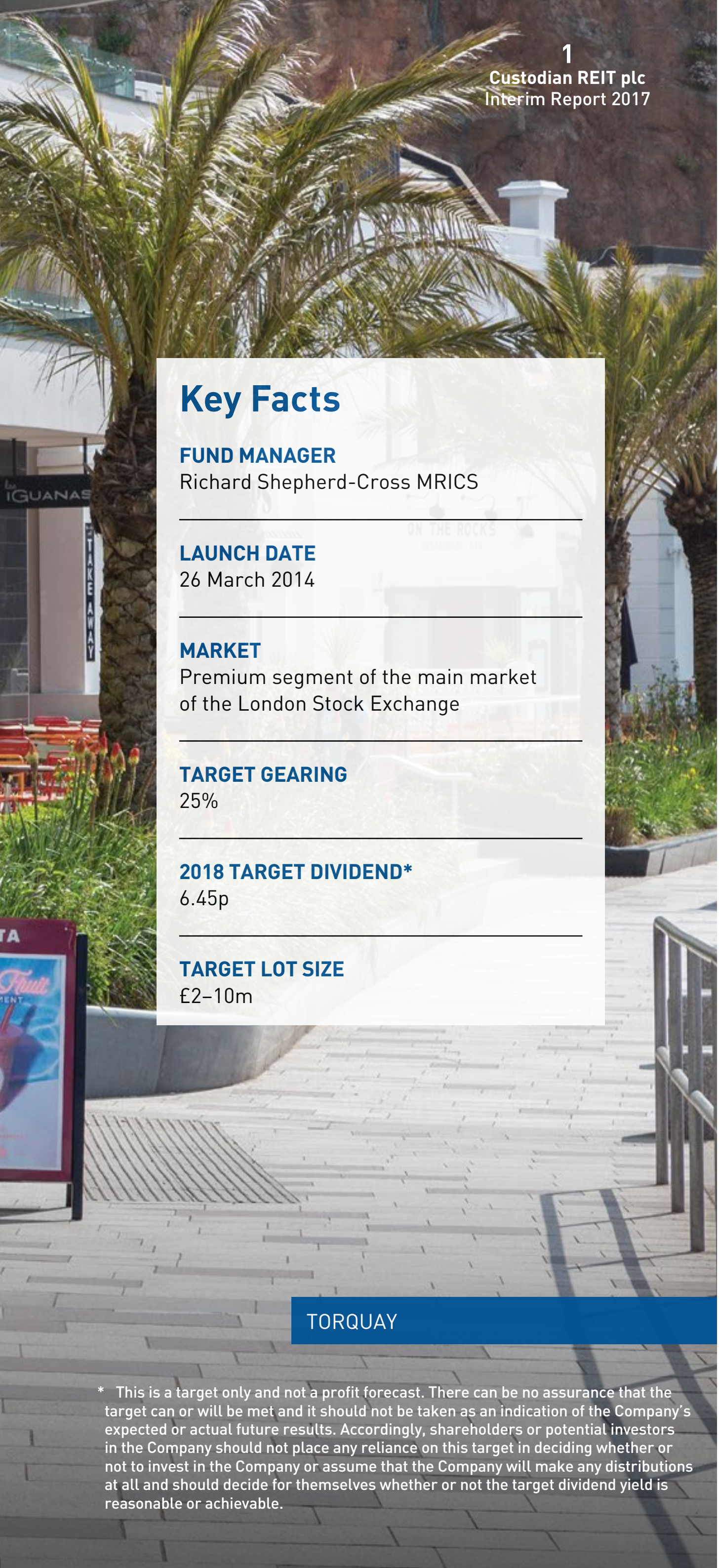
Custodian

REIT PLC

Interim Report 2017/18

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 throughout the UK, principally characterised by properties with individual 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 sub £10m lot size regional properties, the Company intends to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.



TORQUAY

Key Facts

FUND MANAGER
Richard Shepherd-Cross MRICS

LAUNCH DATE
26 March 2014

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

TARGET GEARING
25%

2018 TARGET DIVIDEND*
6.45p

TARGET LOT SIZE
£2–10m

* 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.

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For more information, please visit **www.custodianreit.com**

FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

NAV PER SHARE TOTAL RETURN

4.2%

2016: 3.3%

EPRA EPS

3.4p

2016: 3.0p

MARKET CAPITALISATION

£414.1m

2016: £306.7m

- NAV per share total return[1] of **4.2%** (2016: 3.3%)
- EPRA[2] earnings per share[3] **3.4p** (2016: 3.0p)
- Portfolio value of **£474.3m** (2016: £385.3m[4])
- Profit after tax of **£13.2m** (2016: £8.3m)
- **£24.8m**[5] of new equity raised at an average premium of 11.0% to dividend adjusted NAV
- Dividends of **3.2p** per share paid in the period[6]
- Dividend approved for the quarter ended 30 September 2017 of **1.6125p** per share
- **£56.1m**[7] invested in **12** acquisitions during the period
- **£1.7m** valuation uplift from successful asset management initiatives, **£0.3m** net valuation increase[8]
- **£1.0m** profit on disposal of three properties for an aggregate consideration of **£6.1m**
- EPRA occupancy[9] **96.7%** (2016: 97.8%)

1. Net Asset Value ("NAV") movement including dividends paid and approved relating to the period on shares in issue at 31 March 2017.
2. The European Public Real Estate Association ("EPRA").
3. Profit after tax excluding net gain on investment property divided by weighted average number of shares in issue.
4. Restated to reclassify the value of deferred lease incentives from receivables to investment property.
5. Before costs and expenses of £0.3m.
6. Dividends per share of 1.5875p and 1.6125p paid during the period relating to the quarters ended 31 March 2017 and 30 June 2017 respectively.
7. Before acquisition costs of £3.4m.
8. Comprising £1.7m (2016: £3.3m) of valuation uplift from successful asset management initiatives and £2.0m (2016: £0.2m) of other valuation increases, less £3.4m (2016: £3.8m) of acquisition costs.
9. Estimated rental value ("ERV") of let property divided by total portfolio ERV.
10. Share price movement including dividends paid and approved for the period.
11. Gross borrowings less unrestricted cash, divided by portfolio value. Net gearing at 30 September 2017 was reported as 22.4% in the Q2 NAV statement due to incorrectly using a prior period property valuation.

WARWICK

	Unaudited 6 months to 30 Sept 2017	Unaudited 6 months to 30 Sept 2016	Audited 12 months to 31 Mar 2017
Total return			
NAV per share total return	**4.2%**	3.3%	8.5%
Share price total return[10]	**5.3%**	0.9%	10.3%
EPRA earnings per share (p)	**3.4**	3.0	6.6
Capital values			
NAV (£m)	**378.6**	297.1	351.9
NAV per share (p)	**104.9**	101.7	103.8
Share price (p)	**114.75**	105.0	112.0
Portfolio valuation (£m)	**474.3**	385.3[4]	418.5[4]
Market capitalisation (£m)	**414.1**	306.7	379.7
Premium to NAV per share	**9.4%**	3.2%	7.9%
Net gearing[11]	**19.7%**	21.0%[4]	14.4%[4]

Alternative performance measures, including EPRA Best Practice Recommendations, are used to assess the Company's performance. Explanations as to why alternative performance measures give valuable further insight into the Company's performance are given in the Company's Annual Report. Supporting calculations for alternative performance measures and reconciliations between non-statutory performance measures and their IFRS equivalents are set out in the Additional disclosures section of the interim financial statements.

CHAIRMAN'S STATEMENT

"Our objective is to pay fully covered dividends and secure sustainable growth"

DAVID HUNTER,
Chairman

PROFIT AFTER TAX

£13.2m

2016: £8.3m

NEW EQUITY RAISED

£24.8m

2016: £43.0m

I am pleased to report the Company delivered further positive returns for the six months ended 30 September 2017 ("the Period") with EPRA earnings per share increasing from 3.0p to 3.4p, while expanding the property portfolio through the investment of £56.1m in 12 new acquisitions, funded by £24.8m raised from the issue of new shares and £35m drawn from a new £50m term debt facility. We continue to target growth to realise the potential economies of scale offered by the Company's relatively fixed cost base and the amendment to the Investment Manager's charging structure announced in June, 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 £35m revolving credit facility.

The successful deployment of new monies on the acquisition of high quality assets at an average net initial yield of 6.8% supports our objective to deliver strong income returns from a portfolio principally of sub £10m lots in strong, regional markets.

The Company's share price performance has allowed the Board to issue equity at an average premium of 11% above dividend adjusted NAV, more than covering costs of issue and deployment.

Market

There has been significant new share issuance in the listed property investment company space in 2017, largely focused on specialist mandates such as social housing, student property and healthcare, and on commercial property funds targeting long leases. This activity is positive for the sector, demonstrating commercial property's strength as an income generating asset in a low return environment.

We believe an absolute focus on long leases can detract from a property-focused approach and is making commercial property with long income relatively expensive. Custodian REIT retains a 'property first' strategy, which we believe will deliver sustainable long-term returns for shareholders.

Net asset value

The Company delivered NAV per share total return of 4.2% for the Period. The first half was a period of significant new investment, where the initial costs (primarily stamp duty) of investing £56.1m in property acquisitions diluted NAV per share total return by circa 1.0p, partially offset by raising £24.5m from the issue of new equity (net of costs), which added 0.6p per share.[12]

In addition to new acquisitions, activity during the Period also centred on pro-active asset management, which generated £1.7m of the £3.7m valuation uplift. During the remainder of this financial year we intend to continue

PORTISHEAD

	Pence per share	£m
NAV at 31 March 2017	103.8	351.9
Issue of equity (net of costs)	0.5	24.5
	104.3	**376.4**
Valuation movements relating to:		
– Asset management activity	0.5	1.7
– Other valuation movements	0.5	2.0
	1.0	3.7
Impact of acquisition costs	(1.0)	(3.4)
Net valuation movement	0.0	0.3
Profit on disposal of investment property	0.3	1.0
Net gain on investment property	**0.3**	**1.3**
Income	4.7	16.7
Expenses and net finance costs	(1.3)	(4.8)
Dividends paid[13]	(3.1)	(11.0)
NAV at 30 September 2017	**104.9**	**378.6**

12. 0.5p per share through new issuance at a premium to NAV, plus 0.1p per share notional dividend saving due to new shares being issued ex-dividend.

13. Dividends of 3.2p per share were paid on shares in issue throughout the Period. Dividends paid on shares in issue at the end of the Period averaged 3.1p per share due to new shares being issued after the Period's first ex-dividend date.

our asset management activities and complete on the current acquisition pipeline, deploying the new monies raised from recent equity issues and drawing down debt to maintain net gearing at or around our target level of 25% loan to value ("LTV").

Share price

Share price total return for the first half of the financial year was 5.3%, with a closing price of 114.75p per share on 30 September 2017 representing a 9.4% premium to NAV. During the Period the Company traded consistently at a premium to NAV, with low volatility offering shareholders stable returns. I believe the increasing premium to NAV has been a function of strong demand for closed-ended property funds, the Company's regional property investment strategy, focused asset management and the attractive level of income offered by the Company's dividend policy.

Placing of new ordinary shares

The Company issued 21.8m new shares during the Period at an average premium to dividend adjusted NAV of 11%. These issues have been accretive to NAV, with positive investor demand for the Company's shares a testament to the successful implementation of our strategy to date.

Since the Period end, a further £7.0m new shares have been issued raising £8.0m (before costs and expenses).

Borrowings

As at 30 September 2017 net gearing equated to 19.7% LTV. The Board's strategy is to:

- Increase debt facilities in line with portfolio growth, targeting net gearing of 25% LTV;
- Facilitate expansion of the portfolio to take advantage of expected rental growth and reduce ongoing charges; and

CHAIRMAN'S STATEMENT
CONTINUED


STEVENAGE

- Reduce shareholders' exposure to risk by:
  - Taking advantage of the prevailing low interest rates to secure long-term, fixed rate borrowing; and
  - Managing the weighted average maturity ("WAM") of the Company's debt facilities.

The Company entered into an agreement with Aviva Investors Real Estate Finance ("Aviva") on 5 April 2017 for Aviva to provide a new 15 year £50m term loan facility comprising two tranches of £35m ("Tranche 1") and £15m ("Tranche 2") respectively, resulting in the Company now having the following agreed debt facilities:

- A £35m revolving credit facility ("RCF") with Lloyds Bank plc, which attracts interest of 2.45% above three month LIBOR and expires on 13 November 2020;
- A £20m term loan with Scottish Widows plc, which attracts interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan facility with Scottish Widows plc which attracts interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £50m term loan facility with Aviva comprising:
  - a) £35m Tranche 1 repayable on 6 April 2032, attracting fixed annual interest of 3.02%; and
  - b) £15m Tranche 2 repayable on 3 November 2032, attracting fixed annual interest of 3.26%.

At the Period end the Company had circa £57m of available funds to deploy on property acquisition opportunities, comprising £7m uncommitted cash, £35m undrawn RCF and £15m Tranche 2.

The weighted average cost of the Company's agreed debt facilities is 3.1% with a WAM of 10 years and 77% of the Company's agreed debt facilities are at a fixed rate of interest, significantly reducing interest rate risk.

Investment Manager

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

The Investment Manager is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. On 1 June 2017, the Investment Manager was appointed for a further three years and fees payable to the Investment Manager under the IMA were amended to include:

- A step down in the property management fee from 0.75% to 0.65% of NAV applied to NAV in excess of £500m; and

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

These amendments to the IMA secured an immediate reduction in the administrative fee, increasing cover on target dividends for the current year. Further growth in NAV, particularly above £500m, will further reduce the Company's ongoing charges ratio and increase dividend capacity.

Dividends

Income is a major component of total return. The Company paid dividends totalling 3.2p per share during the six month Period, all classified as property income distributions, comprising interim dividends of 1.5875p per share and 1.6125p per share relating to the quarters ended 31 March 2017 and 30 June 2017 respectively.

The Board has approved an interim dividend of 1.6125p per share for the quarter ended 30 September 2017, which will be paid on 30 November 2017. 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 2018 of 6.45p (2017: 6.35p).

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.

Outlook

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. We believe rental growth in regional markets will be a key driver of the Company's performance, which can be enhanced through the careful deployment of new debt and equity and continued asset management of the portfolio.

While we can never rule out some future impact on NAV as a result of falling confidence in the property market or general economic and political turbulence, we believe our strategy of securing sustainable income will support future dividends through any medium term market volatility and deliver capital growth for shareholders over the long-term.

David Hunter,
Chairman
20 November 2017

INVESTMENT MANAGER'S REPORT

"A well-diversified regional portfolio"

RICHARD SHEPHERD-CROSS,
Investment Manager

PORTFOLIO VALUE

£474.3m

2016: £385.3m

SHARE PRICE TOTAL RETURN

5.3%

2016: 0.9%

Investment market

Assets that produce reliable income returns secured against contractual lease terms continue to attract a wide range of investors. Last month Property Week reported that allocations to commercial property now exceed 10% in global institutional portfolios, up from 8.9% in 2013[14]. While a small percentage increase, the absolute impact is significant, resulting in strong competition for such assets when they come to market.

Our challenge in this environment is to find value and identify areas of the market that appear mispriced against forecast performance. There are more buyers than sellers in our target market so we remain ever vigilant to pay a fair price, which is not always the market price, and in many instances we are holding back in the face of excessive competition. This issue is particularly acute for properties let on long leases. However, we believe that with greater liquidity in property markets and an increased supply of investment opportunities the market should normalise before a bubble emerges.

We have consciously targeted out-of-town retail (retail warehousing) over the last 18 months, with the sector now accounting for 16% of portfolio income (March 2017: 11%). We believe retail warehousing is the sector of the physical retail market that is complementary to online retailing, or at least not negatively correlated to the growth of online retailing which, when combined with a restricted planning regime, explains the record low vacancy rates and rental growth we are experiencing.

Occupational market

Occupational demand remains healthy and we are witnessing rental growth and low vacancy rates across the portfolio, giving us comfort that there is still an opportunity to invest. There are no signs of an oversupply of property in the occupational market and there continues to be a low level of development. It is this, rather than excessive demand, that is driving rental growth so we believe the market should be better insulated from shocks than it was in previous rental growth cycles.

Many regional markets are witnessing rental levels which remain below the threshold necessary to bring forward new development. It would appear that there is the opportunity for rental growth on which the market must deliver before we see supply reach equilibrium with demand, thus maintaining pressure on rents to grow.

Across the market many tenant negotiations remain finely balanced, with strong tenants keenly aware of their value to landlords. However tenants are also accepting rental growth, which they may have avoided for as long as 10 years in some instances. This greater general acceptance of rental growth, combined with limited supply of alternative premises, should make it possible to minimise rental voids and secure rental growth across the Company's portfolio in the remainder of the financial year ahead. The Company's occupancy rate now stands at 96.7%.

14. Source: Propertyweek.com 13/10/2017.

PLYMOUTH

Pipeline

We continue to find opportunities that fit our investment strategy, as demonstrated by the investment of £56.1m during the Period at an average net initial yield ("NIY") of 6.8%. We have terms agreed on a further £18.9m of properties and are considering an active and growing pipeline of new acquisition opportunities as vendors prepare to conclude sales prior to the end of 2017.

Investment objective

The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully covered by earnings, with a conservative level of gearing.

We continue to pursue a pipeline of new investment opportunities with the aim of deploying the Company's undrawn debt facilities up to the net gearing target of 25% LTV. While the cost of debt remains near historical lows, we believe this strategy will improve dividend cover as gearing increases towards the target level.

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

The diversification strategy to invest principally in sub £10m lots across sector, geography and a broad tenant mix stands the portfolio in good stead against market shocks. The largest tenant in the portfolio, B&M, represents only 2.7% of the rent roll across three properties, with the average tenant representing only 0.5% of the rent roll.

INVESTMENT MANAGER'S REPORT
CONTINUED

Sector	Valuation 30 Sept 2017 £m	Weighting by income 30 Sept 2017[15] %	Weighting by income 31 March 2017 %	Gross valuation movement £m	Gross valuation[16] movement %	Net valuation movement £m
Industrial	**202.1**	**42%**	**45%**	4.6	2.3%	4.0
Retail warehouse	**80.2**	**16%**	**11%**	1.3	1.9%	(0.5)
Other[17]	**73.3**	**15%**	**13%**	—	—	(1.0)
High street retail	**66.2**	**14%**	**17%**	(1.9)	(2.6%)	(1.9)
Office	**52.5**	**13%**	**14%**	(0.3)	(0.5%)	(0.3)
Total	**474.3**	**100%**	**100%**	**3.7**		**0.3**

At 30 September 2017 the Company's property portfolio comprised 141 assets, 206 tenants and 255 tenancies. 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.

Industrial property is a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings with high residual values (i.e. the vacant possession value is closer to the investment value than in other sectors) and where the real estate is less exposed to obsolescence. £1.6m of the £4.6m gross valuation increase in the industrial sector was driven by asset management initiatives, with occupational demand driving rental growth and generating positive returns.

Retail represents 30% of total portfolio income, comprising 14% high street and 16% out-of-town retail (retail warehousing). 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. These factors made retail warehousing a target sector for acquisitions throughout the Period.

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

Office rents in regional markets are still growing and supply is constrained by a lack of development and the extensive conversion of secondary offices to residential. However, we are conscious that obsolescence and lease incentives can be a real cost of office ownership, which can hit cash flow and be at odds with the Company's relatively high target dividend.

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

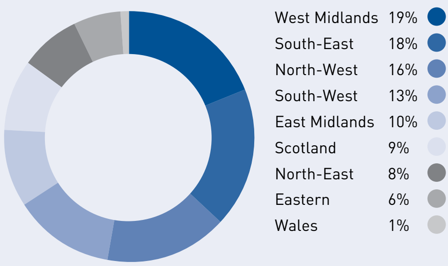
Portfolio risk

The portfolio's security of income is enhanced by 14% of income benefitting from either fixed or indexed rent reviews, with increasingly strong evidence of open market rental growth across all sectors.

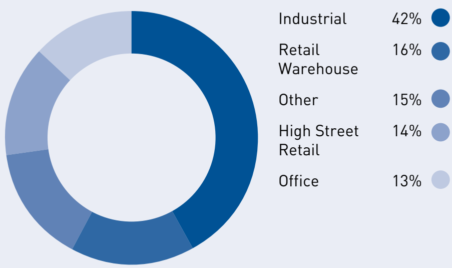
Short-term income at risk is a relatively low proportion of the portfolio's total income, with 34% expiring in the next three years (12% within one year).

15. Current passing rent plus ERV of vacant properties.
16. Excluding the impact of acquisitions and disposals.
17. Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, gymnasiums, hotels and healthcare units.

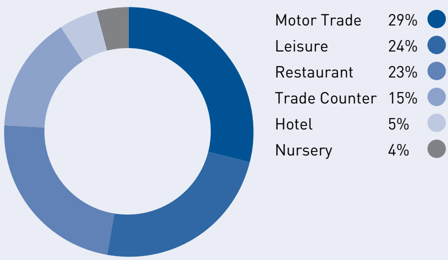
REGIONAL SPLIT BY INCOME



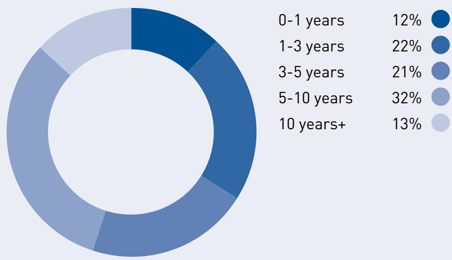
SECTOR SPLIT BY INCOME



OTHER SECTOR – SUB-SECTOR SPLIT



INCOME AT RISK



LEASE EXPIRY PROFILE

INVESTMENT MANAGER'S REPORT

CONTINUED

Portfolio performance

During the Period the Company completed the following 12 property acquisitions:

Industrial

LANGLEY MILL

TENANT: Warburtons

NIY: 6.29%

PURCHASE PRICE[18]: £2.15m

EUROCENTRAL, MOTHERWELL

TENANT: Next

NIY: 6.91%

PURCHASE PRICE: £4.75m

LIVINGSTON

TENANT: SCS

NIY: 7.50%
(subject to completion of rent review)

PURCHASE PRICE: £2.59m

18. Purchase price represents purchase consideration before acquisition costs of £3.5m and rent-free top-ups of £1.5m.

Other

YORK

TENANT: Evans Halshaw

NIY: 5.75%

PURCHASE PRICE: £3.92m

SALISBURY

TENANT: Parkwood Health & Fitness

NIY: 6.75%

PURCHASE PRICE: £2.79m

STOCKPORT

TENANT: Williams BMW & Mini

NIY: 6.99%

PURCHASE PRICE: £8.84m

INVESTMENT MANAGER'S REPORT
CONTINUED

Retail Warehouse

GLOUCESTER

TENANT: Smyths Toys and Magnet

NIY: 7.41%

PURCHASE PRICE: £4.73m

SHELDON

TENANT: Dreams, Halfords and Pets at Home

NIY: 6.64%

PURCHASE PRICE: £5.1m

GALASHIELS

TENANT: B&Q

NIY: 8.24%

PURCHASE PRICE: £3.15m

ASHTON-UNDER-LYNE

TENANT: B&M

NIY: 6.00%

PURCHASE PRICE: £6.6m

PLYMOUTH

TENANT: SCS, Oak Furniture Land and McDonald's

NIY: 6.74%

PURCHASE PRICE: £7.49m

PLYMOUTH

TENANT: B&M and Magnet

NIY: 6.79%

PURCHASE PRICE: £5.53m

INVESTMENT MANAGER'S REPORT

CONTINUED

Asset management

Our continuing focus on active asset management including new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in £1.7m of the £3.7m valuation uplift during the Period, with further initiatives expected to complete in the coming months.

Key asset management initiatives completed during the Period include:

- Finalising a rent review with DHL in Warrington at £0.31m per annum, increasing valuation by £0.6m;
- Exchanging on an agreement to lease a unit in Gateshead to WH Partnership on a 10 year lease at £0.14m per annum, increasing valuation by £0.4m;
- Agreeing a rent review with Yesss Electrical in Normanton at £0.33m per annum, increasing valuation by £0.4m; and
- Removing an August 2018 break clause in Bunzl's lease in Castleford increasing weighted average unexpired lease term to the first lease break or expiry ("WAULT") from 1.2 years to 6.2 years, increasing valuation by £0.2m.

A key part of effective portfolio management is the disposal of assets which either no longer meet the long-term investment strategy of the Company or which can be disposed of significantly ahead of valuation, often to a special purchaser, such that holding the asset is no longer appropriate. After focused pre-sale asset management, the following three properties were sold during the Period for a total of £6.1m, realising a profit on disposal of £1m at an aggregate NIY of 5.5%, with gross proceeds 19.8% ahead of aggregate valuation:

- An 8,326 sq ft retail unit in Colchester for £4.25m, £0.7m ahead of valuation;
- A 15,330 sq ft multi-tenanted industrial estate in Hinckley for £1.2m, £0.2m ahead of valuation; and
- A 9,332 sq ft multi-tenanted retail parade in Redcar for £0.6m, £0.1m ahead of valuation.

The gains made on these disposals were primarily the result of a sale to a special purchaser and the current strong market demand for regional industrial units. We intend to use the proceeds from these disposals to fund acquisitions better aligned to the Company's long-term investment strategy.

The portfolio's WAULT decreased to 5.8 years from 5.9 years at 31 March 2017, primarily due to the completion of acquisitions during the Period with a WAULT of 7.7 years partially offsetting the 0.5 years natural decline through the passing of time. Although we believe long leases are currently being over-valued by the market and are unwilling to over-pay for long leases simply to support the WAULT, we will continue to take advantage of situations where we can find fair value and still benefit from long leases. Our target WAULT for the portfolio is five years, but we believe that with the current strength of the occupational market and a portfolio comprising high quality properties, risk is better managed by pursuing a strategy of buying high quality properties that are likely to re-let should the tenant vacate, rather than buying highly priced properties with long leases simply to mitigate an artificial measure of risk.

Outlook

We expect to see larger funds selling smaller lots regarded as being sub-scale for their ambitions, once they have further invested their cash balances. While a number of competitor funds are targeting sub £10m lot size properties, most are focused on 'value-add' opportunities. Custodian REIT follows a low to moderate risk investment strategy, known as 'core' to 'core-plus', so we anticipate the pipeline of new acquisition opportunities will offer fundamentally strong investment credentials, but be subject to less market competition relative to 'value-add' opportunities or larger lots.

Rental growth in regional markets, driven by the significant lack of supply of good quality, modern real estate combined with healthy occupational demand, will be a key driver of performance.

I am confident the Company's strategy of targeting income with conservative 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
20 November 2017

OUR PORTFOLIO

VALUE

£474.3m

2016: £385.3m

TENANCIES

255

2016: 251

OCCUPANCY RATE

96.7%

2016: 97.8%

ASSETS

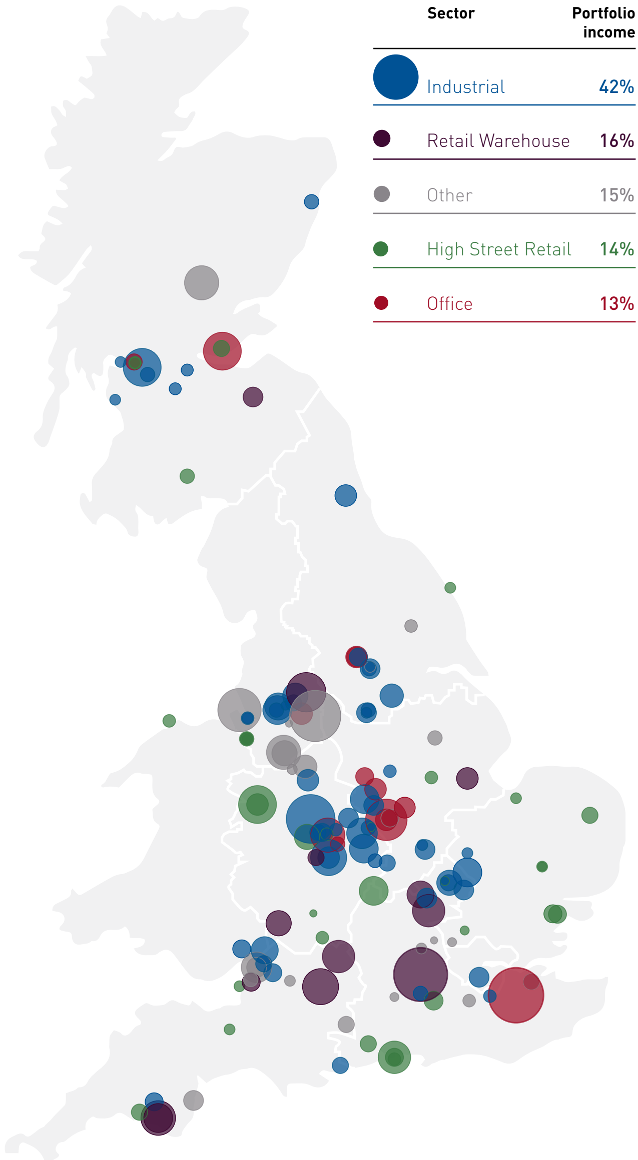
141

2016: 128

WAULT

5.8 years

2016: 6.2 years



OUR PORTFOLIO

CONTINUED

Industrial

Portfolio income

42%

(2016: 44%)

Location	Tenant	Portfolio income
Wolverhampton	Assa Abloy (sub-let to Kuehne + Nagel)	1.46%
Burton	Kings Road Tyres	1.45%
Gateshead	Multi-let	1.44%
Chesford Grange	JTF Wholesale	1.38%
Ashby	Teleperformance	1.32%
Winsford	H&M	1.20%
Bedford	Elma Electronics and Vertiv Infrastructure	1.20%
Salford	Restore	1.15%
Doncaster	Portola Packaging	1.01%
Eurocentral, Motherwell	Next	1.00%
Normanton	YESSS Electrical	0.96%
Stone	Revlon International	0.92%
Redditch	Amco Services	0.90%
Warrington	DHL Supply Chain	0.88%
Redditch	SAPA Profiles	0.87%
Biggleswade	Turpin Distribution Services	0.85%
Cannock	HellermannTyton	0.81%
Chepstow	Multi-let	0.80%
Milton Keynes	Massmould	0.80%
Kettering	Multi-let	0.78%
Nuneaton	DX Network Services	0.76%
Milton Keynes	Saint-Gobain Building Distribution	0.75%
Warrington	EAF Supply Chain and Synertec	0.74%
Plymouth	Sherwin-Williams	0.73%
Bristol	BSS	0.71%
West Bromwich	OyezStraker	0.71%
Bedford	Heywood Williams Components	0.67%
Coventry	Royal Mail	0.67%
Stevenage	Morrison Utility Services	0.64%
Daventry	Cummins	0.63%
Manchester	Unilin Distribution	0.63%
Avonmouth	Superdrug Stores	0.61%
Oldbury	Sytner	0.60%
Aberdeen	DHL Supply Chain	0.59%
Southwark	Constantine	0.57%
Christchurch	Interserve Project Services	0.57%
Cambuslang	Brenntag	0.56%
Leeds	Sovereign Air Movement and Nationwide Crash Repair	0.53%
Warrington	Dinex Exhausts	0.52%
Warwick	Semcon	0.51%
Hamilton	Ichor Systems	0.50%
Livingston	SCS	0.50%
Erdington	West Midlands Ambulance Service NHS Trust	0.43%
Langley Mill	Warburtons	0.41%
Sheffield Parkway	Synergy Health	0.40%
Farnborough	Triumph Structures	0.40%
Irlam	Northern Commercials	0.40%
Liverpool	Powder Systems	0.38%
Westerham	Aqualisa Products	0.38%
Coalville	MTS Logistics	0.37%
Castleford	Bunzl	0.36%
Sheffield	Arkote	0.34%
Liverpool	DHL International	0.34%
Kettering	Sealed Air	0.34%
Atherstone	North Warwickshire Borough Council	0.33%
Sheffield	River Island and Andrew Page	0.30%
Huntingdon	PHS	0.30%
Kilmarnock	Royal Mail	0.27%
Glasgow	DHL Global Forwarding	0.26%
Normanton	Acorn Web Offset	0.25%
Vacant Units		0.91%

19. Percentage of portfolio passing rent plus ERV of vacant units.

Retail Warehouse

Portfolio income

16%

(2016: 11%)

Location	Tenant	Portfolio income
Winnersh	Wickes and Pets at Home	**1.63%**
Swindon	B&M and Go Outdoors	**1.50%**
Leighton Buzzard	Homebase	**1.49%**
Banbury	B&Q	**1.36%**
Plymouth	SCS and Oak Furniture Land	**1.32%**
Ashton-under-Lyne	B&M	**1.20%**
Milton Keynes	Staples UK	**1.19%**
Plymouth	B&M and Magnet	**1.14%**
Gloucester	Magnet and Smyths Toys	**1.06%**
Sheldon	Dreams, Halfords and Pets at Home	**1.03%**
Grantham	Laura Ashley, Poundstretcher and Carpetright	**0.92%**
Galashiels	B&Q	**0.78%**
Stourbridge	Multi-let	**0.61%**
Portishead	Majestic Wine and Home Bargains	**0.54%**

Office

Portfolio income

13%

(2016: 15%)

Location	Tenant	Portfolio income
West Malling	Regus	**1.59%**
Birmingham	Multi-let	**1.33%**
Edinburgh	Multi-let	**1.09%**
Leeds	Enact Conveyancing	**0.97%**
Leicester	Mattioli Woods and Regus	**0.92%**
Castle Donington	National Grid	**0.92%**
Cheadle	Wienerberger	**0.86%**
Leeds	Enact Conveyancing	**0.83%**
Derby	Edwards Geldards	**0.73%**
Leicester	Mattioli Woods and Erskine Murray	**0.72%**
Glasgow	Multi-let	**0.61%**
Solihull	Lyons Davidson	**0.54%**
Vacant Units		**1.40%**

OUR PORTFOLIO
CONTINUED

High Street Retail

Portfolio income

14%

(2016: 16%)

Location	Tenant	Portfolio income
Shrewsbury	Multi-let	**1.51%**
Portsmouth	Multi-let	**1.49%**
Colchester	Multi-let	**0.86%**
Colchester	Kruidvat Real Estate and Poundland	**0.71%**
Southampton	URBN	**0.63%**
Torpoint	Sainsbury's	**0.62%**
Norwich	Specsavers	**0.57%**
Guildford	Reiss	**0.56%**
Shrewsbury	Cotswold Outdoor	**0.45%**
Llandudno	WHSmith	**0.43%**
Birmingham	Multi-let	**0.41%**
Chester	Lakeland and Ernest Jones	**0.40%**
Nottingham	The White Company	**0.40%**
Chester	Lloyds TSB and Chesca	**0.37%**
Weston-Super-Mare	Superdrug Stores	**0.35%**
Glasgow	Greggs	**0.34%**
Edinburgh	Phase Eight	**0.31%**
Chester	Der Touristik and Aslan Jewellery	**0.31%**
Portsmouth	The Works	**0.30%**
Scarborough	Waterstones	**0.26%**
Taunton	Wilko Retail	**0.26%**
Dumfries	Iceland Foods	**0.26%**
Bury St Edmunds	The Works	**0.26%**
Edinburgh	R Scott Bathrooms and Tesco	**0.25%**
Bedford	Waterstones	**0.24%**
Southsea	Portsmouth City Council	**0.22%**
Hinckley	WHSmith	**0.20%**
Cirencester	Framemakers Galleries and Noa Noa	**0.19%**
Bury St Edmunds	Savers Health & Beauty	**0.15%**
Cheltenham	Betfred	**0.12%**
Southsea	Superdrug Stores	**0.11%**
Vacant Units		**0.87%**

Other

Portfolio income

15%

(2016: 14%)

Location	Tenant	Portfolio income
Stockport	Williams BMW and Mini	1.88%
Crewe	Multi-let	1.50%
Liverpool	Multi-let	1.35%
Perth	Multi-let	1.18%
Stoke	Nuffield Health	0.99%
Torquay	Multi-let	0.81%
Gillingham	Co-Op	0.76%
Leicester	Magnet	0.71%
York	Evans Halshaw	0.68%
Portishead	Travelodge	0.63%
Salisbury	Parkwood Health & Fitness	0.57%
Lincoln	MKM Buildings Supplies	0.55%
Redhill	Honda Motor Europe	0.40%
Crewe	Multi-let	0.40%

Location	Tenant	Portfolio income
Shrewsbury	House of the Rising Sun and ASK	0.39%
Bath	Prezzo	0.35%
High Wycombe	Stonegate Pub Co	0.33%
Castleford	MKM Buildings Supplies	0.31%
Plymouth	McDonald's	0.26%
Leicester	Pizza Hut	0.25%
Watford	Pizza Hut	0.24%
Portishead	JD Wetherspoons	0.20%
Basingstoke	Bright Horizons	0.18%
Chesham	Bright Horizons	0.15%
Knutsford	Knutsford Day Nursery	0.14%
Vacant Units		0.05%

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Note	**Unaudited 6 months to 30 Sept 2017 £000**	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Revenue	4	**16,711**	12,575	27,610
Investment management fee		**(1,537)**	(1,245)	(2,671)
Operating expenses of rental property				
– rechargeable to tenants		**(627)**	(590)	(630)
– directly incurred		**(417)**	(569)	(1,239)
Professional fees		**(202)**	(169)	(337)
Directors' fees		**(84)**	(80)	(160)
Administrative expenses		**(277)**	(232)	(475)
Expenses		**(3,144)**	(2,885)	(5,512)
Operating profit before financing and revaluation of investment property		**13,567**	9,690	22,098
Unrealised gains/(losses) on revaluation of investment property:				
– relating to gross property revaluations	9	**3,747**	3,502	9,016
– relating to acquisition costs	9	**(3,452)**	(3,759)	(6,103)
Net valuation increase/(decrease)		**295**	(257)	2,913
Profit on disposal of investment property		**979**	128	1,599
Net gains/(losses) on investment property		**1,274**	(129)	4,512
Operating profit before financing		**14,841**	9,561	26,610
Finance income	5	**83**	25	186
Finance costs	6	**(1,693)**	(1,291)	(2,591)
Net finance costs		**(1,610)**	(1,266)	(2,405)
Profit before tax		**13,231**	8,295	24,205
Income tax	7	**—**	—	—
Profit and total comprehensive income for the Period, net of tax		**13,231**	8,295	24,205
Attributable to:				
Owners of the Company		**13,231**	8,295	24,205
Earnings per ordinary share:				
Basic and diluted (p)	3	**3.8**	3.0	8.1
EPRA (p)	3	**3.4**	3.0	6.6

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017
Registered number: 08863271

	Note	**Unaudited 30 Sept 2017 £000**	Unaudited 30 Sept 2016 £000 (restated)	Audited 31 Mar 2017 £000 (restated)
Non–current assets				
Investment property	9	**474,318**	385,348	418,548
Total non-current assets		**474,318**	385,348	418,548
Current assets				
Trade and other receivables	10	**9,056**	2,234	4,453
Cash and cash equivalents	12	**8,054**	6,661	5,807
Total current assets		**17,110**	8,895	10,260
Total assets		**491,428**	394,243	428,808
Equity				
Issued capital	14	**3,609**	2,921	3,390
Share premium		**183,339**	110,913	159,101
Retained earnings		**191,610**	183,250	189,386
Total equity attributable to equity holders of the Company		**378,558**	297,084	351,877
Non-current liabilities				
Borrowings	13	**98,472**	85,901	63,788
Other payables		**571**	571	571
Total non-current liabilities		**99,043**	86,472	64,359
Current liabilities				
Trade and other payables	11	**7,611**	5,664	7,014
Deferred income		**6,216**	5,023	5,558
Total current liabilities		**13,827**	10,687	12,572
Total liabilities		**112,870**	97,159	76,931
Total equity and liabilities		**491,428**	394,243	428,808

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 20 November 2017 and are signed on its behalf by:

David Hunter,
Independent Chairman

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2017

	Note	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Operating activities				
Profit for the Period		**13,231**	8,295	24,205
Net finance costs	5,6	**1,610**	1,266	2,405
Increase in fair value of investment property	9	**(295)**	257	(2,913)
Profit on disposal of investment property (excluding costs of disposal)		**(1,067)**	(128)	(1,807)
Income tax	7	**—**	—	—
Cash flows from operating activities before changes in working capital and provisions		**13,479**	9,690	21,890
(Increase)/decrease in trade and other receivables		**(4,605)**	453	(3,225)
Increase in trade and other payables		**595**	2,521	4,401
Cash generated from operations		**9,469**	12,664	23,066
Interest paid	6	**(1,583)**	(1,026)	(2,233)
Net cash flows from operating activities		**7,886**	11,638	20,833
Investing activities				
Purchase of investment property		**(56,132)**	(66,591)	(104,968)
Acquisition costs		**(3,452)**	(3,759)	(6,103)
Disposal of investment property		**6,052**	5,650	18,945
Interest received	5	**21**	25	33
Net cash from investing activities		**(53,511)**	(64,675)	(92,093)
Financing activities				
Proceeds from the issue of share capital		**24,814**	43,033	92,425
Payment of costs of share issue		**(358)**	(585)	(1,320)
New borrowings (net of costs)		**34,423**	20,514	(1,000)
Dividends paid	8	**(11,007)**	(8,719)	(18,493)
Net cash from financing activities		**47,872**	54,243	71,612
Net increase in cash and cash equivalents		**2,247**	1,206	352
Cash and cash equivalents at start of the Period		**5,807**	5,455	5,455
Cash and cash equivalents at end of the Period		**8,054**	6,661	5,807

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the periods ended 30 September 2017 and 30 September 2016

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2017 (audited)		**3,390**	**159,101**	**189,386**	**351,877**
Profit and total comprehensive income for Period		—	—	13,231	13,231
Transactions with owners of the Company, recognised directly in equity					
Dividends	8	—	—	(11,007)	(11,007)
Issue of share capital	14	219	24,238	-	24,457
As at 30 September 2017 (unaudited)		**3,609**	**183,339**	**191,610**	**378,558**

	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		409	42,039	—	42,448
As at 30 September 2016 (unaudited)		**2,921**	**110,913**	**183,250**	**297,084**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 30 September 2017

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The interim financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The interim financial statements were authorised for issue in accordance with a resolution of the Directors on 20 November 2017.

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 2018 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 2017 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.

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, except for the change in accounting presentation described in paragraph 2.6.

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. Basis of preparation and accounting policies continued

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 property 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, 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 2017. The Company's principal risks and uncertainties have not changed materially since the date of that report. The Company's principal risks and uncertainties are not expected to change materially for the remaining six months of the Company's financial year.

2.6. Change in accounting presentation

During the Period the classification of deferred lease incentives has been reviewed and compared with industry peers, resulting in a presentational change with no impact on total return or NAV. These assets were previously reported as a separate receivable and deducted from the independent property valuation in arriving at the reported investment property balance. To align the Company's accounting presentation with that adopted by many industry peers, assets totalling £2.7m at 31 March 2017 and £1.8m at 30 September 2016 have been reclassified from receivables to investment property in retrospectively restating the statement of financial position at those dates in these interim financial statements.

3. Earnings per ordinary share

Basic earnings per share ("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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

CONTINUED

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 2017	Unaudited 6 months to 30 Sept 2016	Audited 12 months to 31 Mar 2017
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**13,231**	8,295	24,205
Net (gains)/losses on investment property (£000)	**(1,274)**	129	(4,512)
EPRA net profit attributable to equity holders of the Company (£000)	**11,957**	8,424	19,693
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period	**339,013,345**	251,242,071	251,242,071
Effect of shares issued during the Period	**8,829,071**	25,045,659	47,489,151
Basic and diluted weighted average number of shares	**347,842,416**	276,287,730	298,731,222
Basic and diluted EPS (p)	**3.8**	3.0	8.1
EPRA EPS (p)	**3.4**	3.0	6.6

4. Revenue

	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Gross rental income from investment property	**16,084**	11,985	26,980
Income from recharges to tenants	**627**	590	630
	16,711	12,575	27,610

5. Finance income

	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Bank interest	**21**	25	33
Finance income	**62**	—	153
	83	25	186

6. Finance costs

	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Amortisation of arrangement fees on debt facilities	**110**	265	358
Bank interest	**1,583**	1,026	2,233
	1,693	1,291	2,591

During the period ended 30 September 2016 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 effective tax rate 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 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Profit before income tax	**13,231**	8,295	24,205
Tax charge on profit at a standard rate of 19.0% (30 September 2016: 20.0%, 31 March 2017: 20.0%)	**2,514**	1,659	4,841
Effects of:			
REIT tax exempt rental profits and gains	**(2,514)**	(1,659)	(4,841)
Income tax expense for the Period	**—**	—	—
Effective income tax rate	**0.0%**	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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

CONTINUED

8. Dividends

	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Interim equity dividends per ordinary share relating to:			
31 March 2016: 1.6625p	**—**	4,227	4,227
30 June 2016: 1.5875p	**—**	4,492	4,492
30 September 2016: 1.5875p	**—**	—	4,638
31 December 2016: 1.5875p	**—**	—	5,136
31 March 2017: 1.5875p	**5,398**	—	—
30 June 2017: 1.6125p	**5,609**	—	—
	11,007	8,719	18,493

All dividends paid are classified as property income distributions.

The Directors approved an interim dividend relating to the quarter ended 30 September 2017 of 1.6125p per ordinary share in October 2017 which has not been included as a liability in these interim financial statements. This interim dividend is expected to be paid on 30 November 2017 to shareholders on the register at the close of business on 27 October 2017.

In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve an annual dividend of 6.45p per share for the financial year ending 31 March 2018[20].

9. Investment property

	£000 (restated)
At 31 March 2017 (as previously reported)	415,812
Prior period adjustment (Note 2.6)	2,736
At 31 March 2017 (as restated)	418,548
Gross valuation gain	3,747
Acquisition costs	(3,452)
Net revaluation gain	295
Lease incentives	876
Additions (including acquisition costs)	59,584
Disposals	(4,985)
As at 30 September 2017	**474,318**

Included in investment property is £3.6m relating to an ongoing development at Stevenage.

20. 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.

9. Investment property continued

The investment property is stated at the Directors' estimate of its 30 September 2017 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 30 September 2017 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. LSH has recent experience in the relevant location and category of the properties being valued.

Investment property has 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 4.9% to 9.0%. 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 2017 £000	Unaudited as at 30 Sept 2016 £000 (restated)	Audited as at 31 Mar 2017 £000 (restated)
Trade receivables	**3,437**	1,653	1,342
Other receivables	**5,167**	308	2,771
Prepayments and accrued income	**452**	273	340
	9,056	2,234	4,453

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.

11. Trade and other payables

	Unaudited as at 30 Sept 2017 £000	Unaudited as at 30 Sept 2016 £000	Audited as at 31 Mar 2017 £000
Falling due in less than one year:			
Trade and other payables	**638**	958	608
Social security and other taxes	**3,142**	1,607	2,423
Accruals	**2,442**	2,652	2,761
Rental deposits and retentions	**1,389**	447	1,222
	7,611	5,664	7,014

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

CONTINUED

12. Cash and cash equivalents

	Unaudited as at 30 Sept 2017 £000	Unaudited as at 30 Sept 2016 £000	Audited as at 31 Mar 2017 £000
Cash and cash equivalents	**8,054**	6,661	5,807

Cash and cash equivalents include £1.4m (30 September 2016: £0.4m and 31 March 2017: £1.3m) of restricted cash comprising rental deposits and retentions held on behalf of tenants.

13. Borrowings

	Unaudited as at 30 Sept 2017 £000	Unaudited as at 30 Sept 2016 £000	Audited as at 31 Mar 2017 £000
Falling due in more than one year:			
Bank borrowings	**100,000**	87,000	65,000
Costs incurred in the arrangement of bank borrowings	**(1,528)**	(1,099)	(1,212)
	98,472	85,901	63,788

On 5 April 2017, the Company and Aviva entered into an agreement for Aviva to provide the Company with a new term loan facility of £50m. The loan is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. The Company drew down the first tranche of £35m on 6 April 2017, which is repayable on 6 April 2032 with a fixed rate of interest of 3.02% per annum payable on the balance, and drew down the second tranche of £15m on 3 November 2017, which is repayable on 3 November 2032 with a fixed rate of interest of 3.26% per annum payable on the balance.

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

The Company's borrowing position at 31 March 2017 is set out in the Annual Report for the year ended 31 March 2017.

14. Issued capital and reserves

Share capital	Ordinary shares of 1p	£000
At 30 September 2016	292,132,071	2,921
Issue of share capital	46,881,274	469
At 31 March 2017	339,013,345	3,390
Issue of share capital	21,840,000	219
At 30 September 2017	**360,853,345**	**3,609**

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

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. 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 IFRS 13 Fair Value Measurement 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 property held by the Company. The fair value hierarchy of investment property is Level 3. At 30 September 2017, the fair value of investment property was £474.3m and during the Period the net valuation increase was £0.3m.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
CONTINUED

15. Financial instruments continued

Interest bearing loans and borrowings – Level 3

As at 30 September 2017 the amortised cost of the Company's loans with Lloyds Bank plc, Scottish Widows plc and Aviva 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.

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.

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

Investment Management Agreement ("IMA")

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

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

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

The Investment Manager provides day-to-day administration of the Company and provides the services of the Company Secretary, including maintenance of accounting records and preparing the annual financial statements of the Company. During the first two months of the Period the Company paid the Investment Manager an administrative fee equal to 0.125% of the NAV of the Company at the end of each quarter.

16. Related party transactions continued

Investment Management Agreement ("IMA") continued

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

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

Administrative fees payable to the Investment Manager for the last four months of the Period were:

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

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

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

During the Period the Company paid the Investment Manager £1.54m (H1 2016: £1.24m, 2017: £2.67m) in respect of annual management charges, £0.20m (H1 2016: £0.17m, 2017: £0.36m) in respect of administrative fees and £0.05m (H1 2016: £0.13m, 2017: £0.25m) in respect of marketing fees.

Properties

The Company owns MW House and Gateway House located at Grove Park, Leicester, which are partially let to Mattioli Woods. Mattioli Woods paid the Company rentals of £0.21m (H1 2016: £0.21m, 2017: £0.41m) during the Period.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

CONTINUED

17. Events after the reporting date

Property acquisitions and disposals

On 4 October 2017 the Company acquired two further properties:

- A high street retail unit in Cardiff for £5.16m let to Card Factory and Specsavers with a NIY of 7.46%; and
- A retail park in Burton upon Trent for £8.45m, comprising three units let to Wickes, The Range and HSS Hire with a NIY of 6.45%.

New equity

Since the reporting date the Company raised £8.0m (before costs and expenses) through the issue of 7,000,000 new ordinary shares of 1p each in the capital of the Company.

Borrowings

On 3 November 2017, the Company drew down Tranche 2 of the Aviva facility, repayable on 3 November 2032 with a fixed rate of interest of 3.26% per annum payable on the balance.

INDEPENDENT AUDITOR'S REVIEW REPORT TO CUSTODIAN REIT PLC

For the period ended 30 September 2017

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 2017 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 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 2017 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
Statutory Auditor
Birmingham, United Kingdom
20 November 2017

DIRECTORS' RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS

The Directors have prepared the interim financial statements of the Company for the period from 1 April 2017 to 30 September 2017.

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
20 November 2017

ADDITIONAL DISCLOSURES

1. NAV per share total return

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

	Unaudited 6 months to 30 Sept 2017	Unaudited 6 months to 30 Sept 2016	Audited 12 months to 31 Mar 2017
Net assets (£000)	**378,558**	297,084	351,877
Shares in issue at the period end (thousands)	**360,853**	292,132	339,013
NAV per share at the start of the period (p)	**103.8**	101.5	101.5
Dividends per share for the period (p)	**3.225**	3.175	6.35
NAV per share at the end of the period (p)	**104.9**	101.7	103.8
NAV total return	**4.2%**	3.3%	8.5%

2. Net gearing

Gross borrowings less unrestricted cash, divided by portfolio value.

	Unaudited as at 30 Sept 2017 £000	Unaudited as at 30 Sept 2016 £000 (restated)	Audited as at 31 Mar 2017 £000 (restated)
Gross borrowings	**100,000**	87,000	65,000
Cash	**(8,054)**	(6,661)	(5,807)
Restricted cash	**1,389**	447	1,307
Net borrowings	**93,335**	80,786	60,500
Investment property	**474,318**	385,348	418,548
Net gearing	**19.7%**	21.0%	14.4%

ADDITIONAL DISCLOSURES
CONTINUED

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

	Unaudited 6 months to 30 Sept 2017 £000	Unaudited 6 months to 30 Sept 2016 £000	Audited 12 months to 31 Mar 2017 £000
Profit for the period after taxation	**13,231**	8,295	24,205
Net (gain)/loss on investment property	**(1,274)**	129	(4,512)
EPRA earnings	**11,957**	8,424	19,693
Weighted average number of shares in issue (thousands)	**347,842**	276,288	298,731
EPRA EPS (p)	**3.4**	3.0	6.6

4. EPRA occupancy rate
EPRA occupancy rate is the ERV of occupied space as a percentage of the ERV of the whole portfolio.

	Unaudited as at 30 Sept 2017 £000	Unaudited as at 30 Sept 2016 £000	Audited as at 31 Mar 2017 £000
Annualised potential rental value of occupied premises	**34,189**	28,457	30,748
Annualised potential rental value for the property portfolio	**35,361**	29,110	31,197
EPRA occupancy rate	**96.7%**	97.8%	98.6%

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COMPANY INFORMATION

Directors

David Hunter	(Independent Non-Executive Chairman)
Barry Gilbertson	(Senior Independent Non-executive Director)
Ian Mattioli MBE	(Non-Executive Director)
Matthew Thorne	(Independent Non-Executive Director)

Company secretary
Nathan Imlach

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FINANCIAL CALENDAR

26 October 2017	Ex-dividend date for Q2 dividend
27 October 2017	Record date for Q2 dividend
21 November 2017	Announcement of results for the period ended 30 September 2017
30 November 2017	Payment of Q2 dividend

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