Custodian

REIT PLC

# Interim Report 2014

Custodian REIT plc ("Custodian REIT" or "the Company") is a UK real estate investment trust ("REIT") which listed on the main market of the London Stock Exchange on 26 March 2014 ("Admission"). Its portfolio comprises properties let to institutional grade tenants on long leases throughout the UK and is characterised by small lot sizes, with individual property values of less than £7.5 million 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 together with the potential for capital growth.

The Company's website is www.custodianreit.com.

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# HIGHLIGHTS

## FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

- Net asset value ("NAV") total return[1] of 2.7% since Admission
- Share price total return[2] of 7.3% on issue price
- Unaudited NAV per share up 1.4% from 98.2p at Admission to 99.6p at 30 September 2014
- Portfolio value of £145.9m (at Admission: £95.2m)
- Average portfolio net initial yield of 7.2%
- Occupancy rate is 98.6%
- Average unexpired lease term of 7.7 years
- Net gearing[3] of 7.7%
- Q1 dividend paid at 1.25p per share
- Q2 dividend proposed at 1.25p per share
- Profit before tax of £3.3m
- 21 acquisitions completed between Admission and 30 September 2014 for total consideration of £48.4m

| | Unaudited period ended 30 Sept 2014 | At Admission | % change |
|---|---|---|---|
| **Total return** | | | |
| NAV total return | 2.7% | | |
| Share price total return | 7.3% | | |
| | | | |
| **Capital values** | | | |
| NAV (£m) | 131.4 | 129.6 | 1.4 |
| NAV per share (p) | 99.6 | 98.2 | 1.4 |
| Ordinary share price (p) | 106.0 | 100.0[4] | 6.0 |
| Premium to NAV per share | 6.4% | 1.8% | 4.6 |
| Investment property portfolio valuation[5] (£m) | 145.9 | 95.2 | 53.3 |
| Net gearing | 7.7% | nil | n/a |
| Dividends paid (p per share) | 1.25 | – | n/a |

1 NAV movement including dividends paid
2 Increase in share price from issue price including dividends paid
3 Borrowings less cash divided by property portfolio valuation
4 Issue price
5 Includes impact of gearing

# CHAIRMAN'S STATEMENT

"Strong demand for the Company's strategy of targeting single-let, smaller lot sized regional assets with low gearing to deliver an attractive level of income return, met with investor approval."

I am pleased to report the Company's first trading results since its successful admission to the premium segment of the main market of the London Stock Exchange on 26 March 2014. In the midst of a busy phase of initial public offerings ("IPOs"), Custodian REIT was one of only a few property companies to launch successfully. A combination of timing, matched with strong demand for the Company's strategy of targeting single-let, smaller lot sized regional assets with low gearing to deliver an attractive level of income return, met with investor approval.

The Company was seeded with a £95.2 million portfolio ("the Initial Portfolio") of previously syndicated property from clients of Mattioli Woods plc ("Mattioli Woods"), with those clients receiving 76,989,310 ordinary shares in the Company as consideration. In addition, the maximum of 55,000,000 ordinary shares were allotted for cash through a placing and offer for subscription, both of which were significantly oversubscribed, resulting in a total of 131,989,310 ordinary shares being allotted at IPO.

Our challenge is to invest new monies raised promptly, minimising cash drag to ensure the target dividend of 5.25 pence for the year ending 31 March 2015 is fully covered, while enhancing NAV. Responsibility for this lies with the Company's external investment manager, Custodian Capital Limited ("the Investment Manager"). The Company completed £48.4 million of new acquisitions in the period from Admission to 30 September 2014 and I am confident we remain on-track to meet the challenge.

### Net Asset Value

The Company delivered NAV total return of 2.7% for the first half, in line with the Board's expectations. This was a period of significant new investment, where the costs (primarily stamp duty) of acquiring 21 new properties diluted the overall portfolio NAV total return by circa 2%.

### Share price

In the period to 30 September 2014 the share price total return on the issue price of 100.0 pence was 7.3%, with the closing price at 30 September of 106.0 pence representing a 6.4% premium to NAV. I believe this premium is a function of strong demand for closed-ended property funds and the attractive level of the Company's target dividends.

## Placing of new ordinary shares

The £55.0 million raised at IPO plus a further £12.6 million drawn down on the Company's £25.0 million revolving credit facility were deployed during the period. Following the period end, on 3 October 2014 the Company raised a further £25.0 million (before costs and expenses) through the placing of 23,866,349 new ordinary shares at a price of 104.75 pence per share, representing a premium of 5.2% to the 30 September 2014 NAV. The amount raised was in excess of the £20.0 million initially targeted, demonstrating the strong ongoing demand for the Company's shares.

The placing allows the Investment Manager to take advantage of the opportunity it perceives there to be in the current market, where pricing for properties in the £1.0 to £7.5 million range has yet to be squeezed by the excessive demand seen for larger lot sizes.

However, the same economic and property market drivers of rental growth apply to large and small properties and it is rental growth that will lead to long-term, sustained NAV performance. The Investment Manager reports a strong pipeline of opportunities, which I expect to secure long-term NAV growth for shareholders.

## Dividends

The Company's maiden interim dividend of 1.25 pence for the period ended 30 June 2014 was paid on 30 September 2014. Income is a major component of total return and the Board is committed to growing future dividends. The Board proposes to pay a second interim dividend of 1.25 pence for the quarter ended 30 September 2014, to be approved in December and paid on 31 December 2014.

In the absence of unforeseen circumstances, the Board believes the Company is well placed to meet its target of paying further quarterly dividends to achieve an annual dividend of 5.25 pence per share for the year ending 31 March 2015 and 6.25 pence per share in subsequent years.

## Borrowings

The Company has a target gearing level of 25% loan to value. Immediately following the recent placing the Company's borrowings were repaid such that gearing fell to nil, but pipeline transactions are set to see further draw down on the existing revolving credit facility.

## Outlook

Custodian REIT has acquired a well-diversified portfolio, with long-term contractual income from good quality tenants, which are the key drivers to delivering a high level of income across the portfolio. Rental growth is starting to impact valuations and I expect this to be a feature of the property market for some time to come, pushed on by occupational demand following a long period of subdued development that has led to a shortage of supply of modern buildings.

"A well-diversified portfolio, with long-term contractual income from good quality tenants."

I look forward to the Company continuing to deliver our strategy of targeting smaller lot sizes across regional markets at prices that provide the opportunity for NAV growth and support the target dividend.

**David Hunter**
Chairman
24 November 2014

R STRATTON & CO BENTLEY, KNUTSFORD

# PRIME PROPERTY PRODUCING SOLID, LONG-TERM INCOME

"2014 has been a busy year for commercial property investment and I believe it is set fair for a strong finish."

2014 has been a busy year for commercial property investment and I believe it is set fair for a strong finish. Investment volumes have increased markedly and, according to Lambert Smith Hampton's UK Investment Transactions Bulletin, are likely to break £50 billion by the year end. This would be the highest volume of investment since 2007 and well above the long-run average.

Across all sectors of the property market initial yields have hardened, as a range of investors have competed for the better quality assets. 2014 marks a turning point, when demand from overseas investors, UK institutions and UK retail property funds has spread from London into the regional property markets. This demand is strongly focused on larger lot sizes (£10 million plus) concentrated on multi-let offices in dominant regional cities, multi-let industrial estates, shopping centres and big-box distribution units.

The portfolio dynamics and investment strategy of Custodian REIT put it slightly out of step with the wider market, and therein lies the Company's opportunity. I believe there is still an opportunity to secure smaller assets (of up to £7.5 million) at prices which have not seen the same competitive pressure and yield hardening as the wider market.

## Portfolio performance

The first six months' trading has been dominated by acquisitions, with the Company completing on 21 new properties adding £48.4 million of assets to the portfolio, as set out below:

### Industrial

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Wakefield | 7.50% | Bunzl UK | £1.58m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Hamilton | 9.01% | Ichor Systems | £1.84m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Biggleswade | 7.50% | Turpin Distribution Services | £3.79m |

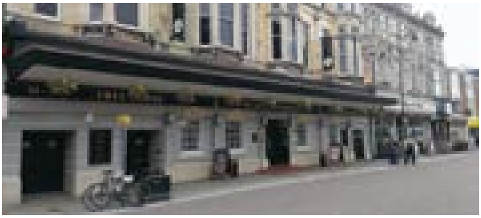
| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Nuneaton | 7.75% | DX Network Services | £2.95m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Liverpool | 7.77% | Powder Systems | £1.55m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Liverpool | 7.77% | DHL International | £1.55m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Doncaster | 7.25% | Portola Packaging | £4.62m |

## Other



| Location | Net initial yield | Tenant | Consideration | Type |
|---|---|---|---|---|
| Southsea | 5.73% | JD Wetherspoon | £1.32m | Leisure |


| Location | Net initial yield | Tenant | Consideration | Type |
|---|---|---|---|---|
| High Wycombe | 6.69% | Stonegate Pub Co | £1.63m | Leisure |

| Location | Net initial yield | Tenant | Consideration | Type |
|---|---|---|---|---|
| Castleford | 6.45% | MKM Building Supplies | £1.61m | Trade counter |

| Location | Net initial yield | Tenant | Consideration | Type |
|---|---|---|---|---|
| Leicester | 7.33% | Magnet | £3.20m | Trade counter |

| Location | Net initial yield | Tenant | Consideration | Type |
|---|---|---|---|---|
| Peterborough | 8.50% | Marshall Motor Group | £2.50m | Showroom |

## Retail

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Chester | 6.16% | Whistles Holdings | £0.89m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Colchester | 8.15% & 8.51% | Poundland & Savers | £2.82m |


| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Shrewsbury | 5.99% | Cotswold Outdoor | £2.13m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Dumfries | 6.99% | Iceland Foods | £1.15m |


| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Milton Keynes | 6.95% | Staples UK | £5.72m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Bury St Edmunds | 6.54% | The Works Stores | £1.30m |

## Retail continued

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Southampton | 7.53% | URBN UK | £2.76m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Southsea | 7.39% & 5.51% | Superdrug Stores & Portsmouth City Council | £1.82m |

| Location | Net initial yield | Tenant | Consideration |
|---|---|---|---|
| Nottingham | 7.75% | The White Company | £1.71m |

Against the initial portfolio valuation at IPO and aggregate acquisition price of new properties, the 30 September 2014 valuation shows a 1.7% net increase in value, split by sector as follows:

| Sector | % change in valuation |
|---|---|
| Industrial | 2.4 |
| Retail | 0.8 |
| Other | 1.9 |
| Office | 1.0 |

Industrial values have increased in anticipation of rental value growth, based on a lack of supply of available modern space following five years of minimal new development and growing occupier demand. There is very limited vacancy in core industrial and distribution locations and occupier-led or even speculative development is likely be a factor in the next phase of these markets. Custodian REIT's investment strategy is well suited to the industrial and distribution sectors and these remain a key target for acquisitions.

The office market is running at two different speeds. Modern offices, those in demand from growing, modern businesses are in short supply and in key locations the market requires new development to meet occupier demand. Secondary offices are in over-supply and many are being re-developed for alternate uses, not least under the permitted development rights legislation. Over time this will reduce the over-supply, but I believe the market has some way to go yet. The Company's focus is on modern or fit-for-purpose offices.

The 'other' sector of the portfolio has benefitted from market demand for long leases and indexed, or fixed rental uplifts. These are common themes running through the sector and are applicable to the hotels, restaurants and some of the car showrooms held in the portfolio.

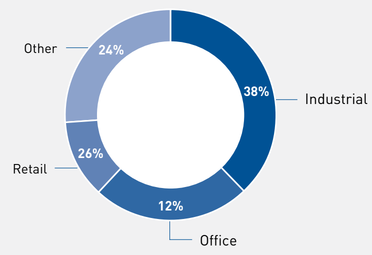
I believe the High Street is stronger than many commentators have claimed. In the right towns, there is occupier demand and the slide in rental values has eased or even reversed, with evidence of rental growth showing in some locations. Importantly, occupancy levels are high and with the costs of re-letting often lower than in the alternative sectors, retail property continues to be an important part of an income focused portfolio.

## Asset management

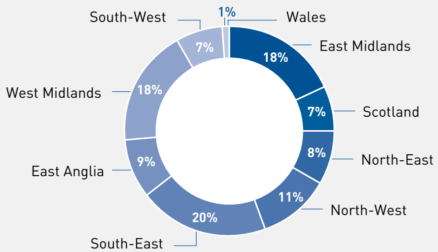
The portfolio has a current rent roll of £11.2 million with a net initial yield of 7.22%. Our objective is to build a diversified portfolio of regionally diverse properties to support a fully covered dividend, with low gearing. Income is likely to remain the principal component of total return and new acquisitions have been selected to meet that target, while managing the risks associated with lease break and expiry. The average weighted unexpired lease term (to first break) is 7.7 years.

Research[6] suggests that circa two thirds of tenants do not vacate their properties at break, so there is great potential for the current portfolio to deliver long income with low vacancy rates. Maintaining and enhancing cash flow from the portfolio is a core objective of the Investment Manager. The current vacancy rate stands at 1.4%.

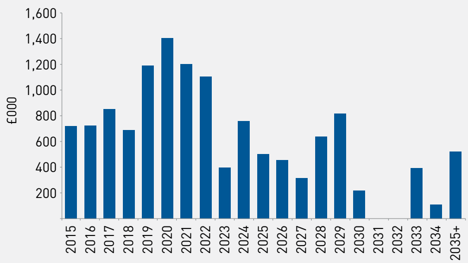
### SECTOR SPLIT BY INCOME




### REGIONAL SPLIT BY INCOME




### RENTAL INCOME BY LEASE EXPIRY (TO FIRST BREAK)




6 Source: IPD Lease events report 2013

## Recent Asset Management Activity

At George Street in Edinburgh the rent review with Phase Eight is being documented at £109,900 per annum ("pa"), a 12.9% increase from £97,340 pa.


Greggs has not exercised its option to break in the Jewellery Quarter, Birmingham, providing an additional five years' income until expiry in 2020. There is a rent review outstanding, which will be activated now the break notice period has passed.

Revlon International Corporation continues to trade from its distribution unit on Stone Business Park, having not exercised the break option as at April 2015, which expired in October 2014. The next opportunity for the tenant to vacate will be April 2017. This was not reflected in the 30 September valuation, as the notice period had not expired at that time.

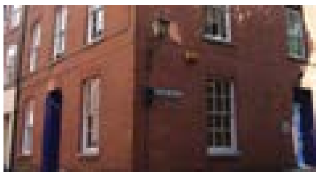
Unipart Automotive Limited entered administration on 23 July 2014. Elements of the business were sold to Andrew Page Limited, which is now in occupation of the unit at Europa Park, Sheffield and continues to meet ongoing rental payments. Negotiations have commenced to agree terms for a new 10 year lease with a five year break.

The 60 year ground lease at Abbeyfield Road, Nottingham has been re-geared on a new 125 year lease with effect from 22 July 2013 with Nottingham City Council, agreed for nil premium.


The June 2013 rent review at Pizza Hut, Triangle Retail Park, Leicester, has been settled at £82,250 pa a 5.5% increase from £78,000 pa.

At Weston Road, Crewe, Topps Tiles had an annual RPI-linked rent review in July, increasing the rent by 2.6% to £59,647 pa. South Cheshire Glass's lease expires on 19 February 2015 and the tenant has requested a new lease, with terms to be agreed.

Commercial Road, Portsmouth was vacated by the DSG Group (trading as Currys Digital) in September 2014. There are currently two offers from potential tenants, with one further offer expected. Terms are under negotiation for a new letting.



Kayes Walk, Nottingham is under offer to sell, being sub-scale for Custodian REIT at less than £300,000 in capital value.

### Outlook and pipeline

While there has been marked yield compression in the market, competition for smaller assets has allowed the Company to secure a strong pipeline of opportunities, with circa £20 million of properties currently under offer and in solicitors' hands. In addition, we are actively tracking in excess of £35 million of assets, both on and off market.

We believe there is still 'value' in the market despite recent price inflation. Rents are growing in almost all sectors, boding well for long-term capital growth. While yield compression can deliver short-term capital growth, properties are as susceptible to yield hardening as to yield softening and this type of capital performance can be very transient.

The Company's investment strategy aims to identify properties that will deliver unbroken cash flow with the prospect of real rental growth. Rental return and rental growth produce the bulk of long term returns. To underline this, the average net initial yield of the £48.4 million of new properties acquired since IPO has been 7.3%, adding £3.8 million to the annual rent roll of the Company. Recent asset management activity has been directed at maintaining cash flow by keeping tenants in occupation through their break options or re-letting vacant space and enhancing rental returns through settling rent reviews.

The principal driver of short-term capital growth in the last six months has been an imbalance between supply and demand. This imbalance has been driven by a significant 'up-weighting' to property from institutional investors and the strong re-emergence of the open-ended retail funds.

At the 2014 peak, upwards of £490 million per month was flowing into the retail property funds, the highest level since December 2009.

This inflow has led to a collective focus on ever larger lots, firstly in London and the South East and more recently across the main regional cities. This excess demand has put pricing for larger lots under pressure and has pushed valuations up accordingly. While the Company's portfolio does not hold these larger lots and therefore has not been exposed to such strong movements in underlying valuations, a focus on smaller lot sizes has enabled the Company to acquire good quality properties at prices we believe represent good value, remaining on target to meet the Company's objective of paying fully covered dividends.

**Richard Shepherd-Cross**
Investment Manager
24 November 2014


PHASE EIGHT, EDINBURGH

# A DIVERSIFIED PORTFOLIO OF INSTITUTIONAL GRADE ASSETS

# PORTFOLIO SUMMARY

| Town | Address | Tenure | Tenant | % portfolio income |
|---|---|---|---|---|
| **Industrial** | | | | |
| Bedford | Units 1 & 2, Priory Business Park | LH | Emerson Network Power & Elma Electronics | 3.5 |
| Doncaster | 3 Carriage Drive | FH | Portola Packaging | 3.1 |
| Stone | The Diamond, Diamond Way, Stone Business Park | LH | Revlon International | 2.9 |
| Biggleswade | Pegasus Drive, Stratton Business Park | FH | Turpin Distribution Services | 2.7 |
| Coventry | Orchard Business Park | FH | Royal Mail Group | 2.1 |
| Nuneaton | Harrington Way | FH | DX Network Services | 2.1 |
| Manchester | Unit 4, The Furrows, Merlin Park, Trafford Park | LH | Unilin Distribution | 2.0 |
| Avonmouth | M3, Merebank Road | FH | Superdrug Stores | 1.9 |
| Oldbury | Brades Road | FH | Ryland Properties | 1.9 |
| Southwark | Verney Road | FH | Constantine | 1.8 |
| Aberdeen | Dyce Drive, Kirkhill Industrial Estate | FH | DHL Express (UK) | 1.7 |
| Hamilton | Livingstone Drive | FH | Ichor Systems | 1.6 |
| Erdington | West Midlands Ambulance Centre | FH | West Midlands Ambulance Service NHS Trust | 1.3 |
| Coalville | E/F Reg's Way, Bardon, Coalville | FH | Jewson | 1.3 |
| Sheffield Parkway | Parkway One Business Park | FH | Synergy Health (UK) | 1.2 |
| Liverpool, Speke | Unit C Estuary Commerce Park | LH | Powder Systems | 1.2 |
| Liverpool, Speke | Unit D Estuary Commerce Park | LH | DHL International | 1.1 |
| Castleford | Unit 1, Willowbridge Way, Whitwood | FH | Bunzl UK | 1.1 |
| Sheffield | 2 & 7,8,9, Shepcote Enterprise Park, Europa Drive | LH | River Island Clothing & Andrew Page | 0.9 |
| Huntington | Ermine Business Park | FH | PHS Group | 0.9 |
| Kilmarnock | 3 Queen's Drive | FH | Royal Mail Group | 0.8 |
| Hinckley | Phoenix Business Park, Brindley Road | FH | Multi tenanted - Phoenix Park | 0.6 |
| **Other** | | | | |
| Knutsford | Mobberley Road, Parkgate | FH | R Stratton & Co | 3.3 |
| Leicester | 489 Aylestone Road | FH | Magnet | 2.2 |
| Dudley | Castlegate Way | FH | Premier Inn Hotels | 2.1 |
| Peterborough | Mallory Road | FH | Marshall Motor Group | 2.0 |
| Portishead | Harbour Road | FH | Travelodge Hotels | 1.8 |
| Crewe | Counterpoint, Weston Road | FH | Plumbase, Multi Tile F1 Autocentres & South Cheshire Glass | 1.4 |
| Solihull | Coventry Road, Elmdon | FH | Allen Ford (UK) t/a Kia | 1.3 |
| Redhill | 109-115 Brighton Road | FH | Honda Motor Europe | 1.2 |
| Bath | Bluecoat House, Saw Close | LH | Prezzo | 1.1 |
| High Wycombe | 46/50a Frogmore | FH | Stonegate Pub Co | 1.0 |
| Castleford | Castlewood Way | FH | MKM Buildings Supplies | 1.0 |
| Redcar | High Street and Bath Street | FH | Landmark Property Investments | 0.9 |
| Watford | Dome Roundabout | LH | Pizza Hut (UK) | 0.8 |

| Town | Address | Tenure | Tenant | % portfolio income |
|---|---|---|---|---|
| **Other** | | | | |
| Nottingham | 1 - 10, 1 Cottesmore Road, Lenton | FH | Multi tenanted - Residential | 0.7 |
| Leicester | Triangle Retail Park | LH | Pizza Hut (UK) | 0.7 |
| Southsea | 86/90 Palmerston Road | FH | JD Wetherspoon | 0.7 |
| Basingstoke | 10 Chequers Road | FH | Teddies Nurseries | 0.6 |
| Chesham | 107 Bois Moor Road | FH | Teddies Nurseries | 0.4 |
| Knutsford | The Old Knutsford Library, Brook Street | FH | Knutsford Day Nurseries | 0.4 |
| **Office** | | | | |
| Leicester | Gateway House, Grove Park | FH | Mattioli Woods, RBS & Regus | 4.3 |
| Derby | 1 Pride Place, Pride Park | FH | Edwards Geldards | 2.3 |
| Leicester | MW House, Grove Park | FH | Mattioli Woods & Chesham Insurance | 2.2 |
| Nottingham | The Vision Express Complex, 2 Abbeyfield Road | LH | Vision Express (UK) | 1.7 |
| Manchester | Unit C Madison Place, Central Park | LH | Central Manchester University Hospitals NHS Foundation Trust | 1.1 |
| Nottingham | 5 Kayes Walk/49 St Mary's Gate, The Lace Market | FH | Vacant | 0.2 |
| **Retail** | | | | |
| Milton Keynes | 1 Grafton Gate East | FH | Staples UK | 3.7 |
| Colchester | 2 & 4-6 Long Wyre Street | FH | Poundland & Savers | 2.2 |
| Southampton | 54 Above Bar Street | LH | URBN UK | 2.0 |
| Stourbridge | The Crystal Retail Centre, Platts Road | FH | Tesco Stores, Bathstore, KFC, Halfords & Pizza Hut (UK) | 1.8 |
| Norwich | 9 White Lion Street | FH | Specsavers Optical Superstores | 1.8 |
| Llandudno | 101 Mostyn Street | LH | WH Smith | 1.3 |
| Southsea | 19 & 21-23 Palmerston Road | LH | Superdrug Stores & Portsmouth City Council | 1.3 |
| Shrewsbury | 28/29a Pride Hill | FH | Cotswold Outdoor | 1.2 |
| Birmingham | Warstone Lane, Jewellery Quarter | LH | Tesco Stores, Coral, Subway & Greggs | 1.2 |
| Nottingham | 15 St Peters Gate | FH | The White Company (UK) | 1.2 |
| Weston-super-Mare | 27/29 High Street | FH | Superdrug Stores | 1.1 |
| Portsmouth | 109 Commercial Street | FH | Vacant | 1.1 |
| Glasgow | Argyle Street | FH | Greggs | 1.1 |
| Edinburgh | 47b George Street | FH | Phase Eight (Fashions & Designs) | 0.9 |
| King's Lynn | High Street | FH | Top Man | 1.1 |
| Bury St Edmunds | 14 Cornhill | FH | The Works Stores | 0.8 |
| Dumfries | 165/171 High Street | FH | Iceland Foods | 0.7 |
| Hinckley | 29/31 Castle Street | FH | W H Smith | 0.6 |
| Chester | 10 Watergate | LH | Whistles Holdings | 0.5 |
| Cirencester | 6 Dyer Street & 8 Dyer Street | LH | Framemakers Galleries & Danish Wardrobe Company | 0.5 |
| Bury St Edmunds | 15 Abbeygate Street | FH | Savers Health & Beauty | 0.4 |
| Cheltenham | 85 High Street | LH | Done Brothers (Cash Betting) t/a Betfred | 0.4 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period 25 March 2014 to 30 September 2014

| | Note | **Unaudited period ended 30 Sep 2014 £000** | Audited period ended 24 March 2014 £000 |
|---|---|---|---|
| **Revenue** | 4 | **4,958** | — |
| Investment management fee | | **(686)** | — |
| Direct operating expenses of let rental property | | **(492)** | — |
| Professional fees | | **(345)** | — |
| Directors' fees | | **(115)** | — |
| Administrative expenses | | **(59)** | — |
| **Expenses** | | **(1,697)** | — |
| **Operating profit before financing and revaluation of investment properties** | | **3,261** | — |
| Analysed as: | | | |
| Operating profit before exceptional items | | **3,480** | — |
| Exceptional costs of Admission | 5 | **(219)** | — |
| | | **3,261** | — |
| Unrealised gains/(losses) on revaluation of investment properties | | | |
| – relating to property revaluations | | **2,597** | — |
| – relating to costs of acquisition | | **(2,553)** | — |
| | 10 | **44** | — |
| **Operating profit before financing** | | **3,305** | — |
| Net finance costs | 6, 7 | **(49)** | — |
| **Profit before tax** | | **3,256** | — |
| Income tax expense | 8 | **—** | — |
| **Profit for the period and total comprehensive income for the period, net of tax** | | **3,256** | — |
| **Attributable to:** | | | |
| Equity holders of the Company | | **3,256** | — |
| **Earnings per ordinary share:** | | | |
| Basic and diluted (pence) | 3 | **2.47** | — |

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

| | Note | **Unaudited 30 Sep 2014 £000** | Audited 24 March 2014 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 10 | **145,894** | — |
| Total non-current assets | | **145,894** | — |
| Trade and other receivables | 11 | **1,898** | 50 |
| Cash and cash equivalents | | **1,343** | — |
| Total current assets | | **3,241** | 50 |
| **Total assets** | | **149,135** | 50 |
| **Equity** | | | |
| Issued capital | 14 | **1,320** | 50 |
| Share premium | 14 | **128,487** | — |
| Retained earnings | 14 | **1,608** | — |
| **Total equity attributable to equity holders of the Company** | | **131,415** | 50 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | **12,600** | — |
| Total non-current liabilities | | **12,600** | — |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **2,812** | — |
| Deferred income | | **2,308** | — |
| Total current liabilities | | **5,120** | — |
| **Total liabilities** | | **17,720** | — |
| **Total equities and liabilities** | | **149,135** | 50 |

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 24 November 2014 and are signed on its behalf by:

**Ian Mattioli**
Director

Registered number: 8863271

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 25 March 2014 to 30 September 2014

| | Note | Unaudited period ended 30 Sep 2014 £000 | Audited period ended 24 March 2014 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the period | | **3,305** | — |
| Adjustments for: | | | |
| (Increase)/decrease in fair value of investment property | 10 | **(44)** | — |
| Finance charges | 7 | **(36)** | — |
| **Cash flows from operating activities before changes in working capital and provisions** | | **3,225** | — |
| Decrease/(increase) in trade and other receivables | | **(1,898)** | — |
| (Decrease)/increase in trade and other payables | | **5,120** | — |
| **Cash generated from operations** | | **6,447** | — |
| Interest paid | 7 | **(56)** | — |
| **Net cash flows from operating activities** | | **6,391** | — |
| **Investing activities** | | | |
| Purchase of investment property | | **(68,859)** | — |
| Interest received | 6 | **43** | — |
| **Net cash from investing activities** | | **(68,816)** | — |
| **Financing activities** | | | |
| Proceeds from the issue of share capital | | **55,000** | — |
| Payment of costs of share issue | | **(2,182)** | — |
| Repayment of debt | | **—** | — |
| New borrowings | | **12,600** | — |
| Dividends paid | 9 | **(1,650)** | — |
| **Net cash from financing activities** | | **63,768** | — |
| Net (decrease)/increase in cash and cash equivalents | | **1,343** | — |
| Cash and cash equivalents at start of the period | | **—** | — |
| Cash and cash equivalents at end of the period | | **1,343** | — |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period 25 March 2014 to 30 September 2014

| | Note | Issued capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| **As at 27 January 2014** | | **—** | **—** | **—** | **—** |
| **Total comprehensive income for period** | | | | | |
| Profit for the period | | — | — | — | — |
| Total comprehensive income for period | | — | — | — | — |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | |
| Issue of share capital | | 50 | — | — | 50 |
| **As at 24 March 2014 (audited)** | | **50** | **—** | **—** | **50** |
| **Total comprehensive income for period** | | | | | |
| Profit for the period (unaudited) | 14 | — | — | 3,256 | 3,256 |
| Total comprehensive income for period | | — | — | 3,256 | 3,256 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | |
| Dividends (unaudited) | 9 | — | — | (1,650) | (1,650) |
| Issue of share capital (unaudited) | 14 | 1,270 | 128,487 | — | 129,757 |
| Profit on disposal of own shares (unaudited) | 14 | — | — | 2 | 2 |
| **As at 30 September 2014 (unaudited)** | | **1,320** | **128,487** | **1,608** | **131,415** |

Retained earnings includes £1,564,000 of realised profits and £44,000 of unrealised profits.

## 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 certain financial assets, 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 24 November 2014.

## 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 2015 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 Company has prepared non-trading financial statements for the period from incorporation on 27 January 2014 to 24 March 2014 to satisfy section 837 of the Companies Act 2006 and facilitate its stated policy of making quarterly dividend payments. 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 accounts for the period has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors 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 their 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.

## 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, which are consistent with those policies applied to the Company's first annual report and 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.

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. 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 properties

Investment properties are properties 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 or by the Directors on an open 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 period in which it arises. Dilapidation receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are recognised in the statement of comprehensive income, offset against any directly corresponding movement in fair value of the investment property to which they relate.

## 2. Basis of preparation and accounting policies (continued)

**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 derecognition. 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 derecognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand and 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 investments**

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 investments 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 period 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.

## 2. Basis of preparation and accounting policies (continued)

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of net 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.

### Exceptional items

Certain items have been disclosed as exceptional in the income statement where they relate to the Company's IPO and are therefore considered to be one off costs, as set out in Note 5.

### 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 and trading of commercial properties.

### 2.3 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. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the financial statements, are discussed below.

### Valuation of properties

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.

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.

## 3. Earnings per ordinary share

Basic earnings per share 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 earnings per share 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 shares.

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

| | **Unaudited period ended 30 Sep 2014** | Audited period ended 24 March 2014 |
|---|---|---|
| Net profit and diluted net profit attributable to equity holders of the Company (£000) | **3,256** | — |
| Weighted average number of ordinary shares: | | |
| Issued ordinary shares at start period | **5,000,000** | — |
| Effect of shares issued during period ended 30 Sept 2014 | **126,989,310** | 5,000,000 |
| Basic weighted average number of shares | **131,989,310** | 5,000,000 |
| Effect of options exercisable at the balance sheet date | **—** | — |
| Diluted weighted average number of shares | **131,989,310** | 5,000,000 |
| Basic and diluted earnings per share (pence) | **2.47** | — |

## 4. Revenue

| | **Unaudited period ended 30 Sep 2014 £000** | Audited period ended 24 March 2014 £000 |
|---|---|---|
| Gross rental income from investment properties | **4,644** | — |
| Income from recharges | **314** | — |
| | **4,958** | — |

## 5. Exceptional items

One-off costs incurred on Admission totalled £2.40 million of which £0.22 million was recognised in the statement of comprehensive income and £2.18 million was taken to the share premium account as being directly related to the issue of new shares.

## 6. Finance income

| | Unaudited period ended 30 Sep 2014 £000 | Audited period ended 24 March 2014 £000 |
|---|---|---|
| Bank interest received | **43** | — |
| | **43** | — |

## 7. Finance costs

| | Unaudited period ended 30 Sep 2014 £000 | Audited period ended 24 March 2014 £000 |
|---|---|---|
| Amortisation of arrangement fees on revolving credit facility | **36** | — |
| Loan interest paid and bank charges | **56** | — |
| | **92** | — |

## 8. 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 21.3%. The differences are explained below:

| | Unaudited period ended 30 Sep 2014 £000 | Audited period ended 24 March 2014 £000 |
|---|---|---|
| Accounting profit before income tax | **3,256** | — |
| Tax charge on profit or loss at a standard rate of 21.3% | **694** | — |
| Effects of: | | |
| REIT tax exempt rental profits and gains | **(704)** | — |
| Non-taxable revaluation deficit | **10** | — |
| Income tax expense for the period | **Nil** | Nil |
| Effective income tax rate | **0.0%** | 0.0% |

The Company operates as a Real Estate Investment Trust and hence profits and gains from the property investment business are normally exempt from corporation tax.

The UK Government reduced the rate of corporation tax from 23% to 21% with effect from 1 April 2014. The rate of UK corporation tax will reduce from 21% to 20% from 1 April 2015.

## 9. Dividends

| | **Unaudited period ended 30 Sep 2014 £000** | Audited period ended 24 March 2014 £000 |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| - Interim dividend for the period ended 30 June 2014: 1.25p | **1,650** | — |
| | **1,650** | — |

The interim dividend for the period ended 30 June 2014 was approved by the Directors on 29 September 2014.

The Directors propose an interim dividend relating to the period ended 30 September 2014 of 1.25p per ordinary share to be paid as a property income distribution ("PID"). This dividend has not been included as a liability in these financial statements. The interim dividend is expected to be approved in December 2014 and paid on 31 December 2014 to shareholders on the register at the close of business on 5 December 2014.

In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve an annual dividend of 5.25 pence per share[7] for the financial period ending 31 March 2015, implying an annualised dividend yield of 5.25% calculated by reference to the Company's IPO issue price of 100 pence per share.

## 10. Investment properties

| | Unaudited £000 | Unaudited £000 |
|---|---|---|
| At 27 January 2014 and at 25 March 2014 | | — |
| Portfolio acquired at IPO on 26 March 2014 | | 95,190 |
| Additions | | 50,660 |
| Property revaluations | 2,597 | |
| Acquisition costs | (2,553) | |
| Revaluation gain | | 44 |
| **As at 30 September 2014** | | **145,894** |

7 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.

## 10. Investment properties (continued)

The closing book value at 30 September 2014 comprises £113.1 million of freehold and £32.8 million of leasehold properties summarised as follows:

| Investment properties | Freehold Unaudited £000 | Leasehold Unaudited £000 | Total Unaudited £000 |
|---|---|---|---|
| Cost | 113,264 | 32,586 | 145,850 |
| Valuation (deficit)/gain | (180) | 224 | 44 |
| **At 30 September 2014** | **113,084** | **32,810** | **145,894** |

The investment properties are stated at the Directors' estimate of their 30 September 2014 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 30 September 2014 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 are the only assets or liabilities included in level 3 of the IFRS 13 fair value hierarchy. There are no assets or liabilities included in levels 1 or 2.

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and estimated rental value ("ERV"). For the period end valuation, the yields used ranged from 4.9% to 15.3%. 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 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. Included within the consolidated condensed statement of comprehensive income is £44,093 of valuation gains which represent unrealised movements on investment property.

## 11. Trade and other receivables

| | **Unaudited at 30 Sep 2014 £000** | Audited at 24 March 2014 £000 |
|---|---|---|
| Falling due in less than one year: | | |
| Trade receivables | **962** | — |
| Other receivables | **450** | — |
| Prepayments and accrued income | **486** | — |
| | **1,898** | — |

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.

## 12. Trade and other payables

| | Unaudited at 30 Sep 2014 £000 | Audited at 24 March 2014 £000 |
|---|---|---|
| Falling due in less than one year: | | |
| Trade and other payables | **725** | — |
| Social security and other taxes | **721** | — |
| Accruals | **1,136** | — |
| Rental deposit held | **230** | — |
| | **2,812** | — |

| | Unaudited at 30 Sep 2014 £000 | Audited at 24 March 2014 £000 |
|---|---|---|
| Falling due in more than one year: | | |
| Bank borrowings | **12,600** | — |
| | **12,600** | — |

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 Group has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

## 13. Borrowings

The Company intends to operate with a conservative level of gearing, with expected borrowings over the medium term of up to 25% of the aggregate market value of all properties at the time of drawdown. On 25 February 2014, the Company and Lloyds Bank plc entered into a revolving credit facility agreement pursuant to which Lloyds Bank plc has agreed to provide the Company with a revolving credit facility ("the RCF") of £25 million for a term of five years.

The RCF is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum loan-to-value ratio of 49% on those properties specifically charged to it and a floating charge.

Under the terms of agreement, the Company pays interest of 2.45% above LIBOR pa on the outstanding amounts utilised under the agreement from time to time.

At 30 September 2014, £12.6 million of the RCF has been drawn down to fund property acquisitions.

## 14. Issued capital and reserves

| Share capital | Redeemable ordinary shares of 1p | Ordinary shares of 1p | Unaudited £000 |
|---|---|---|---|
| Issued and fully paid: | | | |
| At 24 March 2014 | 4,999,999 | 1 | 50 |
| **At 30 September 2014** | **—** | **131,989,310** | **1,320** |

At incorporation the issued share capital of the Company consisted of one ordinary share of 1 pence and 4,999,999 redeemable ordinary shares of 1 pence each, which were issued to the subscriber to the Company's memorandum of association, Mattioli Woods plc. On 26 March 2014 the redeemable ordinary shares were redeemed by the Company at par value and 131,989,309 ordinary shares were issued at an issue price of £1 each, including a premium of 99 pence per share.

The Board has discretion to issue up to 168,010,690 ordinary shares prior to 20 February 2015 pursuant to a placing programme ("the Placing Programme") intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy.

A placing was completed under the Placing Programme in October 2014, which is detailed further in Note 16.

**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.

On 25 February 2014, Ian Mattioli, the Company and the Company's broker, Numis Securities Limited ("Numis"), entered into a lock-in agreement. Under the terms of the agreement, Ian Mattioli has undertaken not to dispose of any ordinary shares or any interest in ordinary shares for a period of twelve months commencing on Admission and for a further period of twelve months' thereafter not to dispose any ordinary shares or any interest in ordinary shares without the prior written consent of Numis.

| Other reserves | Share premium account unaudited £000 | Retained earnings unaudited £000 |
|---|---|---|
| At 27 January 2014 and 25 March 2014 | — | — |
| Shares issued during the period | 130,669 | — |
| Costs of share issue | (2,182) | — |
| Profit for the period | — | 3,256 |
| Dividends | — | (1,650) |
| Profit on sale of own shares taken directly to equity | — | 2 |
| **At 30 September 2014** | **128,487** | **1,608** |

### 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. |

### 15. Related party transactions

Save for transactions with directors, the Investment Management Agreement and the acquisition of the Interim Portfolio described below, the Company is not a party to, nor had any interest in, any other related party transaction since its incorporation on 27 January 2014.

#### 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.

#### Investment Management Agreement

On 25 February 2014 the Company entered into a three year Investment Management Agreement 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 (including, without limitation, the investment policy of the Company) and in accordance with the investment restrictions referred to in the Investment Management Agreement.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and a director of the Investment Manager. As a result, Ian Mattioli is deemed not to be independent. The Company Secretary, Nathan Imlach, is also a director of Mattioli Woods and the Investment Manager. Ian Mattioli received £13,000 of directors' fees during the period.

During the period the Company paid the Investment Manager £696,321 in respect of annual management charges, company secretarial and administration fees. The Company owed the Investment Manager £546,871 at 30 September 2014.

### 15. Related party transactions (continued)

**Acquisition of the Initial Portfolio**

On 26 March 2014 the Company acquired the Initial Portfolio of 48 properties held in a syndicated structure by clients of Mattioli Woods including Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross and the private pension schemes of Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross.

The Initial Portfolio included MW House and Gateway House at Grove Park, Enderby, which are partially let to Mattioli Woods. Mattioli Woods paid the Company rentals of £180,197 during the period and owed the Company £514 at 30 September 2014.

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.

### 16. Events after the reporting date

**Placing**

A share placing was completed on 3 October 2014, raising £25.0 million (before costs and expenses) through the issue of 23,866,349 new ordinary shares of 1p each in the capital of the Company ("the New Shares") under the Placing Programme established in the Company's February 2014 prospectus.

The New Shares were issued at 104.75 pence per share, which represented a premium of 5.2% to the estimated net asset value per share as at 30 September 2014 at that time.

**Acquisitions**

On 4 November 2014 the Company acquired a 112,435 sq ft warehouse on a 6.84 acre site at Chesford Grange, Warrington let to JTF Wholesale Limited for £6.0 million. The property is let on a 15 year lease expiring on 14 December 2023 with no breaks at a current rent of £485,000 pa, reflecting a net initial yield of 7.64%.

On 17 November 2014 the Company acquired a petrol filling station and convenience store site at Beechings Way, Gillingham let to Somerfield Stores Limited (trading as the Co-operative) for £3.05 million. The property is let on a 25 year lease expiring on 15 April 2028 with no breaks at a current rent of £268,500 pa, reflecting a net initial yield of 8.32%.

# INDEPENDENT AUDITOR'S REVIEW REPORT TO CUSTODIAN REIT PLC

For the period ended 30 September 2014

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 2014 which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes. 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 2014 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.

**Jonathan Dodworth (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
24 November 2014

# DIRECTORS' RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS

The Directors have prepared the interim financial statements of the Company for the period from 25 March 2014 to 30 September 2014.

The Directors confirm:

- The interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';
- The interim financial statements include a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The interim financial statements include a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

# 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 remaining six months of the financial period and could cause actual results to differ materially from expected and historical results. The table below outlines the current 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:

## INDUSTRY RISKS

| Risk Type | Risks | Mitigating Factors |
|---|---|---|
| Investment portfolio | • Tenant default<br>• Change in demand for space<br>• Market pricing affecting value<br>• Excess concentration in geographical location or sector<br>• Lease expiries concentrated in a specific year<br>• Decrease in occupancy | • Investment policy limits the Company's rent roll to no more than 10% to a single tenant, and no more than 50% in any particular sector or geographical region<br>• Focused on established business locations for investment<br>• Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), motortrade, retail and other<br>• Active management of lease expiry profile in forming acquisition decisions<br>• Building specifications not tailored to one user |
| Financial | • Reduced availability or increased cost of debt | • Target gearing of 25% LTV on property portfolio<br>• Existing facilities sufficient for spending commitments and agreed until 2019<br>• On-going monitoring and management of the forecast cash position |
| Operational | • Inadequate performance, controls or systems operated by the Investment Manager | • Ongoing review of performance by independent Board of Directors |
| Regulatory risk | • The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations | • Strong compliance culture<br>• External professional advisers are engaged to review and advise upon control environment<br>• Business model and culture embraces FCA principles, including treating clients fairly<br>• Financial strength provides comfort should capital resource requirements be increased |

# COMPANY INFORMATION

**Directors**
David Hunter – Chairman
Barry Gilbertson – Non-Executive
Ian Mattioli – Non-Executive
Matthew Thorne – Non-Executive

**Company secretary**
Nathan Imlach

**Registered office**
1 Penman Way
Grove Park
Enderby
Leicester
LE19 1SY

**Registered number**
8863271

**Investment Manager**
Custodian Capital Limited
1 Penman Way
Grove Park
Enderby
Leicester
LE19 1SY

**Depositary**
Langham Hall UK LLP
5 Old Bailey
London
EC4M 7BA

**Broker**
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

**Banker**
Lloyds Bank PLC
114-116 Colmore Row
Birmingham
B3 3BD

**Solicitors**
DWF LLP
20 Fenchurch Street
London
EC3M 3AG

**Valuers**
Lambert Smith Hampton Group Limited
UK House
180 Oxford Street
London
W1D 1NN

**Auditor and tax adviser**
Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

**Registrars**
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

# FINANCIAL CALENDAR

| | |
|---|---|
| Announcement of interim results for the period ended 30 September 2014 | 25 November |
| Ex-dividend date for Q2 dividend | 4 December |
| Record date for Q2 dividend | 5 December |
| Payment of Q2 dividend | 31 December |

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