Custodian

REIT PLC

Interim Report 2018/19

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 principally targeting sub £10m lot-size regional properties, the Company seeks 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.
For more information visit www.custodianreit.com.

Key facts

Fund Manager
Richard Shepherd-Cross MRICS

Assistant Fund Manager
Alex Nix MRICS

Launch date
26 March 2014

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

Target gearing
25%

Target dividend 2019*
6.55p

Target lot size
£2–10m

Inside this report

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

* 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.

Financial highlights and performance

- Basic and diluted earnings per share[2] up 13% to **4.3p** (2017: 3.8p)
- Portfolio value of **£547.0m** (2017: £474.3m)
- Profit before tax up 26% to **£16.6m** (2017: £13.2m)
- **£8.4m**[5] of new equity raised at an average premium of 13.2% to dividend adjusted NAV
- Dividends of **3.275p** per share paid and approved for the six-month period
- **£27.7m**[6] invested in seven acquisitions, one development and one refurbishment
- **£3.9m** valuation uplift from successful asset management initiatives
- **£3.5m** valuation decrease due to company voluntary arrangements ("CVAs")
- **£1.4m** net valuation decrease[7]
- **£4.3m** profit on disposal of three properties for an aggregate consideration of £15.4m

NAV per share total return[1]

4.3% ↑

2017: 4.2% (+0.1%)

EPRA[3] EPS[4]

3.5p ↑

2017: 3.4p (+2.9%)

Market capitalisation

£478.1m ↑

2017: £414.1m (+15.5%)

EPRA occupancy[8]

96.9% ↑

2017: 96.7% (+0.2%)

1. Net Asset Value ("NAV") movement including dividends paid and approved relating to the period on shares in issue at 31 March 2018.
2. Profit after tax divided by weighted average number of shares in issue.
3. The European Public Real Estate Association ("EPRA").
4. Profit after tax excluding net gain on investment property divided by weighted average number of shares in issue.
5. Before costs and expenses of £0.1m.
6. Before acquisition costs of £1.6m.
7. Comprising £3.9m of valuation uplift from successful asset management initiatives less £3.7m of other valuation decreases and £1.6m of acquisition costs.
8. Estimated rental value ("ERV") of let property divided by total portfolio ERV.

	Unaudited 6 months to 30 Sept 2018	Unaudited 6 months to 30 Sept 2017	Audited 12 months to 31 Mar 2018
Total return			
NAV per share total return	**4.3%**	4.2%	9.6%
Share price total return[9]	**10.3%**	5.3%	6.7%
Capital values			
NAV (£m)	**427.5**	378.6	415.2
NAV per share (p)	**108.6**	104.9	107.3
Share price (p)	**121.4**	114.8	113.0
Portfolio value (£m)	**547.0**	474.3	528.9
Market capitalisation (£m)	**478.1**	414.1	437.1
Premium to NAV per share	**11.8%**	9.4%	5.3%
Net gearing[10]	**20.5%**	19.7%	21.0%

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.

Share price

121.4p ↑

2017: 114.8p (+5.7%)

Net gearing

20.5% ↑

2017: 19.7% (+0.8%)

NAV

£427.5m ↑

2017: £378.6m (+12.9%)

Premium to NAV per share

11.8% ↑

2017: 9.4% (+2.4%)

9. Share price movement including dividends paid and approved for the six-month period.
10. Gross borrowings less unrestricted cash, divided by portfolio value.

Chairman's statement

"Rental growth at lease renewal or rent review remains robust"

David Hunter,
Chairman

Profit before tax

£16.6m

2017: £13.2m

New equity raised

£8.4m

2017: £24.8m

I am pleased to report the Company delivered further positive returns for the six months ended 30 September 2018 ("the Period"). Earnings per share increased by 13% to 4.3p (2017: 3.8p) and the property portfolio increased through the investment of £27.7m in seven acquisitions, one refurbishment and one development. This expansion was funded by £8.4m raised from the issue of new shares and through the Company's existing debt facilities. We continue to target growth to realise the potential economies of scale offered by the Company's relatively fixed administrative cost base and the reducing scale of management charges. The Company continues to adhere to its investment policy and seeks to maintain 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 we have 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 regional assets at an average net initial yield[11] of 7.2% 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 13.2% above dividend adjusted NAV, more than covering the costs of issue and deployment.

Market

During the Period we have taken a cautious approach to acquisitions in a market where, in general, industrial values are increasing and certain retail asset values are decreasing, with little clarity on where they will settle. The Company has stuck firmly to its investment strategy of deploying its available resources into the right property assets and disposed of two weaker retail assets to improve the quality of the Company's retail portfolio. Property market conditions have restricted our ability to acquire properties that meet our strategy at a sufficient rate to satisfy demand for new equity issuance. As a result new issuance has been limited which, in turn, has seen the Company's shares trade at a premium well ahead of most of our peers.

The Board and the Investment Manager follow closely the evolving trends in the UK retail industry, and its impact on commercial property markets. Our role is to look beyond the media coverage to weigh up dispassionately the risks in a sector which often creates opportunity through a sweeping market reaction, and we believe the current retail environment is no different. Since the Period end we have acquired £25.0m of retail warehousing and £2.1m of high street retail at a significant discount to recent market pricing.

11. Passing rent divided by valuation plus assumed purchaser's costs.

Langley Mill

Net asset value

The Company delivered NAV per share total return of 4.3% for the Period, where the initial costs (primarily stamp duty) of investing £27.7m in property acquisitions, one development and one refurbishment diluted NAV per share total return by circa 0.4p, partially offset by raising £8.3m from the issue of new equity (net of costs), which added 0.2p per share.

Activity during the Period also centred on pro-active asset management, which generated a £3.9m valuation uplift. However, these gains were largely offset by a £3.5m valuation decrease due to the CVAs of Homebase, Office Outlet (formerly Staples) and Carpetright impacting the Company's units in Leighton Buzzard, Milton Keynes and Grantham respectively.

	Pence per share	£m
NAV at 31 March 2018	107.3	415.2
Issue of equity (net of costs)	0.2	8.3
	107.5	423.5
Valuation movements relating to:		
• Asset management activity	1.0	3.9
• Other valuation movements	(0.9)	(3.7)
Gross valuation increase	0.1	0.2
Impact of acquisition costs	(0.4)	(1.6)
Net valuation decrease	(0.3)	(1.4)
Profit on disposal of investment property	1.1	4.3
Net gain on investment property	0.8	2.9
Income	5.0	19.6
Expenses and net finance costs	(1.5)	(5.9)
Dividends paid[12]	(3.2)	(12.6)
NAV at 30 September 2018	**108.6**	**427.5**

12. Dividends of 3.25p per share were paid on shares in issue throughout the Period. Dividends paid on shares in issue at the end of the Period averaged 3.2p per share due to new shares being issued after the Period's first ex-dividend date.

Chairman's statement continued

These properties have been carefully selected with strong underlying attributes, are leased at affordable rents to tenants with sustainable business models and which trade strongly from those locations.

Share price

Share price total return for the first half of the financial year was 10.3%, with a closing price of 121.4p per share on 30 September 2018 representing a 11.8% premium to NAV. During the Period the Company shares traded consistently at a premium to NAV with low volatility offering shareholders stable returns. I believe the increasing, but still relatively stable premium to NAV, has been a function of strong demand for closed-ended property funds, the increasing daily liquidity of the Company's shares, the Company's regional property investment strategy, focused asset management and the attractive level of income offered by the Company's dividend policy.

Issue of new ordinary shares

The Company issued 7.0m new shares during the Period at an average premium to the prevailing dividend adjusted NAV of 13.2%. 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.

At the Annual General Meeting ("AGM") of the Company held on 19 July 2018, shareholders voted to limit the authority to issue new shares with pre-emption rights disapplied to a maximum of 10% of the Company's issued share capital ("Limit"). The Board had proposed a Limit of 20%, in line with the 2017 changes to the EU Prospectus Directive, which increased the maximum proportion of the Company's issued share capital that can be issued over a 12-month period on a non-pre-emptive basis before the Company is required to publish a prospectus from 10% to 20%.

The Pre-Emption Group's Statement of Principles on Disapplying Pre-emption Rights, however, continues to support a Limit of 10%. Accordingly, 26.0m votes against a Limit of 20% were received, representing 47.4% of votes cast but only 7.4% of eligible votes, largely from shareholders following institutional proxy voting adviser recommendations which typically follow the Pre-emption Group's guidance.

In the Board's opinion, a Limit of 20% is justified to continue the Company's programme of tap issuance, allowing the Company to fund suitable property acquisitions in a cost-efficient manner by avoiding the significant costs of publishing a prospectus.

The Board believes that growing the Company efficiently is in the best interests of all shareholders as it reduces the Company's ongoing charges, diversifies income and increases share liquidity.

Due to the votes against a 20% Limit only representing 7.4% of eligible votes, and based on feedback from Shareholders since the 2018 AGM, the Board currently expects to request approval for a 20% Limit at the 2019 AGM.

Borrowings

As at 30 September 2018 net gearing equated to 20.5% LTV. The Board's strategy is to:

- Increase debt facilities in line with portfolio growth targeting net gearing of 25% LTV;
- Facilitate expansion of the portfolio to take advantage of expected rental growth and reduce ongoing charges; and
- Reduce shareholders' exposure to risk by:
  - Taking advantage of 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 operates the following debt facilities:

- A £35m revolving credit facility 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 with Scottish Widows plc which attracts interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £50m term loan with Aviva Real Estate Investors 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%.

The weighted average cost of the Company's agreed debt facilities is 3.1% (2017: 3.1%) with a WAM of 9 years (2017: 10 years) and 77% (2017: 77%) of the Company's debt facilities are at a fixed rate of interest, significantly mitigating interest rate risk.

Investment Manager

The Board is pleased with the Investment Manager's performance, 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. Fees payable to the Investment Manager are set out in Note 16.

Dividends

Income is a major component of total return. The Company paid dividends totalling 3.25p per share during the six-month Period, all classified as property income distributions, comprising interim dividends of 1.6125p per share and 1.6375p per share relating to the quarters ended 31 March 2018 and 30 June 2018 respectively.

The Board has approved an interim dividend of 1.6375p per share for the quarter ended 30 September 2018 which was paid on 30 November 2018. In the absence of unforeseen circumstances the Board believes the Company is well placed to meet its target[13] of paying further quarterly dividends, fully covered by income, to achieve an annual dividend per share for the year ending 31 March 2019 of 6.55p (2018: 6.45p).

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

Notwithstanding our cautious approach to investment in the current market we believe that value can still be found with a disciplined approach to deployment. The strength of the occupational market and softening yields for prime retail warehouse assets let to blue chip tenants both represent exciting opportunities, discussed more fully in the Investment Manager's report. Rental growth at lease renewal and rent review remains robust. We expect proactive asset management and rental growth will continue to drive performance in the portfolio and are confident we can maintain occupancy levels, which in turn will sustain our policy of paying a growing and fully-covered dividend to shareholders.

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
5 December 2018

13. 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.

Investment Manager's report

"Our continued focus on asset management delivered a £3.9m valuation increase"

Richard Shepherd-Cross,
Investment Manager

Portfolio value

£547.0m

2017: £474.3m

Market capitalisation

£478.1m

2017: £414.1m

Property market

Investment market demand has continued in 2018 Q3 from property companies, institutions, private investors and overseas investors. While there have been marginal outflows from the open-ended funds and many REITs are trading at a discount to NAV (whereas the Company is currently trading at a premium to NAV), the demand for income focused investments has not abated. The rise in UK interest rates was sufficiently well forecast that it only had an imperceptible impact on the market and there does not appear to be an imminent threat of meaningful rate rises in prospect.

The continued demand for industrial/logistics properties has led to the sector showing the lowest initial yields in regional markets, in large part explained by the rental growth prospects in the sector which are being driven by occupational demand and more crucially, a lack of supply. This demand has led to an increase in speculative development, principally of 'big box' logistics units. We have yet to witness an increase in the development of smaller or mid-sized industrial units so the rental growth dynamics might be stronger at this end of the market.

The strength of the industrial market was evident in the sale of the Company's industrial building in Southwark. Not only had we recently secured a rental uplift from £9 per sq ft to £16 per sq ft, demonstrating extraordinary rental growth but subsequently negotiated the sale of the property to a special purchaser for £12.0m, £4.4m or 58% ahead of its 30 June 2018 valuation. Industrial property remains a very good fit with the Company's strategy but recent price inflation is limiting the opportunity to acquire properties that meet the investment mandate. Notwithstanding this challenge we added to the industrial sector of the portfolio during the Period and I expect the sector to remain a strong driver of rental growth for the Company.

“Occupational demand is driving rental growth”

Biggleswade

Investment Manager's report continued

Investment in the regional office market has also been consistently strong which has coincided with a number of the UK's 'big six' regional cities[14] hitting record rental levels for prime offices. Like the industrial sector it is restricted supply, the lack of development and the extensive conversion of secondary offices to residential which is maintaining the upward pressure on rents. However, we are conscious that economic and environmental 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, so we remain very selective although open to opportunities.

There is a general move against retail as many institutional investors feel overweight in the sector where we have also witnessed an increase in CVA activity. While the easy explanation for the changing retail market is the rise of online retailing, the real picture is much more complex. Over-gearing, poor management strategy and an inability to modernise over an extended period of time has had a more detrimental impact on certain retailers than the internet. The challenge in the retail sector is not so much identifying the retailers who will prevail in the modern retail environment but to identify trends in rental levels in both retail sub-sectors and locations. In many locations rents need to adjust to support retailers, not least because labour costs are increasing and business rates are too high.

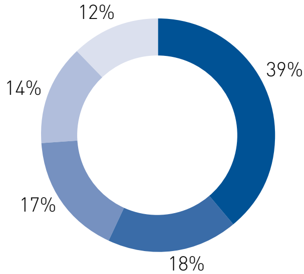
We generally feel comfortable that retail warehousing, with low rents per sq ft, 'big box' formats and free parking will be more robust than the High Street. Following in the footsteps of the USA the UK retail landscape is increasingly polarising, with robust city centre retail in the major conurbations where the experience of retail and leisure together has remained attractive and resilient out of town retail in smaller towns where convenience and choice is the stock-in-trade.

There is continued weakness in secondary high street retail locations with rental levels still under pressure and a very real threat of vacancy, but retailers are still keen to have representation on prime high streets. The challenge across all high street retail locations is to understand where rental levels will settle following the current retail shakeout. We will continue to rebalance the portfolio to focus on strong retail locations while working on the orderly disposal of those assets we believe are ex-growth.

Across the portfolio we settled eight rent reviews and agreed six new lettings during the Period with a weighted average rental increase of 11.1% (5.4% simple average). This growth has come across all sectors from open market lettings and rent reviews and two RPI linked rent reviews. These rent reviews demonstrate the continuing opportunity to enhance earnings across Custodian REIT's diverse regional portfolio.

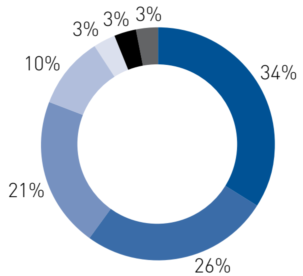
14. Edinburgh, Glasgow, Leeds, Manchester, Liverpool and Birmingham.

Sector split by income (%)



Industrial	39%
Retail warehouse	18%
Other	17%
High street retail	14%
Office	12%

Other sector – subsector split (%)



Motor Trade	34%
Leisure	26%
Restaurant	21%
Trade Counter	10%
Hotel	3%
Healthcare	3%
Nursery	3%

Portfolio performance

Sector	Valuation 30 Sept 2018 £m	Weighting by income 30 Sept 2018[15] %	Weighting by income 31 Mar 2018 %	Gross valuation movement £m	Net valuation movement £m
Industrial	**218.8**	**39%**	**39%**	6.7	6.2
Retail warehouse	**101.1**	**18%**	**20%**	(4.6)	(4.6)
Other[16]	**93.3**	**17%**	**15%**	(1.1)	(2.0)
High street retail	**73.4**	**14%**	**14%**	(0.8)	(0.8)
Office	**60.4**	**12%**	**12%**	—	(0.2)
	547.0	**100%**	**100%**	0.2	(1.4)

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

Portfolio performance

At 30 September 2018 the Company's property portfolio comprised 151 assets, 218 tenants and 259 tenancies with an aggregate net initial yield ("NIY") of 6.6%. The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio, with a relatively low exposure to office and a relatively high exposure to industrial, retail warehouse and alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are listed above.

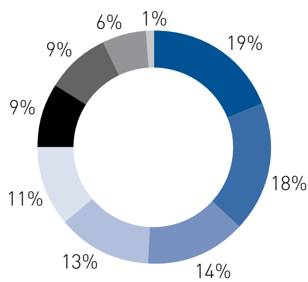
Pipeline

We continue to find opportunities that fit our investment strategy as demonstrated by the investment of £27.7m during the Period at an average NIY of 7.2%.

Since the Period end, we have invested £27.1m in the following acquisitions:

- On 16 November 2018 the Company acquired the Evesham Shopping Park for £14.2m comprising a terrace of five units occupied by Next, M&S, Boots, Argos and Poundstretcher. The units have a weighted average unexpired lease term to first break or expiry ("WAULT") of 6.8 years, and the price reflects a NIY of 6.04%.
- On 3 December 2018 the Company acquired Jubilee Close Retail Park in Weymouth for £10.8m comprising a terrace of three units occupied by B&Q, Halfords and Sports Direct. The units have a WAULT of 7.8 years, and the price reflects a NIY of 6.97%.
- On 2 November 2018 the Company acquired a high street unit on The Grove in Stratford, East London for £2.1m let to Foxton's Estate Agents and The Universal Church of the Kingdom of God with leases expiring on 30 April 2031 and 2 May 2025 respectively and the price reflects a NIY of 6.78%.

Regional split by income (%)



West Midlands	19%
North-West	18%
East Midlands	14%
South-East	13%
South-West	11%
Scotland	9%
North-East	9%
Eastern	6%
Wales	1%

Investment Manager's report continued

Investment objective

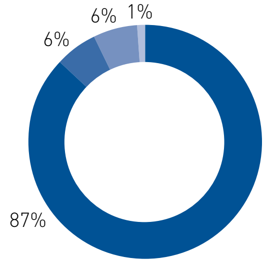
The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully covered by earnings, with a conservative level of net gearing.

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 net gearing increases towards the target level.

We expect to see continuing strong asset management performance as we secure rental increases and extend contractual income.

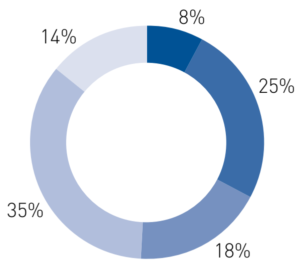
We remain committed to a strategy principally focused on sub £10m lot-size regional property, diversified across sector, geography and a broad tenant mix stands the portfolio in good stead against market shocks. The largest tenant in the portfolio, B&M, represents only 3.2% of the rent roll across four properties, with the average tenant representing only 0.5% of the rent roll.

Rent review



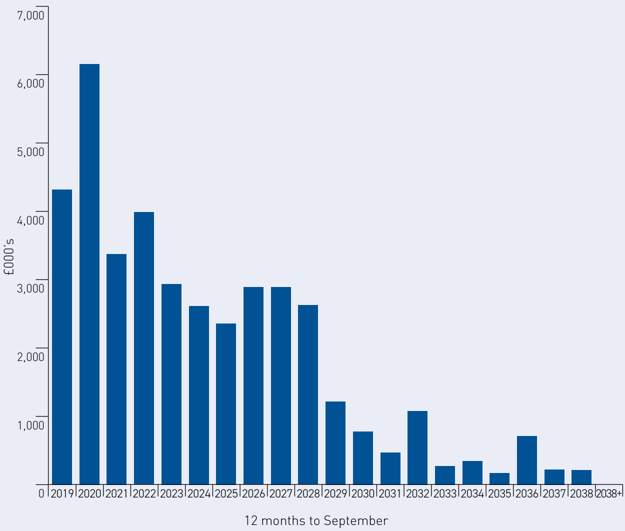
Open Market	87%
Fixed	6%
RPI	6%
CPI	1%

Income expiry



0-1 years	8%
1-3 years	25%
3-5 years	18%
5-10 years	35%
10+ years	14%

Lease expiry profile



Acquisitions

During the Period the Company completed the following property acquisitions:

Industrial

Bellshill, Glasgow

Tenant: Yodel Delivery Network

NIY: 6.94%

Purchase price[17]: £3.72m

Hilton, Derby

Tenant: Daher Aerospace

NIY: 6.72%

Purchase price: £5.585m

Other

Lincoln

Tenant: Total Fitness

Subsector: Leisure

NIY: 7.64%

Purchase price: £4.30m

Shrewsbury

Tenant: TJ Vickers

Subsector: Motor Trade

NIY: 6.75%

Purchase price: £1.675m

17. Purchase price stated for each acquisition represents purchase consideration before acquisition costs.

Investment Manager's report continued

Other continued

Shrewsbury

Tenant: VW Group

Subsector: Motor Trade

NIY: 6.58%

Purchase price: £2.825m

Stafford

Tenant: VW Group

Subsector: Motor Trade

NIY: 6.29%

Purchase price: £4.55m

Office

Sheffield

Tenant: Secretary of State for Communities and Local Government

NIY: 9.79%

Purchase price: £3.56m

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

Portfolio risk

The portfolio's security of income is enhanced by 13% of income benefitting from either fixed or indexed rent reviews although there is 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 33% expiring in the next three years (8% within one year).

The Investment Manager does not anticipate any changes to the principal risks and uncertainties set out in the Company's Annual Report for the year ended 31 March 2018 over the remainder of the financial year. The Board considers it is too early to understand the full impact of 'Brexit' on revenues and portfolio valuation while the terms of the UK's future trading arrangement with the EU remain unclear. However, subject to there not being a 'no deal' Brexit, this political risk is not considered likely to have a material impact on the Company's performance due to the 'Mitigating factors' set out on page 64 of the Annual Report.

Asset management

Owning the right properties at the right time is one key element of effective portfolio management, which necessarily involves some selling from time to time to balance the portfolio. While Custodian REIT is not a trader, identifying opportunities to dispose of assets significantly ahead of valuation or that no longer fit within the Company's investment strategy is important.

After focused pre-sale asset management, the following three properties were sold during the Period for a total of £15.4m, realising a profit on disposal of £4.3m at an aggregate NIY of 4.1%, with gross proceeds 39.8% ahead of aggregate valuation:

- An industrial unit in Southwark for £12.0m, £4.4m (58%) ahead of its 30 June 2018 valuation. The lack of available investment stock in Central London, strong investment demand and a recent, substantial rental increase had led to a significant recent valuation increase. In addition, redevelopment potential and the identification of a special purchaser offering a NIY of 2.95% allowed us to crystallise a substantial profit;
- A retail development in Stourbridge for £2.25m, in line with valuation, as we did not anticipate future rental growth; and
- A town centre retail unit in Dumfries for £1.125m, in line with valuation, as we did not anticipate future rental growth.

We intend to use the proceeds from these disposals to fund acquisitions better aligned to the Company's long-term investment strategy.

Our continued focus on active asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £3.9m valuation increase in the Period. Key asset management initiatives completed during the Period include:

- Agreeing a new 10 year lease with Teleperformance of an industrial unit in Ashby-de-la-Zouch, with annual rent increasing by 15% to £0.5m, which increased the valuation by £2.0m;
- Letting the Company's largest vacant property, an industrial unit in Tamworth, to ICT Express on a 10 year lease without break at a 28% higher rent, which increased the valuation by £1.3m; and
- Documenting a reversionary lease with Synergy Health for an industrial building at Sheffield Parkway to extend the lease by 7.5 years until 2034 and adjust the rent review pattern to increase in line with RPI, which increased the valuation by £0.2m.

Further initiatives on other properties currently under review are expected to complete during the remainder of the financial year, although growth in rents and positive asset management outcomes were tempered by the following events:

- The CVA of Homebase resulted in the Company experiencing a 35% annual rent reduction from £524k to £341k at its Leighton Buzzard unit;
- In Milton Keynes, the CVA of Office Outlet (formerly Staples) resulted in the tenant contracting into 50% of the space previously occupied, with rent halving from £419k pa to £209k pa;
- The CVA of Carpetright resulted in a 25% annual rent reduction from £100k to £75k at the Company's Grantham unit; and

Investment Manager's report continued

- In Crewe we took the difficult decision to implement a forfeiture of the lease of a bowling operator which failed to pay its rent, thereby regaining control and opening up the opportunity of re-letting to a stronger tenant. Passing rent on the unit was £200k pa.

The portfolio's WAULT decreased from 5.9 years at 31 March 2018 to 5.6 years principally due to the natural 0.5 of a year's decline due to the passage of time over the Period and the Crewe lease forfeiture, partially offset by the positive impact of acquisitions with an aggregate WAULT of 6.2 years and asset management activities completed during the Period.

Outlook

We do not expect to see a meaningful change in investor demand for UK real estate over the next few months. The conundrum of a 'soft Brexit' or a 'no deal Brexit' appears increasingly to be occupying investors' thoughts and we anticipate continued relative inaction while investors wait to see what happens next. Meanwhile the occupational market in the regions remains short of supply which continues to support rental growth in office and industrial markets.

Secondary retail is also worrying the market and we may see further asset sales with falling values to match. We also expect a clearer picture to emerge as to which retail assets are in demand by occupiers which, in turn, might start to allay investors' fears in this sector.

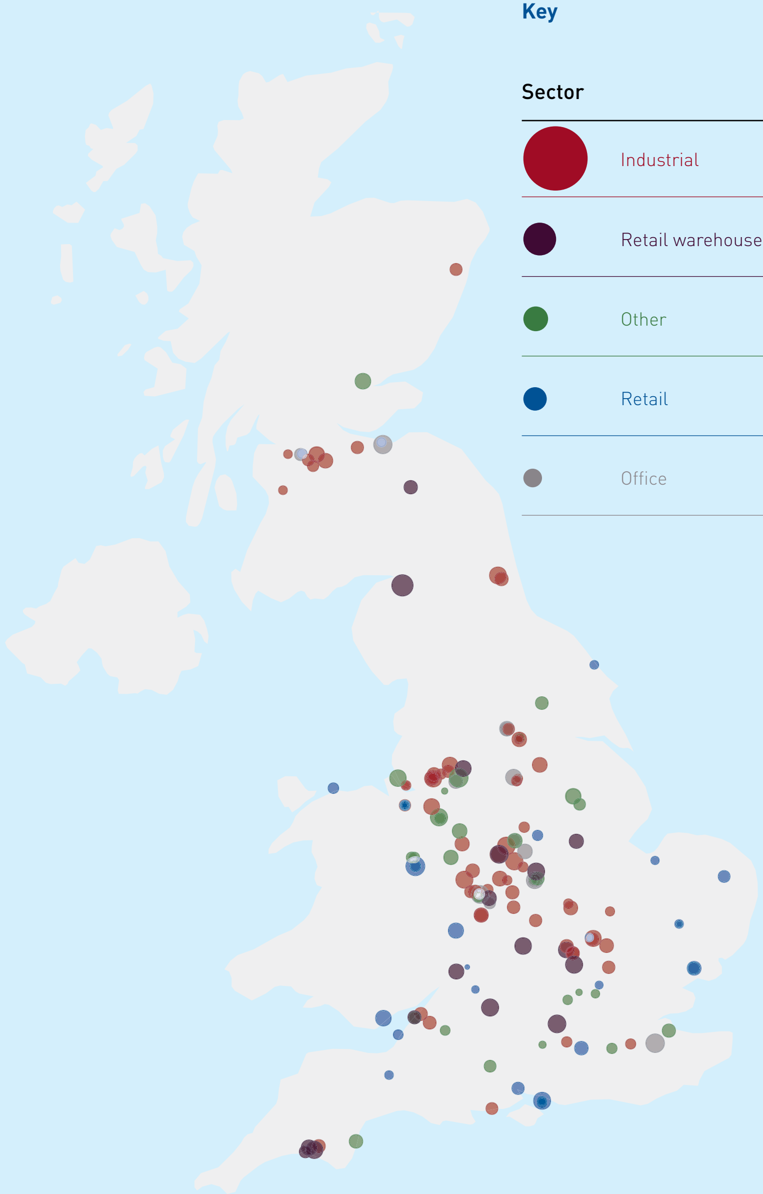
We remain confident that the Company's strategy of targeting income with conservative net gearing in a well-diversified regional portfolio will continue to deliver the stable long-term returns demanded by our shareholders.

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
5 December 2018

Portishead


Travelodge
MONDAY - SATURDAY
8.00am - 8.00pm
SUNDAY
10.00am - 4.00pm

Our portfolio



Key

Sector	Portfolio income
Industrial	39%
Retail warehouse	18%
Other	17%
Retail	14%
Office	12%

Industrial

Location	Tenant	Income %[18]
Ashby-de-la-Zouch	Teleperformance	**1.35%**
Wolverhampton	Assa Abloy	**1.29%**
Burton	Kings Road Tyres	**1.29%**
Warrington	JTF Wholesale	**1.22%**
Gateshead	Multi-let	**1.13%**
Bedford	Elma Electronics and Vertiv Infrastructure	**1.11%**
Winsford	H&M	**1.07%**
Salford	Restore	**1.02%**
Hilton, Derby	Daher Aerospace	**1.01%**
Tamworth	ICT Express	**0.91%**
Doncaster	Silgan Closures	**0.90%**
Eurocentral, Motherwell	Next	**0.88%**
Normanton	YESSS Electrical	**0.85%**
Stone	Revlon International	**0.81%**
Redditch	Amco Services	**0.79%**
Warrington	DHL Supply Chain	**0.78%**
Redditch	Hydro Extrusions	**0.77%**
Biggleswade	Turpin Distribution Services	**0.76%**
Kettering	Multi-let	**0.76%**
Cannock	HellermannTyton	**0.72%**
Warrington	Procurri Europe and Synertec	**0.71%**
Milton Keynes	Massmould	**0.71%**
West Bromwich	OyezStraker	**0.71%**
Team Valley, Gateshead	Worthington Armstrong	**0.70%**
Bellshill, Glasgow	Yodel Delivery Network	**0.69%**
Nuneaton	DX Network Services	**0.67%**
Milton Keynes	Saint-Gobain Building Distribution	**0.67%**
Plymouth	Sherwin-Williams	**0.65%**
Avonmouth	Superdrug	**0.65%**
Bedford	Heywood Williams Components	**0.64%**
Bristol	BSS	**0.63%**
Coventry	Royal Mail	**0.59%**

Location	Tenant	Income %
Stevenage	Morrison Utility Services	**0.57%**
Daventry	Cummins	**0.56%**
Livingston	A Share & Sons (t/a SCS)	**0.56%**
Manchester	Unilin Distribution	**0.56%**
Oldbury	Sytner	**0.53%**
Aberdeen	DHL Supply Chain	**0.52%**
Christchurch	Interserve Project Services	**0.52%**
Cambuslang	Brenntag	**0.50%**
Warrington	Dinex Exhausts	**0.46%**
Warwick	Semcon	**0.45%**
Hamilton	Ichor Systems	**0.44%**
Erdington	West Midlands Ambulance Service NHS Trust	**0.38%**
Langley Mill	Warburtons	**0.36%**
Sheffield	Synergy Health	**0.36%**
Farnborough	Triumph Structures	**0.36%**
Irlam	Northern Commercials	**0.35%**
Westerham	Aqualisa Products	**0.34%**
Coalville	MTS Logistics	**0.33%**
Castleford	Bunzl	**0.32%**
Sheffield	Arkote	**0.30%**
Liverpool	DHL International	**0.30%**
Kettering	Sealed Air	**0.30%**
Atherstone	North Warwickshire Borough Council	**0.29%**
Huntingdon	PHS	**0.26%**
Kilmarnock	Royal Mail	**0.24%**
Glasgow	DHL Global Forwarding	**0.23%**
Normanton	Acorn Web Offset	**0.22%**
Leeds	Sovereign Air Movement	**0.19%**
Liverpool	Powder Systems	**0.18%**
Sheffield	River Island	**0.06%**
	VACANT UNITS	**0.73%**
		39.21%

18. % of portfolio passing rent plus ERV of vacant units.

Our portfolio continued

Retail warehouse

Location	Tenant	Income %
Carlisle	Multi-let	**2.09%**
Winnersh	Pets at Home and Wickes	**1.44%**
Burton	CDS Superstores and Wickes	**1.36%**
Swindon	B&M and Go Outdoors	**1.32%**
Leicester	Matalan	**1.27%**
Banbury	B&Q	**1.21%**
Plymouth – Coypool	A Share & Sons (t/a SCS) and JB Global (t/a Oak Furniture Land)	**1.17%**
Ashton-under-Lyne	B&M	**1.06%**
Plymouth – Transit Way	B&M and Magnet	**1.01%**
Gloucester	Magnet and Smyths Toys	**0.94%**
Sheldon	Dreams, Halfords and Pets at Home	**0.91%**
Leighton Buzzard	Homebase	**0.86%**
Grantham	Carpetright, Laura Ashley and Poundstretcher	**0.76%**
Galashiels	B&Q	**0.69%**
Torpoint	Sainsburys	**0.55%**
Milton Keynes	SUK Retail (t/a Office Outlet) (formerly Staples)	**0.53%**
Portishead	Majestic Wine and TJ Morris (t/a Home Bargains)	**0.48%**
	VACANT UNITS	**0.12%**
		17.77%

Other

Location	Tenant	Income %
Stockport	Benham Specialist Cars (t/a Williams BMW and Mini)	**1.87%**
Liverpool	Multi-let	**1.20%**
Perth	Multi-let	**1.05%**
Lincoln	Total Fitness	**0.88%**
Stoke	Nuffield Health	**0.88%**
Derby	VW Group	**0.86%**
Crewe	Multi-let	**0.83%**
Stafford	VW Group	**0.77%**
Torquay	Multi-let	**0.72%**
Gillingham	Co-operative	**0.68%**
Leicester	Magnet	**0.63%**
York	Pendragon	**0.61%**
Portishead	Travelodge	**0.56%**
Salisbury	Parkwood Health & Fitness	**0.50%**
Shrewsbury	VW Group	**0.50%**
Lincoln	MKM Building Supplies	**0.49%**
Crewe	Multi-let	**0.40%**
Redhill	Honda Motor Europe	**0.35%**
Shrewsbury	Azzurri Restaurants (t/a ASK) and Sam's Club (t/a House of the Rising Sun)	**0.35%**
Bath	Chokdee (t/a Giggling Squid)	**0.31%**
High Wycombe	Stonegate Pub Co	**0.31%**
Maypole, Birmingham	Starbucks	**0.30%**
Shrewsbury	TJ Vickers & Sons	**0.30%**
Castleford	MKM Buildings Supplies	**0.28%**
Leicester	Pizza Hut	**0.26%**
Watford	Pizza Hut	**0.22%**
Plymouth	McDonald's	**0.19%**
Portishead	JD Wetherspoon	**0.18%**
Basingstoke	Bright Horizons	**0.16%**
Chesham	Bright Horizons	**0.13%**
Knutsford	Knutsford Day Nursery	**0.13%**
	VACANT UNITS	**0.50%**
		17.40%

High street retail

Location	Tenant	Income %
Shrewsbury	Multi-let	**1.33%**
Portsmouth	Multi-let	**1.25%**
Worcester	Superdrug	**0.97%**
Cardiff	Specsavers and Card Factory	**0.92%**
Colchester	Multi-let	**0.76%**
Colchester	Kruidvat (t/a Savers) and Poundland	**0.56%**
Southampton	URBN	**0.56%**
Norwich	Specsavers	**0.51%**
Guildford	Reiss	**0.50%**
Shrewsbury	Outdoor and Cycle Concepts	**0.40%**
Llandudno	WH Smith	**0.38%**
Birmingham	Multi-let	**0.36%**
Chester	Felldale Retail (t/a Lakeland Leather) and Signet (t/a Ernest Jones)	**0.35%**
Nottingham	The White Company	**0.35%**
Chester	Ciel Concessions (t/a Chesca) and TSB	**0.32%**
Weston-Super-Mare	Superdrug	**0.31%**
Glasgow	Greggs	**0.30%**
Southsea	Portsmouth City Council and Superdrug	**0.29%**
Chester	Aslan Jewellery and Der Touristik	**0.28%**
Edinburgh	Phase Eight	**0.28%**
Portsmouth	The Works	**0.27%**
Scarborough	Waterstones	**0.23%**
Taunton	Wilko Retail	**0.23%**
Bury St Edmunds	The Works	**0.23%**
Edinburgh	R Scott Bathrooms and Tesco	**0.23%**
Bedford	Waterstones	**0.22%**
Cirencester	Framemakers Galleries and The Danish Wardrobe (t/a Noa Noa)	**0.17%**
Bury St Edmunds	Savers	**0.13%**
Cheltenham	Done Brothers (t/a Betfred)	**0.11%**
	VACANT UNITS	**0.74%**
		13.54%

Office

Location	Tenant	Income %
West Malling	Regus	**1.61%**
Birmingham	Multi-let	**1.22%**
Edinburgh	Multi-let	**1.01%**
Sheffield	Secretary of State for Communities and Local Government	**0.94%**
Castle Donington	National Grid	**0.88%**
Leeds	First Title (t/a Enact Conveyancing)	**0.86%**
Leicester	Mattioli Woods and Regus	**0.82%**
Cheadle	Wienerberger	**0.76%**
Leeds	First Title (t/a Enact Conveyancing)	**0.73%**
Leicester	Erskine Murray and Mattioli Woods	**0.69%**
Derby	Edwards Geldards	**0.65%**
Solihull	Lyons Davidson	**0.48%**
Glasgow	Multi-let	**0.40%**
	VACANT UNITS	**1.03%**
		12.08%

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2018

	Note	**Unaudited 6 months to 30 Sept 2018 £000**	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Revenue	4	**19,634**	16,711	34,813
Investment management fee		**(1,733)**	(1,537)	(3,124)
Operating expenses of rental property				
– rechargeable to tenants		**(787)**	(627)	(758)
– directly incurred		**(707)**	(417)	(852)
Professional fees		**(244)**	(202)	(433)
Directors' fees		**(92)**	(84)	(167)
Administrative expenses		**(313)**	(277)	(653)
Expenses		**(3,876)**	(3,144)	(5,987)
Operating profit before financing and revaluation of investment property		**15,758**	13,567	28,826
Unrealised gains/(losses) on revaluation of investment property:				
– relating to gross property revaluations	9	**246**	3,747	11,859
– relating to acquisition costs	9	**(1,635)**	(3,452)	(6,212)
Net valuation (decrease)/increase		**(1,389)**	295	5,647
Profit on disposal of investment property		**4,250**	979	1,606
Net gains on investment property		**2,861**	1,274	7,253
Operating profit before financing		**18,619**	14,841	36,079
Finance income	5	**41**	83	99
Finance costs	6	**(2,054)**	(1,693)	(3,758)
Net finance costs		**(2,013)**	(1,610)	(3,659)
Profit before tax		**16,606**	13,231	32,420
Income tax	7	**—**	—	—
Profit and total comprehensive income for the Period, net of tax		**16,606**	13,231	32,420
Attributable to:				
Owners of the Company		**16,606**	13,231	32,420
Earnings per ordinary share:				
Basic and diluted (p)	3	**4.3**	3.8	8.9
EPRA (p)	3	**3.5**	3.4	6.9

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

Condensed consolidated statement of financial position

As at 30 September 2018
Registered number: 08863271

	Note	**Unaudited 30 Sept 2018 £000**	Unaudited 30 Sept 2017 £000	Audited 31 Mar 2018 £000
Non-current assets				
Investment property	9	**546,963**	474,318	528,943
Total non-current assets		**546,963**	474,318	528,943
Current assets				
Trade and other receivables	10	**4,597**	9,056	7,883
Cash and cash equivalents	12	**8,186**	8,054	5,059
Total current assets		**12,783**	17,110	12,942
Total assets		**559,746**	491,428	541,885
Equity				
Issued capital	14	**3,939**	3,609	3,869
Share premium		**220,764**	183,339	212,534
Retained earnings		**202,832**	191,610	198,799
Total equity attributable to equity holders of the Company		**427,535**	378,558	415,202
Non-current liabilities				
Borrowings	13	**117,464**	98,472	113,357
Other payables		**571**	571	571
Total non-current liabilities		**118,035**	99,043	113,928
Current liabilities				
Trade and other payables	11	**7,081**	7,611	5,870
Deferred income		**7,095**	6,216	6,885
Total current liabilities		**14,176**	13,827	12,755
Total liabilities		**132,211**	112,870	126,683
Total equity and liabilities		**559,746**	491,428	541,885

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 5 December 2018 and are signed on its behalf by:

David Hunter
Director

Condensed consolidated statement of cash flows

For the six months ended 30 September 2018

	Note	**Unaudited 6 months to 30 Sept 2018 £000**	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Operating activities				
Profit for the Period		**16,606**	13,231	32,420
Net finance costs	5,6	**2,013**	1,610	3,659
Net revaluation loss/(gain)	9	**1,389**	(295)	(5,647)
Profit on disposal of investment property (excluding costs of disposal)		**(4,380)**	(1,067)	(1,732)
Impact of lease incentives	9	**(1,112)**	(876)	(1,547)
Income tax	7	**—**	—	—
Cash flows from operating activities before changes in working capital and provisions		**14,516**	12,603	27,153
Decrease in trade and other receivables		**3,286**	(3,881)	985
Increase in trade and other payables		**1,354**	595	250
Cash generated from operations		**19,156**	9,317	28,388
Interest and other finance charges	6	**(1,947)**	(1,583)	(3,553)
Net cash flows from operating activities		**17,209**	7,734	24,835
Investing activities				
Purchase of investment property		**(26,215)**	(55,828)	(103,796)
Capital expenditure and development		**(1,442)**	(304)	(2,498)
Acquisition costs		**(1,635)**	(3,452)	(6,212)
Disposal of investment property		**15,375**	6,052	6,622
Interest received and similar income	5	**108**	21	32
Net cash used in investing activities		**(13,809)**	(53,511)	(105,852)
Financing activities				
Proceeds from the issue of share capital		**8,410**	24,814	54,670
Costs of the issue of share capital		**(110)**	(357)	(758)
New borrowings (net of costs)	13	**4,000**	34,574	49,364
Dividends paid	8	**(12,573)**	(11,007)	(23,007)
Net cash (used in)/from financing activities		**(273)**	48,024	80,269
Net increase in cash and cash equivalents		**3,127**	2,247	(748)
Cash and cash equivalents at start of the Period		**5,059**	5,807	5,807
Cash and cash equivalents at end of the Period		**8,186**	8,054	5,059

Condensed consolidated statements of changes in equity

For the six months ended 30 September 2018 and 30 September 2017

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2018 (audited)		**3,869**	**212,534**	**198,799**	**415,202**
Profit and total comprehensive income for Period		—	—	16,606	16,606
Transactions with owners of the Company, recognised directly in equity					
Dividends	8	—	—	(12,573)	(12,573)
Issue of share capital	14	70	8,230	—	8,300
As at 30 September 2018 (unaudited)		**3,939**	**220,764**	**202,832**	**427,535**

	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**

Notes to the interim financial statements

For the period ended 30 September 2018

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 5 December 2018.

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 2019 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 2018 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 following new accounting standards in issue and effective from 1 April 2018:

- IFRS 15 'Revenue from Contracts with Customers' – revenue from the Company's sole 'turnover rent' arrangement does not pass IFRS 15's 'highly probable' test to recognise revenue over the service period, and quarterly rent is therefore no longer accrued. The impact of this change is a reduction in revenue of £46k, which has been recognised in the Period.
- IFRS 9 'Financial Instruments' – the Company's principal financial assets and liabilities are trade receivables, cash and cash equivalents, trade payables and other payables which will continue to be measured at amortised cost. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than the incurred credit losses under IAS 39 'Financial Instruments: Recognition and Measurement' and the main impact of this change is the methodology for the impairment of trade receivables using a provision matrix. Historically the Company has had minimal write offs of balances due from tenants and £9k additional impairment provision has been required as a result of this change.

2. Basis of preparation and accounting policies continued

2.2. Significant accounting policies continued

The Directors are currently assessing the impact on the financial statements of IFRS 16 'Leases' (effective 1 January 2019), which is not yet effective and has not been early adopted in this financial information. The Directors do not expect the adoption of this standard to have a material impact on the financial statements, other than on presentation and disclosure.

2.3. Going concern

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

2.4. Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about, the Company's investment 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 2018. 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.

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
For the period ended 30 September 2018

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 2018	Unaudited 6 months to 30 Sept 2017	Audited 12 months to 31 Mar 2018
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**16,606**	13,231	32,420
Net gains on investment property (£000)	**(2,861)**	(1,274)	(7,253)
EPRA net profit attributable to equity holders of the Company (£000)	**13,745**	11,957	25,167
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period (thousands)	**386,853**	339,013	339,013
Effect of shares issued during the Period (thousands)	**1,563**	8,829	23,380
Basic and diluted weighted average number of shares (thousands)	**388,416**	347,842	362,393
Basic and diluted EPS (p)	**4.3**	3.8	8.9
EPRA EPS (p)	**3.5**	3.4	6.9

4. Revenue

	Unaudited 6 months to 30 Sept 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Gross rental income from investment property	**18,847**	16,084	34,055
Income from recharges to tenants	**787**	627	758
	19,634	16,711	34,813

5. Finance income

	Unaudited 6 months to 30 Sept 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Bank interest	**15**	21	32
Finance income	**26**	62	67
	41	83	99

6. Finance costs

	Unaudited 6 months to 30 Sept 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Amortisation of arrangement fees on debt facilities	**107**	110	205
Other finance costs	**25**	—	157
Bank interest	**1,922**	1,583	3,396
	2,054	1,693	3,758

7. Income tax

The effective tax rate 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 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Profit before income tax	**16,606**	13,231	32,420
Tax charge on profit at a standard rate of 19.0% (30 September 2017: 19.0%, 31 March 2018: 19.0%)	**3,155**	2,514	6,160
Effects of:			
REIT tax exempt rental profits and gains	**(3,155)**	(2,514)	(6,160)
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

For the period ended 30 September 2018

8. Dividends

	Unaudited 6 months to 30 Sept 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Interim equity dividends per ordinary share relating to the quarters ended:			
31 March 2017: 1.5875p	**—**	5,398	5,398
30 June 2017: 1.6125p	**—**	5,609	5,609
30 September 2017: 1.6125p	**—**	—	5,899
31 December 2017: 1.6125p	**—**	—	6,101
31 March 2018: 1.6125p	**6,238**	—	—
30 June 2018: 1.6375p	**6,335**	—	—
	12,573	11,007	23,007

All dividends paid are classified as property income distributions.

The Directors approved an interim dividend relating to the quarter ended 30 September 2018 of 1.6375p per ordinary share in October 2018 which has not been included as a liability in these interim financial statements. This interim dividend was paid on 30 November 2018 to shareholders on the register at the close of business on 27 October 2018. In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve an annual dividend of 6.55p per share for the financial year ending 31 March 2019[19].

9. Investment property

	£000
At 31 March 2018	528,943
Gross valuation gain	246
Acquisition costs	(1,635)
Net valuation decrease	(1,389)
Impact of lease incentives	1,112
Additions	27,850
Capital expenditure and development	1,442
Disposals	(10,995)
As at 30 September 2018	**546,963**

19. 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

	£000
At 31 March 2017	418,548
Gross valuation gain	3,747
Acquisition costs	(3,452)
Net revaluation gain	295
Impact of lease incentives	876
Additions	59,584
Disposals	(4,985)
As at 30 September 2017	**474,318**

The investment property is stated at the Directors' estimate of its 30 September 2018 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 30 September 2018 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 4.8% to 9.4%. 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 2018 £000	Unaudited as at 30 Sept 2017 £000	Audited as at 31 Mar 2018 £000
Trade receivables	**3,460**	3,437	2,137
Other receivables	**736**	5,167	5,194
Prepayments and accrued income	**401**	452	552
	4,597	9,056	7,883

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.

Notes to the interim financial statements continued
For the period ended 30 September 2018

11. Trade and other payables

	Unaudited as at 30 Sept 2018 £000	Unaudited as at 30 Sept 2017 £000	Audited as at 31 Mar 2018 £000
Falling due in less than one year:			
Trade and other payables	1,001	638	937
Social security and other taxes	2,449	3,142	1,226
Accruals	2,414	2,442	2,490
Rental deposits and retentions	1,217	1,389	1,217
	7,081	7,611	5,870

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

12. Cash and cash equivalents

	Unaudited as at 30 Sept 2018 £000	Unaudited as at 30 Sept 2017 £000	Audited as at 31 Mar 2018 £000
Cash and cash equivalents	8,186	8,054	5,059

Cash and cash equivalents include £1.3m (2017: £1.4m, 2018: £1.3m) of restricted cash comprising £1.2m rental deposits and £0.1m retentions held on behalf of tenants.

13. Borrowings

	£000	£000
At 31 March 2018		113,357
New borrowings	4,000	
Amortisation of arrangement fees	107	
		4,107
At 30 September 2018		**117,464**

13. Borrowings continued

	£000	£000
At 31 March 2017		63,788
New borrowings	35,000	
Amortisation of arrangement fees	110	
Costs incurred in the arrangement of bank borrowings	(426)	
		34,684
At 30 September 2017		**98,472**

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 2018 is set out in the Annual Report for the year ended 31 March 2018.

14. Issued capital and reserves

Share capital	Ordinary shares of 1p	£000
At 31 March 2018	386,853,344	3,869
Issue of share capital	7,000,000	70
At 30 September 2018	**393,853,344**	**3,939**

Share capital	Ordinary shares of 1p	£000
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 no further issues of new shares since the Period end.

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.

Notes to the interim financial statements continued
For the period ended 30 September 2018

15. Financial instruments
Fair values
The fair values of financial assets and liabilities are not materially different from their carrying values in the half yearly financial report. 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 2018, the fair value of investment property was £547.0m and during the Period the net valuation decrease was £1.4m.

Interest bearing loans and borrowings – level 3
As at 30 September 2018, the amortised cost of the Company's loans with Lloyds Bank plc, Scottish Widows plc and Aviva Real Estate Investors 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.

16. Related party transactions continued

Investment Management Agreement ("IMA")

The Investment Manager was reappointed under a three year IMA with effect from 1 June 2017, under which the Investment Manager is 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 Period the Investment Manager was paid an annual management charge ("AMC") 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;
- 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.

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 Period the Company paid the Investment Manager an administrative fee calculated by reference to the NAV of the Company each quarter as follows:

- 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% (2017: 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 Investment Manager charged the Company £1.73m (2017: £1.54m, 2018: £3.12m) in respect of the AMC, £0.21m (2017: £0.20m, 2018: £0.49m) in respect of administrative fees and £0.02m (2017: £0.05m, 2018: £0.14m) in respect of marketing fees.

Properties

The Company owns MW House and Gateway House located at Grove Park, Leicester, which were partially let to Mattioli Woods during the Period. Mattioli Woods paid the Company rentals of £0.18m (2017: £0.21m, 2018: £0.35m) during the Period.

Notes to the interim financial statements continued
For the period ended 30 September 2018

17. Events after the reporting date

Property acquisitions
On 16 November 2018 the Company acquired the Evesham Shopping Park for £14.2m comprising a terrace of five units occupied by Next, M&S, Boots, Argos and Poundstretcher. The units have a WAULT of 6.8 years, and the price reflects a NIY of 6.04%.

On 3 December 2018 the Company acquired Jubilee Close Retail Park in Weymouth for £10.8m comprising a terrace of three units occupied by B&Q, Halfords and Sports Direct. The units have a WAULT of 7.8 years, and the price reflects a NIY of 6.97%.

On 2 November 2018 the Company acquired a high street unit on The Grove in Stratford, East London for £2.1m let to Foxton's Estate Agents and The Incorporated Trustees of the Universal Church of the Kingdom of God with leases expiring on 30 April 2031 and 2 May 2025 respectively, and the price reflects a NIY of 6.78%.

Independent auditor's review report to Custodian REIT plc

For the period ended 30 September 2018

We have been engaged by the Company to review the condensed half-yearly financial report for the six-month period ended 30 September 2018 which comprises 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 half-yearly financial report and considered whether it contains 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 Financial Reporting Council. 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 half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2.1, 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 this half-yearly financial report 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 half-yearly financial report 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 Financial Reporting Council 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 half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Crawley, United Kingdom
5 December 2018

Directors' responsibilities for the interim financial statements

The Directors have prepared the interim financial statements of the Company for the period from 1 April 2018 to 30 September 2018.

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 include 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 include 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
5 December 2018

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 2018	Unaudited 6 months to 30 Sept 2017	Audited 12 months to 31 Mar 2018
Net assets (£000)	**427,535**	378,558	415,202
Shares in issue at the period end (thousands)	**393,853**	360,853	386,853
NAV per share at the start of the Period (p)	**107.3**	103.8	103.8
Dividends per share relating to the Period (p)	**3.275**	3.225	6.45
NAV per share at the end of the Period (p)	**108.6**	104.9	107.3
NAV total return	**4.3%**	4.2%	9.6%

2. Net gearing

Gross borrowings less unrestricted cash, divided by portfolio value.

	Unaudited as at 30 Sept 2018 £000	Unaudited as at 30 Sept 2017 £000	Audited as at 31 Mar 2018 £000
Gross borrowings	**119,000**	100,000	115,000
Cash	**(8,186)**	(8,054)	(5,059)
Restricted cash	**1,305**	1,389	1,341
Net borrowings	**112,119**	93,335	111,282
Investment property	**546,963**	474,318	528,943
Net gearing	**20.5%**	19.7%	21.0%

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 2018 £000	Unaudited 6 months to 30 Sept 2017 £000	Audited 12 months to 31 Mar 2018 £000
Profit for the period after taxation	**16,606**	13,231	32,420
Net gains on investment property	**(2,861)**	(1,274)	(7,253)
EPRA earnings	**13,745**	11,957	25,167
Weighted average number of shares in issue (thousands)	**388,416**	347,842	362,393
EPRA EPS (p)	**3.5**	3.4	6.9

4. EPRA vacancy rate

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

	Unaudited as at 30 Sept 2018 £000	Unaudited as at 30 Sept 2017 £000	Audited as at 31 Mar 2018 £000
Annualised potential rental value of vacant premises	**1,237**	1,172	1,332
Annualised potential rental value for the property portfolio	**40,002**	35,361	38,420
EPRA vacancy rate	**3.1%**	3.3%	3.5%

Notes

Company information

Directors

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

Company secretary
Nathan Imlach

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Financial calendar

25 October 2018	Ex-dividend date for Q2 dividend
26 October 2018	Record date for Q2 dividend
30 November 2018	Payment of Q2 dividend
6 December 2018	Announcement of results for the period ended 30 September 2018

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