level of income offered by the Company's dividend policy.

Placing of new ordinary shares

The Company issued 40.9m new shares during the Period, at an average premium to dividend adjusted NAV of 5.0%. These issues have been accretive to NAV, with positive investor demand for the Company's shares a testament to our success to date.

Since the Period end, a further 25.9m new shares have been issued raising £26.8m (before costs and expenses).

Borrowings

The Company's target gearing ratio is 25% LTV. As at 30 September 2016 net gearing equated to 21.1% LTV. The Board is keen to reduce risk to shareholders wherever possible by taking advantage of the prevailing low interest rates to secure long-term borrowings at fixed rates.

On 6 June 2016 the Company drew down a new 12 year £45m term loan facility with Scottish Widows plc with interest fixed at 2.987% per annum. The Company used the proceeds 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 to be repaid in October 2019.

Heads of terms have been agreed for a new 15 year £50m term loan facility ("the New Loan") with a fixed margin of 1.6% per annum over the 2032 swap rate.

Investment Manager

The Board is pleased with the progress and performance of the Investment Manager, particularly its success in continuing growth through the deployment of new monies and securing the earnings required to pay fully covered dividends in line with target.

Dividends

Income is a major component of total return. The Company paid dividends totalling 3.25p per share during the Period, comprising interim dividends of 1.6625p per share and 1.5875p per share relating to the quarters ended 31 March 2016 and 30 June 2016 respectively.

The Board has approved an interim dividend of 1.5875p per share for the quarter ended 30 September 2016 which will be paid on 31 December 2016. In the absence of unforeseen circumstances the Board believes the Company is well placed to meet its target of paying further quarterly dividends, fully covered by income, to achieve an annual dividend per share for the year ending 31 March 2017 of 6.35p (2016: 6.25p, 2015: 5.25p).

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.

Semcon, WARWICK

Outlook

Custodian REIT's performance can be enhanced through the careful deployment of new monies and continued asset management of the portfolio. Our focus is on maintaining and enhancing cash flow from the portfolio to support our objectives to pay fully covered dividends and secure sustainable growth. While we can never rule out some future impact on NAV as a result of falling confidence in the property market, we believe we can secure sustainable income to support future dividends and deliver capital growth for shareholders over the long term.

David Hunter
Chairman
21 November 2016

INVESTMENT MANAGER'S REPORT

"Targeting income with conservative gearing in a well-diversified regional portfolio"

Richard Shepherd-Cross,
Managing Director,
Custodian Capital Limited,
Investment Manager

Portfolio value

£383.5m

2015: £232.9m

Net gearing

21.1%

2015: 13.7%

Investment market

The property market appeared to free-wheel in the four months leading up to the EU referendum, with most market protagonists unprepared to make decisions either to buy or to sell, or to lease or not to lease. The widespread expectation was for a 'remain' vote and the consequential market shock saw the share price of listed property companies move to deep discounts to NAV, open-ended funds move to 'gate' redemptions and property valuers offer valuations with a 'Brexit' qualification.

Five months later investment market activity has returned. Listed property stocks have recovered (in the case of property investment companies to pre-referendum levels), some of the open-ended funds have re-opened and valuers have removed their qualification. The investment market for smaller lot sized properties has been sufficiently active for valuations to be benchmarked against arm's length transactions and there is more data to support further yield hardening than softening.

In central London markets the collapse in Sterling provided a fillip to both overseas investors and open-ended fund managers alike, allowing many fund managers to provide the liquidity they so badly needed by selling prime London assets to overseas buyers who were energised by currency gains.

At the opposite end of the market, domestic UK private investors have been spurred on by the low cost of debt and the near zero interest rates on their savings to increase property investments and we have witnessed upwards pressure on pricing for higher quality, smaller lot sized, well-let assets.

Occupational market

Regional occupational property markets feel distinctly mid-cycle. While investment market activity over the last few months has been more typical of 'end of cycle' behaviour, occupational markets are displaying very different dynamics.

Rents fell across the UK from 2008 until the start of 2015 when we started to see rental growth driven not by excessive demand but by a fundamental lack of supply, which is unlikely to loosen until we witness widespread development. At present many markets are delivering rental levels which are not sufficient to bring forward new development. It would appear that there is a latent pool of rental growth on which the market must deliver before we see supply reach equilibrium with demand, thus maintaining pressure on rents to grow.

This is a market where vacancy levels are low and landlords hold sway in lease negotiations. Although many tenant negotiations remain finely balanced it should be possible to minimise rental voids and secure rental growth across the Company's portfolio in the year ahead.

It has been telling that in almost all cases over the last 18 months our tenants have elected to remain in occupation at lease break or expiry, and the occupancy rate now stands at 97.8%, up from 96.8% six months ago.

Pipeline

As at 30 September 2016 Custodian REIT had completed £47.0m of acquisitions following the EU referendum, demonstrating our confidence in the market. September valuations recorded an increase compared to purchase prices agreed in July when market volatility had hit confidence. A further £13.4m of acquisitions have completed post Period end.

The Company is considering a £25m pipeline of opportunities including industrial, retail and alternative sector assets as well as a committed pre-let industrial development funding in Stevenage.

We are seeing some premium prices being paid for sub-£2m properties with a very active private investor market. We have sold one small property since the Period end with another under offer to sell and intend to take advantage of this pricing arbitrage to sell some more smaller assets and to re-invest in £2 - 10m lot size assets where we have yet to witness the same pricing pressure.

Investment objective

The key investment objective of Custodian REIT 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.

The Company is committed to minimising cash drag through the prompt deployment of new funds from share placings and new debt. The Company benefits from a £35m revolving credit facility, which has been integral in reducing cash drag, giving us the flexibility to reduce debt when new equity is issued.

The rate of investment during the Period has been ahead of the Board's expectations, which we believe demonstrates the success of the Company's strategy of focusing on smaller lots in strong, regional markets. We remain confident we can continue to acquire properties that meet the Company's investment criteria and improve the portfolio mix. In the remainder of this financial year we expect to see continued rental growth and low vacancy rates supporting the Company's investment objectives.

Superdrug, AVONMOUTH

INVESTMENT MANAGER'S REPORT CONTINUED

Portfolio performance

During the Period the Company completed on 18 new property acquisitions and achieved practical completion on a development funding (Cannock) with another (Stevenage) ongoing, adding £66.6m of assets to the portfolio. Property acquisitions and the completed development funding are shown below:

Industrial

Location	Cannock (development funding)
Tenant	Hellermann Tyton
Net initial yield (''NIY'')	6.38%
Consideration	£4.22m

Location	Tamworth
Tenant	DB Schenker
NIY	5.65%
Consideration	£4.70m

Location	Wolverhampton
Tenant	Assa Abloy
NIY	7.51%
Consideration	£4.50m

Location	Winsford
Tenant	H&M
NIY	7.15%
Consideration	£5.55m

Retail

Location	Chester
Tenant	TSB and Ciel (t/a Chesca)
NIY	5.87%
Consideration	£2.05m

Location	Swindon
Tenant	Go Outdoors and B&M
NIY	6.86%
Consideration	£7.18m

Location	Leighton Buzzard
Tenant	Homebase
NIY	6.91%
Consideration	£7.12m

Office

Location	Castle Donington
Tenant	National Grid
NIY	7.59%
Consideration	£4.10m

Location	Cheadle
Tenant	Wienerberger
NIY	9.81%
Consideration	£2.90m

INVESTMENT MANAGER'S REPORT CONTINUED

Light Industrial Portfolio


1


2


3

Purchase price

£26.75m

NIY

7.86%

Reversionary yield

8.03%

WAULT

5.4 years

Passing rent (per annum)

£2.21m

"The Light Industrial Portfolio is a strong fit with our investment strategy and is complementary to our existing property portfolio, augmenting our regional, industrial bias and adding diversification by both tenant and location. The Portfolio was compiled between 2011 and 2015 but was sold due to the vendor restructuring its funds business. This provides Custodian REIT with opportunities to continue the asset management plan and enhance value, having agreed terms at the height of market uncertainty regarding the EU referendum. 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."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1.	**Irlam**	Northern Commercial
2.	**West Bromwich**	OyezStraker Group
3.	**Christchurch**	Interserve Construction
4.	**Sheffield**	Arkote
5.	**Atherstone**	North Warwickshire Borough Council
6.	**Warrington**	DHL
7.	**Warrington**	Dinex
8.	**Westerham**	Aqualisa Products
9.	**Gateshead**	Multi-let
10.	**Kettering**	Multi-let

INVESTMENT MANAGER'S REPORT CONTINUED

At 30 September 2016 the Company's property portfolio comprised 128 assets and 251 tenants.

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. Sector weightings are shown below:

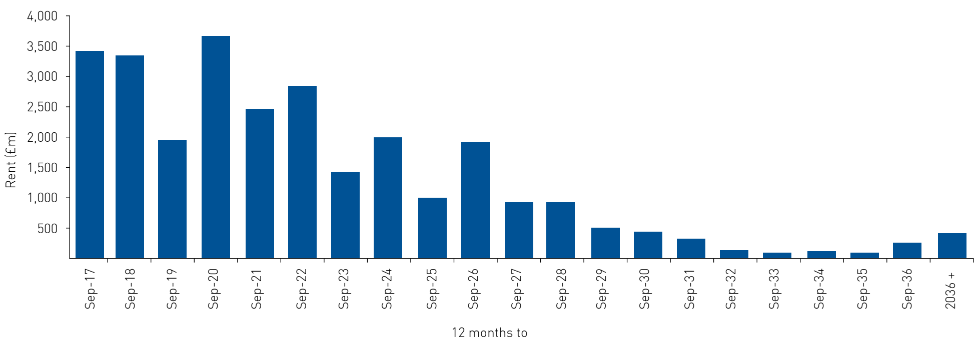
Sector	Valuation 30 Sept 2016 £m	Weighting by income 30 Sept 2016	Weighting by income 31 Mar 2016	Valuation movement £m	Valuation movement[15] %
Industrial	167.6	44%	39%	1.5	1.0
Retail	109.3	27%	28%	1.6	1.7
Other	54.9	14%	18%	(0.3)	(0.4)
Office	51.7	15%	15%	0.7	1.7
Total	**383.5**	**100%**	**100%**	**3.5**	**1.1**

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 including car dealerships, pubs, restaurants and trade counters, but which typically have not been owned by institutional investors.

Office rents are growing strongly and supply is constrained by a lack of development and the extensive conversion of secondary offices to residential, making returns 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 can be a real cost of office ownership, which can impact cash flow and be at odds with the Company's relatively high target dividend.

Active asset management has had a positive impact on the portofolio's weighted average unexpired lease term, as shown on the graph below:

LEASE EXPIRY PROFILE



15 Excluding the impact of acquisitions and disposals.

Similar to the office market, occupational demand and limited supply is driving rental growth in the industrial sector and returns are positive. As industrial property is less exposed to obsolescence this sector remains a very good fit with the Company's strategy.

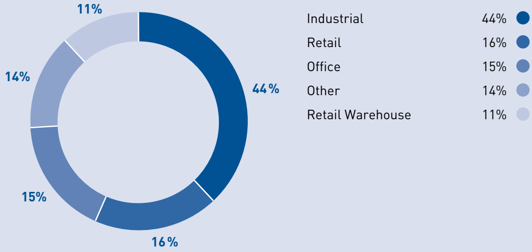
Retail is split between high street and out-of-town retail (retail warehousing). Strong comparison retail pitches in dominant regional towns continue to show very low vacancy rates and offer stable long-term cash flow with the opportunity for rental growth. Retail warehousing is witnessing close to record 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.

Portfolio risk

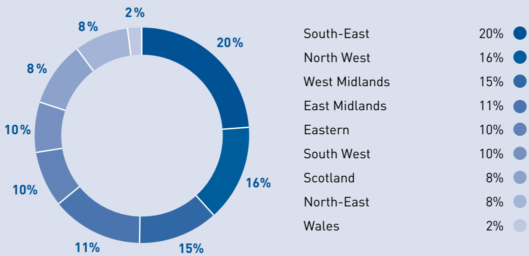
The portfolio's security of income is enhanced by 18% of income benefitting from either fixed or indexed rent reviews, with increasingly strong evidence of open market rental growth across all sectors.

Short-term income at risk is a relatively low proportion of the portfolio's total income, with only 30% expiring in the next three years (12% within one year).

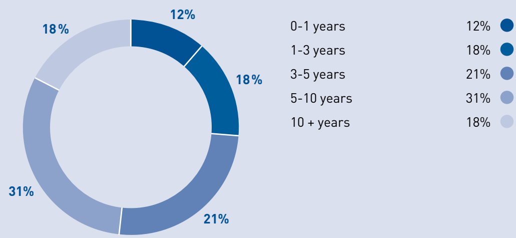
SECTOR SPLIT BY INCOME



REGIONAL SPLIT BY INCOME



INCOME EXPIRY



INVESTMENT MANAGER'S REPORT CONTINUED

Asset management

Our continuing focus on active asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in £3.3m of the £3.5m valuation increase, with further initiatives expected to complete in the coming months.

These strategies have also had a positive impact on the portfolio's weighted average unexpired lease term to the first lease break or expiry ("WAULT"), which decreased to 6.2 years from 6.7 years at 31 March 2016 despite the WAULT of properties acquired during the Period being 4.9 years.

Key asset management initiatives undertaken during the Period include:

- Arrangement of simultaneous surrender and agreement of new lease of a retail unit on High Street, Colchester to Metro Bank. The new lease secures an increase in rent from £145,000 to £200,000 per annum and a lease term of 25 years, with a break option in year 15;
- Extending Geldard LLP's lease at Pride Park, Derby by removing a break clause with expiry now in June 2023;
- Extending Brenntag UK's lease 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;
- Extending Tesco's lease at Causewayside House, Edinburgh with expiry moving from December 2019 to December 2029;
- Extending Savers' lease at a retail unit in Colchester with expiry moving from December 2017 to December 2022;
- Letting a vacant retail unit in Portsmouth to The Works on a 10 year lease with rent of £105,000 per annum; and
- Agreeing terms for a new letting at Tilbrook 44 in Milton Keynes on a 10 year lease with a rent of £265,000 per annum.

The Company sold a 63 room hotel on Castlegate Business and Leisure Park, Dudley for £4.45m in July 2016, representing a NIY of 5.08%, ahead of cost and 31 March 2016 valuation. The Company also sold a non-core student residential building in Lenton, Nottingham for £1.2m in May 2016, ahead of cost and 31 March 2016 valuation. The Company has used the proceeds from these disposals to fund acquisitions better aligned to its stated investment strategy.

Outlook

We expect to see larger funds continuing to sell smaller lots regarded as being sub-scale for their ambitions. We anticipate this trend will maintain a pipeline of new acquisition opportunities for Custodian REIT, with the relative imbalance of demand leading to smaller lots showing 'value' relative to larger lots in terms of income returns.

Growth in rents is now taking hold in the regional markets and we expect this to continue, driven by the significant lack of supply of good quality, modern real estate combined with growing occupational demand.

I am confident the Company's strategy of targeting income with low gearing in a well-diversified regional portfolio will continue to deliver the stable long-term returns demanded by our shareholders.

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
21 November 2016

Geldards, DERBY

Lease extension

5 years

Valuation uplift

£0.5m

Brenntag, CAMBUSLANG

Lease extension

10 years

Minimum rental uplift (per annum)

2.5%

Valuation uplift

£0.4m

Tilbrook 44, MILTON KEYNES

Rent (per annum)

£265k

Lease term

10 years

Expected valuation uplift

£0.6m

"The sector has proved to be an out-performer over the long-term"

Travelodge, PORTISHEAD

17 See page 17 for **Portfolio**

PORTFOLIO

Town	Address	Tenant	% portfolio income[16]
Industrial			
Gateshead	Metro Riverside	Multi-let	1.80
Warrington	Chesford Grange	JTF Wholesale	1.72
Ashby	Ashby Park	Teleperformance	1.65
Winsford	One Road	H&M	1.50
Salford	Agecroft Commerce Park	Restore	1.43
Bedford	Priory Business Park	Emerson Network Power & Elma Electronics	1.40
Wolverhampton	Cannock Road	Assa Abloy	1.27
Doncaster	Carriage Way	Portola Packaging	1.26
Stone	Stone Business Park	Revlon International	1.14
Redditch	Acanthus Road	AMCO Services	1.11
Redditch	Alto House, Ravensbank Drive	SAPA Profiles UK	1.08
Biggleswade	Pegasus Drive, Stratton Business Park	Turpin Distribution Services	1.06
Kettering	Kettering Venture Park	Multi-let	1.06
Chepstow	Severn Link Distribution Centre	Multi-let	1.02
Cannock	Blakeney Way, Kingswood Lakeside	Hellermann Tyton	1.00
Normanton	Foxbridge Way	YESSS Electrical	1.00
Milton Keynes	Bradbourne Drive	Massmould	0.99
Tamworth	Relay Park	D B Schenker	0.99
West Bromwich	Hawthornes Business Park	OyezStraker Group	0.99
Warrington	Leacroft Road	EAF Supply Chain & Synertec	0.92
Plymouth	Western Wood Way, Langage Business Park	Sherwin-Williams, Diversified Brands	0.91
Bristol	Albert Reach	BSS	0.88
Nuneaton	Harrington Way	DX Network Services	0.86
Coventry	South Delivery Office, Orchard Business Park	Royal Mail Group	0.83
Warrington	Kingsland Point, Kingsland Grange	DHL	0.81
Trafford Park	The Furrows, Trafford Park	Unilin Distribution	0.78
Avonmouth	RD Park	Superdrug Stores	0.76
Oldbury	Sytner Body Shop, Brades Road	Sytner Group	0.74
Bermondsey	Verney Street	Constantine	0.71
Christchurch	Airfield Way	Interserve Project Services	0.71
Cambuslang	Westburn Drive, Clydesmill Industrial Estate	Brenntag UK	0.70
Aberdeen	Howemoss Drive, Kirkhill Industrial Estate	DHL	0.68
Warrington	Chesford Grange	Dinex	0.65
Warwick	Edgehill Drive, Tournament Fields	Semcon	0.64
Hamilton	Livingstone Boulevard	Ichor Systems	0.62
Erdington	Opus Aspect	West Midlands Ambulance Service NHS Trust	0.54
Irlam	Northbank Industrial Estate, Irlam Wharf Road	Northern Commercials	0.50

16 % of portfolio passing rent.

PORTFOLIO
CONTINUED

Town	Address	Tenant	% portfolio income
Industrial continued			
Sheffield	Sheffield Parkway	Synergy Health (UK)	0.48
Farnborough	Invincible Road	Triumph Structures Farnborough	0.48
Speke	Estuary Commerce Park	Powder Systems	0.48
Westerham	John Gray Building, Hortons Way	Aqualisa Products	0.48
Coalville	Reg's Way	MTS Logistic	0.46
Castleford	Willowbridge Way, Whitwood	Bunzl UK	0.44
Sheffield	Parkway One Business Centre	Arkote	0.43
Kettering	Telford Way	Sealed Air	0.42
Speke	Estuary Commerce Park	DHL	0.42
Atherstone	Innage Park	North Warwickshire Borough Council	0.41
Huntingdon	Lancaster Way, Ermine Business Park	PHS Group	0.37
Kilmarnock	Queens Drive	Royal Mail Group	0.33
Glasgow	Campsie Drive	DHL	0.33
Normanton	Loscoe Close	Acorn Web Offset	0.31
Sheffield	Shepcote Enterprise Park	River Island Clothing & Andrew Page	0.30
Hinckley	Phoenix Business Park, Brindley Road	Multi-let	0.29
Leeds	National Court, South Accommodation Road	Sovereign Air Movement & Nationwide Crash Repair	0.26
Milton Keynes	Tilbrook Industrial Estate	Vacant	0.00
Retail			
Winnersh	Gazelle Close	Wickes & Pets at Home	2.02
Portsmouth	Commercial Road	Multi-let	1.86
Swindon	County Road Retail Park	Go Outdoors & B&M	1.86
Leighton Buzzard	Vimy Road	Homebase	1.86
Colchester	High Street/Trinity Square	Multi-let	1.78
Banbury	Southam Road	B&Q	1.69
Milton Keynes	North Row, Grafton Gate	Staples UK	1.48
Grantham	Discovery Retail Park, London Road	Laura Ashley, Poundstretcher & Carpetright	1.15
Guildford	Market Street	Reiss & House of Fraser	0.99
Colchester	Long Wyre Street	Poundland & Savers	0.88
Southampton	Above Bar Street	URBN UK	0.78
Torpoint	Anthony Road	Sainsbury's	0.77
Stourbridge	The Crystal Retail Centre	Multi-let	0.76
Norwich	White Lion Street	Specsavers	0.71
Portishead	Harbour Road	Majestic Wine & T J Morris (t/a Home Bargains)	0.67
Shrewsbury	Pride Hill	Outdoor and Cycle Concepts	0.57
Llandudno	Mostyn Street	WH Smith	0.53
Nottingham	St Peter's Gate	The White Company	0.50

Town	Address	Tenant	% portfolio income
Retail continued			
Jewellery Quarter, Birmingham	Frederick Street	Multi-let	0.47
Chester	Eastgate Street & Eastgate Row	Chesca & TSB	0.45
Kings Lynn	High Street	Top Man	0.44
Weston-Super-Mare	High Street	Superdrug Stores	0.44
Glasgow	Argyle Street	Greggs	0.42
Southsea	Palmerston Road	Superdrug Stores & Portsmouth City Council	0.41
Chester	Eastgate Street & Eastgate Row	Kuoni Travel & Aslan Jewellery	0.39
Edinburgh	George Street	Phase Eight	0.39
Portsmouth	Commercial Road	The Works	0.37
Scarborough	Westborough	Waterstones	0.33
Taunton	East Gate	Wilkinson Hardware Stores	0.33
Dumfries	High Street	Iceland Foods	0.33
Bury St Edmunds	Cornhill Street	The Works	0.32
Edinburgh	Causewayside House	Tesco Stores & R Scott Bathrooms	0.31
Bedford	Silver Street	Waterstones	0.30
St Albans	Trident House, Mosquito Way	EE	0.27
Redcar	Bath Street and High Street	Multi-let	0.26
Hinckley	Castle Street	WH Smith	0.25
Cirencester	Dyer Street	Framemaker Galleries & Danish Wardrobe Company	0.24
Chester	Watergate Street	Whistles Holdings	0.20
Bury St Edmunds	Abbeygate Street	Savers	0.18
Cheltenham	High Street	Done Brothers (t/a Betfred)	0.15
Office			
West Malling	Kings Hill Avenue	Regus	1.98
Birmingham	Lancaster House	Multi-let	1.86
Leicester	Gateway House, Grove Park	Mattioli Woods, RBS & Regus	1.70
Edinburgh	Causewayside House	Multi-let	1.25
Leeds	Cardinal House, Manor Road	Enact	1.20
Castle Donington	Osprey House, Pentagon Business Park	National Grid	1.14
Cheadle	Cheadle Royal Business Park	Wienerberger	1.07
Leeds	David Street	Enact	1.03
Derby	Pride Park	Geldards	0.91
Leicester	MW House, Grove Park	Mattioli Woods & Erskine Murray	0.89
Glasgow	West George Street	Multi-let	0.76
Solihull	Westbury House	Lyons Davidson	0.67

PORTFOLIO
CONTINUED

Town	Address	Tenant	% portfolio income
Other			
Crewe	Phoenix Leisure Park	Multi-let	1.87
Perth	St Catherine's Leisure Park	Multi-let	1.38
Knutsford	Park Gate Bentley, Mobberley Road	R Stratton & Co	1.30
Torquay	Abbey Sands	Multi-let	1.01
Gillingham	Beechings Way	Co-Operative	0.95
Leicester	Aylestone Road	Magnet	0.88
Peterborough	Mallory Road	Marshall Motor Group	0.80
Portishead	Harbour Road	Travelodge	0.71
Lincoln	Stephenson Road, North Hykeham	MKM Building Supplies	0.60
Solihull	Coventry Road, Elmdon	Allen Ford (t/a Kia)	0.51
Crewe	Counterpoint, Weston Road	Plumbase, Multi Tile & F1 Autocentres	0.50
Redhill	Brighton Road	Honda Motor Europe	0.50
Bath	Bluecoat House, Saw Close	Prezzo	0.43
High Wycombe	Frogmore	Stonegate Pub Co	0.41
Castleford	Castlewood Way	MKM Building Suppliers	0.39
Watford	The Dome Roundabout	Pizza Hut	0.37
Southsea	Palmerston Road	JD Wetherspoon	0.30
Leicester	Grove Farm Triangle	Pizza Hut	0.29
Portishead	Harbour Road	JD Wetherspoon	0.25
Basingstoke	Chequers Road	Teddies Nurseries	0.22
Chesham	Bois Moor Road	Teddies Nurseries	0.18
Knutsford	The Old Knutsford Library	Knutsford Day Nursery	0.18

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Note	**Unaudited 6 months to 30 Sept 2016 £000**	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Revenue	4	**12,575**	8,686	19,012
Investment management fee		**(1,414)**	(974)	(2,200)
Operating expenses of rental property				
– rechargeable to tenants		**(590)**	(427)	(451)
– directly incurred		**(569)**	(180)	(572)
Professional fees		**(169)**	(191)	(356)
Directors' fees		**(80)**	(77)	(172)
Administrative expenses		**(63)**	(66)	(100)
Expenses		**(2,885)**	(1,915)	(3,851)
Operating profit before financing and revaluation of investment properties		**9,690**	6,771	15,161
Unrealised gains/(losses) on revaluation of investment properties:				
– relating to property revaluations	9	**3,502**	2,624	3,031
– relating to costs of acquisition	9	**(3,759)**	(1,168)	(5,768)
Profit on disposal of investment properties		**128**	77	56
Net (losses)/gains on investment properties		**(129)**	1,533	(2,681)
Operating profit before financing		**9,561**	8,304	12,480
Net finance costs (including one-off items)	5, 6	**(1,266)**	(399)	(1,273)
Profit before tax		**8,295**	7,905	11,207
Income tax	7	**—**	—	—
Profit and total comprehensive income for the Period, net of tax		**8,295**	7,905	11,207
Attributable to:				
Owners of the Company		**8,295**	7,905	11,207
Earnings per ordinary share:				
Basic and diluted (p)	3	**3.0**	4.3	5.5
EPRA (p)	3	**3.0**	3.5	6.8

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Note	**Unaudited 30 Sept 2016 £000**	Unaudited 30 Sept 2015 £000	Audited 31 Mar 2016 £000
Non-current assets				
Investment properties	9	**383,537**	232,850	318,966
Total non-current assets		**383,537**	232,850	318,966
Current assets				
Trade and other receivables	10	**4,045**	1,931	4,518
Cash and cash equivalents	12	**6,661**	8,347	5,455
Total current assets		**10,706**	10,278	9,973
Total assets		**394,243**	243,128	328,939
Equity				
Issued capital	14	**2,921**	1,908	2,512
Share premium		**110,913**	7,404	68,874
Retained earnings		**183,250**	187,145	183,674
Total equity attributable to equity holders of the Company		**297,084**	196,457	255,060
Non-current liabilities				
Borrowings	13	**85,901**	39,280	65,143
Other payables		**571**	—	571
Total non-current liabilities		**86,472**	39,280	65,714
Current liabilities				
Trade and other payables	11	**5,664**	3,741	3,681
Deferred income		**5,023**	3,650	4,484
Total current liabilities		**10,687**	7,391	8,165
Total liabilities		**97,159**	46,671	73,879
Total equities and liabilities		**394,243**	243,128	328,939

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 21 November 2016 and are signed on its behalf by:

David Hunter
Director

Registered number: 8863271

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	Note	**Unaudited 6 months to 30 Sept 2016 £000**	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Operating activities				
Operating profit		**9,561**	8,304	12,480
Adjustments for:				
Increase in fair value of investment property	9	**(3,502)**	(2,624)	(3,031)
Profit on disposal of investment properties		**(128)**	(77)	(56)
Income tax	7	**—**	—	—
Cash flows from operating activities before changes in working capital and provisions		**5,931**	5,603	9,393
Decrease/(increase) in trade and other receivables		**453**	(797)	(3,615)
Increase in trade and other payables		**2,521**	2,008	2,399
Cash generated from operations		**8,905**	6,814	8,177
Interest paid	6	**(1,026)**	(431)	(1,307)
Net cash flows from operating activities		**7,879**	6,383	6,870
Investing activities				
Purchase of investment property		**(66,591)**	(23,353)	(109,674)
Disposal of investment property		**5,650**	492	1,821
Interest received	5	**25**	4	22
Net cash from investing activities		**(60,916)**	(22,857)	(107,831)
Financing activities				
Proceeds from the issue of share capital		**43,033**	14,294	77,719
Payment of costs of share issue		**(585)**	(282)	(1,632)
Net borrowings received (net of costs)		**20,514**	15,407	41,700
Dividends paid	8	**(8,719)**	(5,447)	(12,220)
Net cash from financing activities		**54,243**	23,972	105,567
Net increase in cash and cash equivalents		**1,206**	7,498	4,606
Cash and cash equivalents at start of the Period		**5,455**	849	849
Cash and cash equivalents at end of the Period		**6,661**	8,347	5,455

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2016 (audited)		**2,512**	**68,874**	**183,674**	**255,060**
Profit and total comprehensive income for Period		—	—	8,295	8,295
Transactions with owners of the Company, recognised directly in equity					
Dividends	8	—	—	(8,719)	(8,719)
Issue of share capital	14	409	42,039	—	42,448
As at 30 September 2016 (unaudited)		**2,921**	**110,913**	**183,250**	**297,084**

For the period ended 30 September 2015

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 25 March 2015 (audited)		**1,776**	**175,009**	**3,201**	**179,986**
Profit and total comprehensive income for Period		—	—	7,905	7,905
Transactions with owners of the Company, recognised directly in equity					
Dividends	8	—	—	(5,447)	(5,447)
Issue of share capital	14	132	13,881	—	14,013
Transfer of reserves	14	—	(181,486)	181,486	—
As at 30 September 2015 (unaudited)		**1,908**	**7,404**	**187,145**	**196,457**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 interim financial statements have been prepared on a historical cost basis, except for the revaluation of investment properties, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The interim financial statements were authorised for issue in accordance with a resolution of the Directors on 21 November 2016.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements. The annual report for the year ending 31 March 2017 will be 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.

The information relating to the Period is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 March 2016 has been delivered to the Registrar of Companies. The auditor's report on those financial statements was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements have been reviewed by the auditor and its report to the Company is included within these interim financial statements.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

2. Basis of preparation and accounting policies continued

2.2. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these interim financial statements are consistent with those policies applied to the Company's annual report and financial statements.

2.3. 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 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 interim financial statements.

2.4. 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 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 and properties held for trading as a portfolio the Directors have identified a single operating segment, that of investment in commercial properties.

2.5. Principal risks and uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general but also the particular circumstances of the properties in which it is invested and their tenants. Other risks faced by the Company include economic, strategic, regulatory, management and control, financial and operational.

These risks, and the way in which they are mitigated and managed, are described in more detail under the heading Principal risks and uncertainties within the Company's Annual Report for the year ended 31 March 2016. The Company's principal risks and uncertainties have not changed materially since the date of that report, other than the inherent risk of unidentified liabilities associated with the corporate acquisition of the Light Industrial Portfolio detailed in Note 9, which has been mitigated through comprehensive due diligence and the provision of insured warranties and indemnities from the vendor. While it is too early to understand the full impact of 'Brexit', the Board does not consider any remaining uncertainty likely to have a material impact on the Company's performance. The Company's principal risks and uncertainties are not expected to change materially for the remaining six months of the Company's financial year.

3. Earnings per ordinary share

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

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 Period 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.

3. Earnings per ordinary share continued

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Unaudited 6 months to 30 Sept 2016	Unaudited 6 months to 30 Sept 2015	Audited 12 months to 31 Mar 2016
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**8,295**	7,905	11,207
Net losses/(gains) on investment properties (£000)	**129**	(1,533)	2,681
EPRA net profit attributable to equity holders of the Company (£000)	**8,424**	6,372	13,888
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period	**251,242,071**	177,605,659	177,605,659
Effect of shares issued during the Period	**25,045,659**	5,135,246	26,590,709
Basic and diluted weighted average number of shares	**276,287,730**	182,740,905	204,196,368
Basic and diluted EPS (p)	**3.0**	4.3	5.5
EPRA EPS (p)	**3.0**	3.5	6.8

4. Revenue

	Unaudited 6 months to 30 Sept 2016 £000	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Gross rental income from investment properties	**11,985**	8,280	18,561
Income from recharges to tenants	**590**	406	451
	12,575	8,686	19,012

5. Finance income

	Unaudited 6 months to 30 Sept 2016 £000	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Bank interest	**25**	4	22
Finance income	**—**	119	199
	25	123	221

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

6. Finance costs

	Unaudited 6 months to 30 Sept 2016 £000	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Amortisation of arrangement fees on debt facilities	**265**	91	187
Bank interest	**1,026**	431	1,307
	1,291	522	1,494

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

7. Income tax

The tax charge assessed for the Period is lower than the standard rate of corporation tax in the UK during the Period of 19.0%. The differences are explained below:

	Unaudited 6 months to 30 Sept 2016 £000	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Profit before income tax	**8,295**	7,905	11,207
Tax charge on profit at a standard rate of 19.0% (30 September 2015: 20.0%, 31 March 2015: 20.0%)	**1,576**	1,581	2,241
Effects of:			
REIT tax exempt rental profits and gains	**(1,576)**	(1,581)	(2,241)
Income tax expense for the Period	**—**	—	—
Effective income tax rate	**0.0%**	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.

8. Dividends

	Unaudited 6 months to 30 Sept 2016 £000	Unaudited 6 months to 30 Sept 2015 £000	Audited 12 months to 31 Mar 2016 £000
Interim equity dividends per ordinary share for the quarters ended:			
31 March 2015: 1.50p[17]	**—**	2,672	2,672
30 June 2015: 1.50p	**—**	2,775	2,775
30 September 2015: 1.50p	**—**	—	2,907
31 December 2015: 1.5875p	**—**	—	3,866
31 March 2016: 1.6625p	**4,227**	—	—
30 June 2016: 1.5875p	**4,492**	—	—
	8,719	5,447	12,220

All dividends paid are classified as property income distributions ("PID") unless stated otherwise.

The Directors approved a second interim dividend relating to the quarter ended 30 September 2016 of 1.5875p per ordinary share in October 2016 which has not been included as a liability in these interim financial statements. This interim dividend is expected to be paid on 31 December 2016 to shareholders on the register at the close of business on 14 October 2016.

In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve an annual dividend of 6.35p per share for the financial year ending 31 March 2017[18].

9. Investment properties

	£000
At 31 March 2016	318,966
Additions (including acquisitions cost)	70,350
Disposals	(5,522)
Property revaluations	3,502
Acquisition costs	(3,759)
Net revaluation loss	(257)
As at 30 September 2016	**383,537**

Included in investment properties is £1.45m relating to an ongoing development funding at Stevenage.

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

17 Designated as 1.287p per share PID and 0.213p per share non-PID.

18 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

9. Investment properties continued

The carrying value of investment property at 30 September 2016 comprises freehold and leasehold properties summarised as follows:

Investment properties	Freehold £000	Leasehold £000	Total £000
Historical cost	338,164	52,399	390,563
Valuation gain (loss)/gain	(3,251)	1,265	(1,986)
Disposals	(5,040)	—	(5,040)
At 30 September 2016	**329,873**	**53,664**	**383,537**

The investment properties are stated at the Directors' estimate of their 30 September 2016 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 30 September 2016 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 Period end valuation, the equivalent yields used ranged from 5.0% to 11.2%. 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 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 the property, the highest and best use of the properties is their current use.

10. Trade and other receivables

	Unaudited as at 30 Sept 2016 £000	Unaudited as at 30 Sept 2015 £000	Audited as at 31 Mar 2016 £000
Trade receivables	**1,653**	1,052	1,019
Other receivables	**308**	57	1,857
Prepayments and accrued income	**2,084**	822	1,642
	4,045	1,931	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. Included within accrued income are balances totalling £1.62m which are to be held for a period more than one year.

11. Trade and other payables

	Unaudited as at 30 Sept 2016 £000	Unaudited as at 30 Sept 2015 £000	Audited as at 31 Mar 2016 £000
Falling due in less than one year:			
Trade and other payables	**958**	564	437
Social security and other taxes	**1,607**	885	1,231
Accruals	**2,652**	2,038	1,566
Rental deposits	**447**	254	447
	5,664	3,741	3,681

The Directors consider that the carrying amount of trade and other payables approximates 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.

12. Cash and cash equivalents

	Unaudited as at 30 Sept 2016 £000	Unaudited as at 30 Sept 2015 £000	Audited as at 31 Mar 2016 £000
Cash and cash equivalents	**6,661**	8,347	5,455

Cash and cash equivalents include £0.47m (30 September 2015: £0.27m and 31 March 2016: £0.47m) of restricted cash in the form of rental deposits and retentions held on behalf of tenants.

13. Borrowings

	Unaudited as at 30 Sept 2016 £000	Unaudited as at 30 Sept 2015 £000	Audited as at 31 Mar 2016 £000
Falling due in more than one year:			
Bank borrowings	**87,000**	40,000	66,000
Costs incurred in the arrangement of bank borrowings	**(1,099)**	(720)	(857)
	85,901	39,280	65,143

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

13. Borrowings continued

On 6 June 2016 the Company agreed and drew down a new 12 year £45m term loan facility with Scottish Widows plc which attracts interest fixed at 2.987% per annum. The Company used the loan to repay in full a £20m term loan with Lloyds Bank plc, which attracted interest of 1.95% per annum above three month LIBOR, incurring no early repayment penalties but which resulted in the accelerated amortisation of deferred arrangement fees of £0.2m.

Heads of terms have been agreed for a new £50m term loan facility ("the New Loan"), repayable 15 years from drawdown at a fixed rate of interest.

The Company's borrowing position at 31 March 2016 is set out in the Annual Report for the year ended 31 March 2016.

14. Issued capital and reserves

Share capital	Ordinary shares of 1p	£000
At 30 September 2015	190,805,659	1,908
Issue of share capital	60,436,412	604
At 31 March 2016	251,242,071	2,512
Issue of share capital	40,890,000	409
At 30 September 2016	**292,132,071**	**2,921**

The Company has made further issues of new shares since the Period end, which are detailed in Note 17.

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 Annual General Meeting (''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.

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.

14. Issued capital and reserves continued

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.

During the period ended 30 September 2015, the Company cancelled the share premium account standing at the date of the 2015 AGM, as detailed in the Annual Report for the year ended 31 March 2016.

15. Financial instruments

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the interim 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 Period. 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 30 September 2016, the Company fair value of investment properties was £383.5m.

Interest bearing loans and borrowings – level 3

As at 30 September 2016 the amortised cost of the Company's loans with Lloyds Bank plc and Scottish Widows plc approximated their fair value.

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 the fair value.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

16. Related party transactions

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.

Fees payable to the Manager

On 25 February 2014 the Company entered into a three year Investment Management Agreement ("IMA") with the Investment Manager, under which the Investment Manager has been appointed as Alternative Investment Fund Manager 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, and charges fees for annual management and administration as set out in the Annual Report.

Ian Mattioli is Chief Executive of Mattioli Woods plc, 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 plc and the Investment Manager.

During the Period the Company paid the Investment Manager £1.75m (September 2015: £1.59m, March 2016: £2.72m) in respect of annual management charges, administrative fees and marketing fees. During the Period the Company paid Mattioli Woods plc £0.02m in respect of transaction support on the acquisition of the Light Industrial Portfolio detailed in Note 9.

The Company owed £nil to the Investment Manager at 30 September 2016 (September 2015: £0.01m, March 2016: £0.02m).

Certain investment properties are partially let to Mattioli Woods plc. Mattioli Woods plc paid the Company rentals of £0.2m during the Period (September 2015: £0.2m, March 2016: £0.4m) and owed the Company £nil at 30 September 2016 (September 2015: £54,736, March 2016: £nil).

Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross and the private pension schemes of Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross continue to have a beneficial interest in the Company.

17. Events after the reporting date

Property acquisitions and disposals

On 5 October 2016 the Company acquired a distribution unit in Burton upon Trent, let to Kings Road Tyres and Repairs Limited for £7.06m. The lease expires in July 2031 with a passing rent of £0.51m per annum, reflecting a NIY of 6.77%.

On 6 October 2016 the Company acquired a distribution unit in Daventry, let to Cummins Limited for £3.08m. The lease expires in July 2019 with a passing rent of £0.22m per annum, reflecting a net NIY of 6.75%.

On 7 October 2016 the Company acquired a distribution unit in Bedford, let to Heywood Williams Components Limited for £3.25m. The lease expires in April 2022 with passing rent of £0.24m per annum, reflecting a NIY of 6.78%.

On 8 November the Company sold a 9,144 sq ft car dealership on Coventry Road, Solihull for £1.88m, £0.35m ahead of the 30 September 2016 valuation.

New equity

On 21 October 2016 the Company raised £25.0m (before costs and expenses) through the issue of 24,131,274 new ordinary shares of 1p each in the capital of the Company at a price of 103.6p per share, a premium of approximately 3.5% to the dividend adjusted unaudited NAV as at 30 September 2016.

On 17 November 2016 the Company raised £1.84m (before costs and expenses) through the issue of 1,750,000 new ordinary shares of 1p each in the capital of the Company at a price of 105.12p per share, a premium of approximately 5% to the dividend adjusted unaudited NAV as at 30 September 2016.

INDEPENDENT AUDITOR'S REVIEW REPORT TO CUSTODIAN REIT PLC

For the six months ended 30 September 2016

We have been engaged by the Company to review the condensed set of interim financial statements in the interim financial statements for the period ended 30 September 2016 which comprise the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related Notes 1-17. We have read the other information contained in the interim financial statements and considered whether they contain any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial statements are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the interim financial statements in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the notes, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in these interim financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial statements for the period ended 30 September 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
21 November 2016

DIRECTORS' RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS

The Directors have prepared the interim financial statements of the Company for the period from 1 April 2016 to 30 September 2016.

We confirm that to the best of our knowledge:

a) The condensed interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU;
b) The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
c) The interim financial statements includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year, and their impact on the Condensed Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
d) The interim financial statements includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the last Annual Report.

A list of the current directors of Custodian REIT plc is maintained on the Company's website at www.custodianreit.com.

By order of the Board

David Hunter
Chairman
21 November 2016

COMPANY INFORMATION

Directors

David Hunter	Independent Non-Executive Chairman
Barry Gilbertson PP-RICS	Senior Independent Non-Executive Director
Ian Mattioli	Non-Executive Director
Matthew Thorne FCA	Independent Non-Executive Director

Company secretary
Nathan Imlach CA FCSI CF

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FINANCIAL CALENDAR

13 October 2016	Ex-dividend date for Q2 dividend
14 October 2016	Record date for Q2 dividend
22 November 2016	Announcement of results for the period ended 30 September 2016
31 December 2016	Payment of Q2 dividend

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